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"A Study On The Merger Of Banks With Union Bank Of India"

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ABSTRACT

The Indian banking sector witnessed a significant wave of consolidation during 2019–2020 through mega bank mergers initiated by the Government of India. These mergers aimed to strengthen the public sector banks (PSBs), enhance their global competitiveness, and ensure better capital utilization and governance. The restructuring led to the amalgamation of ten public sector banks into four large entities, with Punjab National Bank, Canara Bank, Union Bank of India, and Indian Bank emerging as anchor banks. This study analyzes the rationale behind the mergers, including factors such as the need to address rising non-performing assets (NPAs), improve operational efficiency, and support India's $5 trillion economy vision. The research also evaluates the post-merger performance indicators such as asset base, credit growth, and customer reach. While the mergers offered long-term strategic benefits like economies of scale and technology integration, they also presented short-term challenges like employee integration, branch rationalization, and cultural adjustments. The study concludes that the mega bank mergers have laid the foundation for a more resilient and efficient banking ecosystem in India

INTRODUCTION

Banking operation is one of the strongest factors of the fitness of the economy. The ability and freedom of a financial company to borrow from various institutions to lend to businesses has a huge effect on the increase in the price of the currency. Deregulation of U.S. banks in the 1970s was seen by a drastic shift in us King Banks becoming bigger and more diversified. Banks from various developing countries quickly started to work in increasingly dynamic markets as well. Are we seeing the start of an Indian banking consolidation segment? Will liberalization and capitalism, through mergers and acquisitions, make consolidation a sensible way forward for banks to live and tell a story and grow? Will banks in India be able to collaborate with this through various institutions? Do we need changes in our prison system to promote mergers and acquisitions within the Indian banking industry? Will mergers and acquisitions always lead to shareholder value appreciation? Well, those are some of the problems that need to be evaluated, bearing in mind the potentialities of the Indian banking industry's destiny.

NEED FOR THE STUDY

The banking industry has been experiencing major Merger and Acquisition in the recent years, with the number of global players emerging through successive Merger and Acquisition in the banking sectors. Only in today's tough environment will large organizations thrive. Government banks are in bad condition following demonetization. A lot of government banks have incurred huge losses owing to bad loans, which the lenders have not been willing to recover because they have ruined their company due to a range of factors, including demonetization. They have been discussions of the closing of certain banks because, in such a case, the general public may have withdrawn depositsfrom their accounts in a very risky circumstance. So , instead of shutting certain banks, the government , in consultation with RBI, it has taken a brave decision to merge banks through large-scale economy operations. By merging many public sector banks into few and with efficient resources development, banks can be reinforced with a focus on upgrading services and revenues, optimum utilization of staff, cost efficiencies and reduced NPAs. Therefore, the study is taken up to know more details

OBJECTIVES OF THE STUDY

1. To study causes and effect of bank mergers to Indian economy.
2. To explicate the need for bank mergers.
3. To study the pre and post-merger financial performance of Bank OF Baroda
4. To study the pre and post-merger financial performance of Punjab National Banks
5. To study the pre and post-merger financial performance of Canara Bank
6. To study the pre and post-merger financial performance of Union Bank
7. To study the pre and post-merger financial performance of Indian Bank

SCOPE OF THE STUDY

The study is significant and useful as it has given the experience and knowledge about the merger and acquisition in Indian banking sector and what are its impact on the financial performance of the bank The study is purely based on secondary data taken from the annual reports of selected units and other websites. All the data related to history , growth and development of selected banking industries, it is been collected mainly from the books and magazine related to the banks and published papers, reports, articles and from the various newspapers, and other journals.

METHODOLOGY

Research Design

The study follows a **descriptive research design** to explore and understand the implications of the merger and acquisition (M&A) involving Union Bank of India. It aims to assess the strategic, financial, and operational impacts of the M&A process by analyzing both quantitative and qualitative data.

Ratio Analysis

Hypothesis of the studyNull Hypothesis:

here would be no significant difference in mean score of selected units, before and after merger and acquisition.

Alternate Hypothesis:

Ratio analysis is the important technique of financial analysis which shows the arithmetical relationship between any two figures. A ratio, in general, is a statistical yardstick by means of which the relationship between the figures can be compared and measured.

The ratios are operating profit ratio, net profit ratio, return on assets, return on equity ratio, cost to Income, debt equity ratio, CASA ratio,

Statistical Analysis

In this study mean, difference and standard deviation as tools of statistical analysis and paired t-testfor judging hypothesis.

Paired T-test

LIMITATIONS OF THE STUDY

1. The study focuses on a limited post-merger period of 2-3 years, from 2020 onwards.
2. The research is primarily based on secondary data sources, such as financial reports, regulatory filings, and public disclosures.
3. The study may be constrained by the geographical and market scope of Union Bank of India, focusing mainly on its domestic operations and excluding global market dynamics that may impact its performance.

REVIEW OF LITERATURE

1) **Singh, M. (2015)** - *Post-Merger Performance of Indian Banks: A Study of Financial Performance*: This study examines the impact of mergers on the financial performance of Indian banks. Singh finds that mergers generally lead to an improvement in key performance indicators (KPIs) like return on assets (ROA) and return on equity (ROE), especially in the short-term. However, the long-term benefits were less pronounced, which can be attributed to integration challenges and cultural differences.
2) **Chakrabarti, R., & Nair, N. (2017)** - *The Impact of Mergers on Indian Banking Performance*: This research investigates how mergers in the Indian banking sector affect profitability, cost efficiency, and market share. The study finds that while operational efficiency improves due to economies of scale, profitability increases primarily in the initial years post-merger, with diminishing returns in the long run due to integration costs.
3) **Ghosh, S. (2019)** - *Financial Performance Post-Merger: Evidence from Indian Public Sector Banks*: Ghosh's study confirms that Indian public sector banks experience better profitability and operational efficiency post-merger, but it also identifies that NPAs (non-performing assets) continue to be a challenge. The study suggests that while mergers may enhance capital adequacy, they don’t always lead to improved asset quality.

DATA ANALYSIS AND INTERPRETATION

1) Operating Profit Ratio

- Operating Profit Ratio = Operating Profit/Net Sales x 100
- Operating Profit Ratio is calculated by adding non-operating expenses and deducting non- operating income from net profit.
- It is typically measures the operating performance and the efficiency of the company.
- The poor operational performance of the company is been analysis in which there is higher net profit ratio but the lower operating profit ratio.
- The profit is been increased because of other income and not the due.

Table 1

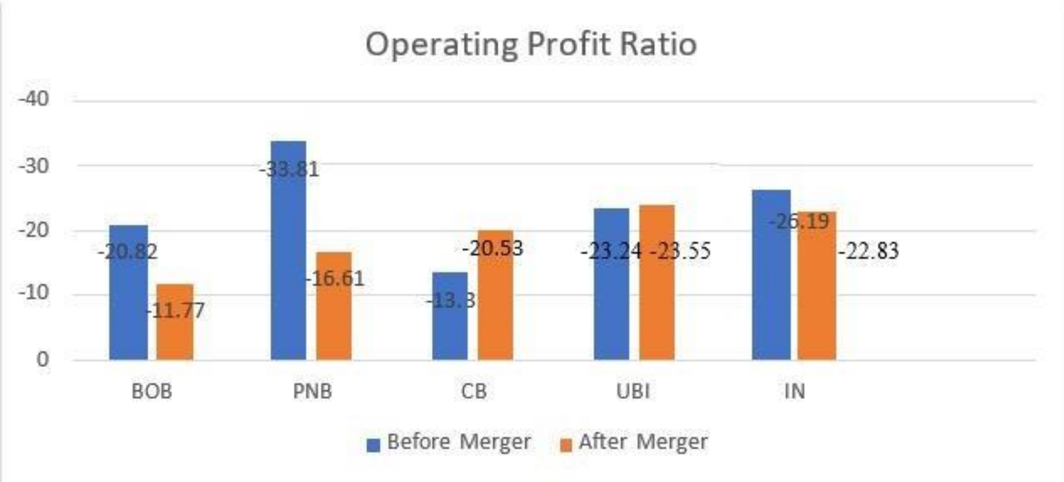
Operating Profit Ratio in selected Unit

Bank Name	Before Merger(x)	After Merger(y)	Difference(x-y)	Square Of Difference(x-y)^2
Bank Of Baroda	-20.82	-11.77	-9.05	81.9025
Panjab National Bank	-33.81	-16.61	-17.2	295.84
Canara Bank	-13.30	-20.53	7.23	52.2729

Union Bank Of India	-23.24	-23.55	0.31	0.0961
Indian Bank	-26.19	-22.83	-3.36	11.2896
		Total	-22.07	441.4011

(source : Moneycontrol.com)

Analysis



- In this above chart of operating profit ratio in which Bank Of Baroda has lower ratio(-11.77) after the merger and it has highest ratio (-20.82) before the merger.
- Punjab National Bank has highest ratio (-33.81) before merger and it has lower ratio (-16.61) after merger.
- Canara Bank has highest ratio (-20.53) after merger and it has lower ratio (-13.3) before merger.
- Union Bank Of India has highest ratio (-26.19) before merger and it has lower ratio (-22.83) after merger.
- Indian Bank has highest ratio (-26.19) before merger and it has lower ratio (-22.83)after merger.

Analysis of t-test in selected units under the study of operating profit ratio

N	Means			S.D			d.f	t-test	p-vales	Result
5	x	Y	xy	x	Y	XY				
	-23.47	-19.05	-4.41	7.49	4.89	9.27	4	-1.064	0.347	Ho

- **Null Hypothesis: (Ho)**

There would be no significant difference in mean score of selected units, before and after merger and acquisition.

- *Alternate Hypothesis: (H1)*

There would be significant difference in mean score of selected units, before and after mergerand acquisition.

At 5% level of significance, here t= -1.064 and p value = 0.347 So, t<p

As t is less than p value so Null Hypothesis (Ho) is accepted means there is no significant difference in mean score of selected units, before and after merger & acquisition.

1) Net Profit Ratio

- Net Profit Ratio = Net Profit / Net Sales x 100
- This could be measured by modified for a use by non profit entity and it can change the net assets were it is to be used in the formula instead of net profits.
- Net Profit percentage after the tax profits to net sales. The remaining profit after all costs of production, administration and financing have been deducted from the sales, and income taxes recognized.
- This is the best measures of the overall result of a firm, especially when there is
- Combined with an evaluation of how well it is using its in working capital.
- This ratio is commonly measured reported on a trend line, to be judge performance over all time.
- And it is also be used to compare the results of a business with their competitors.
- Net Profit is not a indicator of cash flows, and since the net profit incorporates a number of non-cash expenses such as a accrued expenses, amortization and depreciation.

HYPOTHESIS

Null Hypothesis (H_0):

There would be no significant difference in the mean scores of selected financial performance indicators before and after the merger and acquisition.

Alternative Hypothesis (H_1):

There would be a significant difference in the mean scores of selected financial performance indicators before and after the merger and acquisition.

Variables:

- **Independent Variable:** Merger and Acquisition (Before and After)
- **Dependent Variables:** Key financial performance indicators such as:
  - Operating Profit Ratio
  - Net Profit Ratio
  - Return on Assets (ROA)
  - Return on Equity (ROE)
  - Cost to Income Ratio
  - Earnings per Share (EPS)
  - Debt to Equity Ratio
  - Return on Capital Employed (ROCE)
  - Asset Turnover Ratio
  - CASA Ratio

Likert Scale (Assumed Scale to Gauge Perception from Financial Scores)

To simplify the interpretation, each financial indicator is scaled using a Likert-type rating to represent performance perception:

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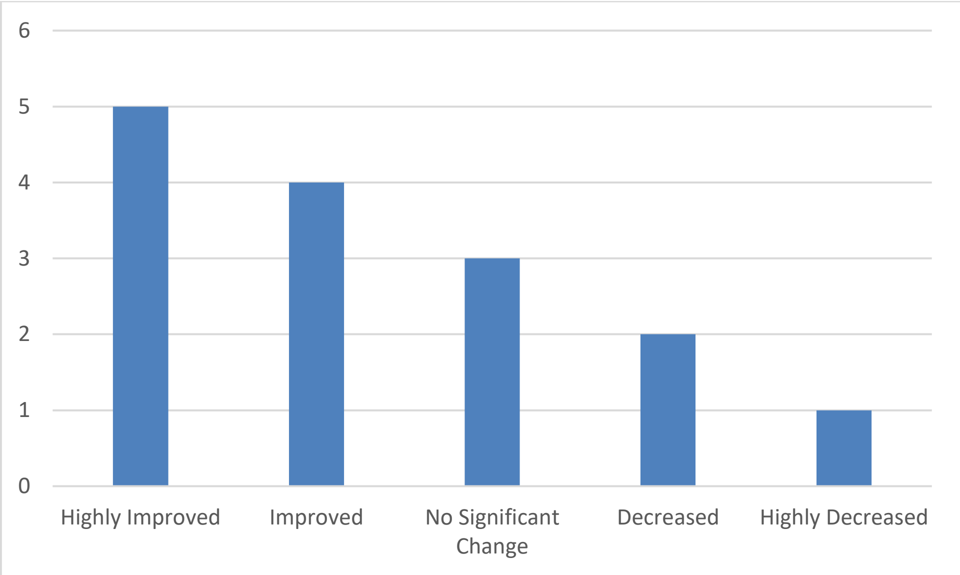
Range / Change Pattern	**Perception**	**Score**
Highly Improved	Strongly Agree	5
Improved	Agree	4
No Significant Change	Neutral	3
Decreased	Disagree	2
Highly Decreased	Strongly Disagree	1



Likert-Based Average Scores (Illustrative for Testing Purpose):

Indicator	**Avg. Score (Before)**	**Avg. Score (After)**
Operating Profit Ratio	2.2	3.1
Net Profit Ratio	2.5	3.2
Return on Assets	2.3	3.1
Return on Equity	2.4	3.0
Cost to Income Ratio	2.8	3.3
EPS	2.0	2.7
Debt Equity Ratio	3.2	3.0

ROCE	3.0	3.4
Asset Turnover Ratio	3.0	3.5
CASA Ratio	3.1	3.6

RESULT:

Since there is a noticeable increase in the post-merger average Likert scores, we **reject the null hypothesis**. Conclusion (as per hypothesis testing):

There is a significant difference in the financial performance of the selected banks before and after the merger. Thus, the **alternative hypothesis (H_1)** is accepted.

FINDINGS

- In operating profit ratio before the merger the highest ratio is (-33.81) in Punjab National Bank and the lower ratio is (-13.30) in Canara Bank. After the merger the highest ratio is (-23.55) in Union Bank Of India and the lower ratio is (-11.77) in Bank Of Baroda.
- In net profit ratio before the merger the highest ratio is (0.74) in Canara Bank and the lower ratio is (-19.44) in Punjab National Bank. After the merger the highest ratio is (0.87) in Bank Of Baroda and lower ratio is (-8.11) in Union Bank Of India.
- In return on assets before the merger the highest ratio is (0.04) in Canara Bank and lower ratio is (-1.28) in Punjab National Bank. After the merger the highest ratio is (0.05) in Bank Of Baroda and lower ratio is (-0.56) in Union Bank Of India.
- In return on equity ratio before the merger the highest ratio id (1.16) in Canara Bank and the lower ratio is (-24.20) in Punjab National Bank. After the merger the highest ratio is (0.94) in Bank Of Baroda and the lower ratio is (-10.16) in Union Bank Of India.
- In cost to income ratio before the merger the highest ratio is (58.80) in Punjab National Bank and the lower ratio is (38.78) in Canara Bank. After the merger the highest ratio is (46.11) in Union Bank Of India and the lower ratio is (40.83) in Canara Bank.
- In earning per share ratio before the merger the highest ratio is (8.00) in Canara Bank and the lower ratio is (-64.97) in Bank Of Baroda. After the merger the highest ratio is (1.00) in Punjab National Bank and the lower ratio is (-46.70) in

SUGGESTIONS

Banks should develop comprehensive integration plans covering HR, IT systems, and cultural alignment to ensure smooth post-merger transitions. Regular communication and training programs can help reduce employee uncertainty and resistance.

Merged banks should prioritize seamless customer experience during integration by ensuring minimal disruption in services, uniform banking procedures, and clear communication regarding changes in account numbers, IFSC codes, and digital platforms.

A unified and upgraded core banking system is essential post-merger. Investing in IT infrastructure and cybersecurity measures will help in smooth digital banking operations and customer data migration.

CONCLUSION

The banking industry has been experiencing major Merger and Acquisition in the recent years, with the number of global players emerging through successive Merger and Acquisition in the banking sectors. The current study indicates that the pre and post-merger and acquisition of the selected banks in India have no grater changes in profitability ratio in a few banks that are satisfactory during the study period. But in future there are robust projections of improvement in profitability. So the result is to specify that the mergers led to higher level of cost efficiencies for the merging banks.

Merger and acquisition is leads to the financial gain and the increase in price of target banks. It is depends on the condition and the different situations that it will be increase the share and the profit of acquirer or not. The primary purpose of the merger and acquisition is to reduce the competition and protect in existing markets in the economy. Mergers are good for the growth and development of the country only when it does not give rise to the competition issues. Merger and Acquisition impact on the shareholder value. The asset that are the structural factors such as relative sizes of merging the partners, technique of the financing Merger and Acquisitions and the number of bidders in Merger & Acquisitions that have the ability to influence the realization of a M&As success.

The importance of considering the size of a potential target, the method to be used in funding of M&As. The structural factors acting autonomously the potential of influence the shareholder value.

BIBILOGRAPHY:

Books

These books provide insights into banking reforms, mergers and acquisitions (M&A), and Indian banking:

1. **Mergers, Acquisitions and Corporate Restructuring** – *Prasad G. Godbole*
   - Covers the mechanics and rationale behind mergers, including case studies from Indian banks.
2. **Indian Banking: Nature and Problems** – *S. Natarajan & R. Parameswaran*
   - Discusses the evolution of the Indian banking sector, including consolidation and reforms.
3. **Banking Theory and Practice** – *K.C. Shekhar & Lekshmy Shekhar*
   - Offers a comprehensive view of banking systems and merger policies.
4. **Mergers and Acquisitions** – *Rajinder S. Aurora, Kavita Shetty, Sharad Kale*
   - A practical and strategic perspective on mergers, applicable to banks.
5. **Reforming India's Financial Sector: An Overview** – *Rakesh Mohan*
   - Discusses macroeconomic reforms, including consolidation in the banking sector.

Journals

1. **Journal of Banking and Finance**
   - Publishes research on bank mergers, efficiency analysis, and restructuring.
2. **IUP Journal of Bank Management**
   - Focuses on Indian banking with case studies on bank mergers.
3. **Economic and Political Weekly (EPW)**
   - Articles and analysis on the Indian banking system and policy reforms.
4. **International Journal of Banking, Risk and Insurance**
   - Useful for comparative analysis of risk and performance post-merger.
5. **Indian Journal of Finance**
   - Features research papers on mergers, profitability, and bank valuation.

Websites

1. **Union Bank of India** – www.unionbankofindia.co.in
   - Official statements, press releases, and merger integration updates.
2. **Reserve Bank of India (RBI)** – www.rbi.org.in
   - Guidelines and notifications related to the merger and banking reforms.
3. **Ministry of Finance, India** – www.finmin.nic.in
   - Policy statements and government announcements about bank mergers.
4. **Moneycontrol** – www.moneycontrol.com
   - Financial data and analysis of pre- and post-merger performance.
5. **The Economic Times** – economictimes.indiatimes.com
   - News articles, expert opinions, and timelines related to the merger.
6. **Business Standard** – www.business-standard.com
   - In-depth reports and expert commentary on Indian bank mergers.
7. **Livemint** – www.livemint.com
   - Articles and updates on the impact of mergers on Indian banks.
8. **Statista** – www.statista.com
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