Journal of Vibration Engineering

ISSN:1004-4523

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THE IMPACT OF THE MERGER WITHSYNDICATE BANK ON CANARA BANK'SPROFITABILITY

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ABSTRACT

Bankingsectorserveasthebackboneofan Indianeconomyasitfacilitateschannelizingthesurpluspublicfunds into the most productive channels, inculcating saving habits and accelerating the rate of capital formation.The Indian banking industry has witnessedthe paradigm shift from traditional functioning of banks' lending andborrowingtothemodernbankingwhichincludesinternetbanking,mobilebanking,micro-banking,insuranceand locker facilities to strengthen their financial system.In present scenario, the Indian banking industry hassufferedmanychallengesinrelation totheir normalfunctioningofbusinesssuchasboomingofnetloss,mountingofNPA,proliferatingoperatingcosts,erosionofnetworth,intensifyingunhealthycompetitionbetweenpublicandprivatesectorbanksthatnecessitiestheGovernmentofIndiaannouncedMergersandAcquisitiontorevivetheperformanceofIndianbankingindustry.MergersandAcquisitionsasaphenomenonare implemented to strengthen the banking system, embraceglobalization, improve healthy competition, exploiteconomiesofscale,adoptadvancedtechnologies,raiseefficiencyandimproveprofitability.Themainobjectiveof this study to examine the impact of Syndicate Bank merger on profitability of Canara Bank. The study periodcovers four years the pre and post-merger of banks. Theyear of merger as a base year and hence, itis excludedfromtheevaluationtohaveconsistencyinevaluationofpreandpost-mergerperformanceofacquirerbanks.The study has taken into consideration four variables, i.e., deposits, advances, business, and net profit for thecomparativeanalysisinthepreandpost-merger.

Keywords: BankingSystem,Mergers&Acquisitions,Globalization,Performance,Profitability.

Introduction:

MergersandAcquisitionsrepresentawidelyusedtechniquetoincreasetherateofgrowthinthesizeofthefirmas well as its market share. Mergers and Acquisitions are considered as a relatively fast and efficient approach toexpand into new markets and incorporate new technologies.The Indian banking system has achieved variousmilestones in arelatively short amount of time. This istheworld's largestandmost diverse democracy whichitselfis achallengeasthecompaniesmustcatertosuchadiversecustomerbase. Itispartandparceloftheagenda of the government to reform the banking sector by repositioning and integrating it into the global financial system.In the past years, therehave been variousreforms and successful mergers which have hada positive impact onthe banking sector. Many public sector, private sector and other banks are engaged in mergers and acquisitionsactivities in India.In the present times, the banking sector is a rapidly growing industry in India. Merging of theIndianbankingsector through mergers andacquisitions oncommercialconsiderations andbusiness strategies –is a vital prerequisite. A comparativelynew developmentin theIndian banking sector is enhanced throughmergers and acquisitions. It permits banks to achieve a world class position and throw superior value to thestakeholders. Performance of the bank pre and post-merger usually is in the green and improved. Most findingsstate that to a certain extent mergers and acquisitions have been successful in Indian banking sector.Mergers andacquisitions have moulded the IndianBankingsector in a perfectmanner. Though there seem to be diverseopinions on this, yet there is always hope for an improvement in the current condition after bank mergers. Thefollowingarethereasonsforthe mergersto takeplaceinbanks.

• **Merger of weaker banks:** The exercise of merger of weaker banks with stronger banks was encouraged toprovidestabilitytoweakbanksbutNarasimhancommitteeconflictedwiththispractice.Theysaidthatmergerscandiversif yriskmanagement.

• **Rise in market competition:** Invention of new financial products and merging of regional financial system arethe reasons for merger. Markets industrialized and became more competitive and because of this, market share ofallindividualfirmcondensedandhence,mergersandacquisitionstarted.

• **Economiesofscale:**Abilityofproducingeconomiesofscalewhenfirmsaremerged.

• **Skill and Talent:** Allocation of skill takes place between two organization which helps them to progress andbecomemorecompetitive.

• **TechnologyandProducts:**Introductionofe-bankingandsomemonetaryinstruments/derivatives.Removalof admission barrier opened the gates for new banks with high technology and old banks can't compete with themandhencetheydecidetomerge.

• **Positive Synergies:** When two companies merge their sole motive is to create a positive result which is higherthan the shared effect of two individual companies working alone. Two features of it are cost synergy and revenuesynergy.Illperformingbankssurvivedaftermergerandenhancedbranchnetworkgeologically.

• **LargerCustomerBase:**Itispossiblethroughruralreachandincreasedmarketshare.Achievementofinfrastructure and restrict competition and prevent congestion of banks and utilize underutilized resources so thatthebanks can contestwiththeforeign banks inaglobalera.

ReviewofLiterature:

DrNaveenPrasadula(2022)papertitledpost-mergerperformanceoftheStateBankofIndia:AnAnalysisopinedthatMergersisasignificantdevelopmentinthebankingindustry,withalong-termimpact.

Accordingto

thefindings,theSBI'sperformancewassatisfactorythroughoutthepost-mergerperiod.Despiteinitiallosses owing to NPAs and aggregated losses of partner banks, the bank has since generated a profit and returned to astrong position. As a result, SBI's post-merger success will serve as a blueprint for future mergers. pre-and post-merger of financial performance of Commercial banks in India. The study opined that bank make efficient use ofcompany's asset for enhancing the operational efficiency and makesin-depth analysis the pros and cons of themergerandacquisitionandrecommendsthatbankadoptbettertoolsandtechniquestoovercomeNon-PerformingAssets. titled The merger of associate banks with State BanksofIndia:Apre-andpost-mergeranalysis. The study opined that SBI's consolidation with its partners led in the development of a monopoly and alack of competitive spirit resulted in a slow rate of growth. The study also addresses a variety of concerns thatemerge as an obstacle including significant numbers of mergedclientaccounts, branch overlaps, and variedcompanycultures thatmustbeunifiedthatemergeas thechallenge.

Sonia Singh and Shubhankar Das (2018) titled "Impact of post-merger and acquisition activities on the financialperformance of banks: a study of Indian private sector and public sector banks." The study opined that procedural,physical,andsocio-culturalcontexttacticsandpolicieswerecriticalinthepost-mergerandacquisitionprocess.

Sanjeev Kumar Gupta, Dr. Sambit Kumar Mishra (2017) explains mergers and acquisitions and corporaterestructuring are a big part of corporate finance world. Mergers and acquisitions which bring separate companiestogether to form larger ones. This paper highlight on the various ways of the mergers and acquisitions andregulatoryimplicationsonthemergersandacquisitions entities.

Burhan Ali Shah and Niaz Khan (2017) titled "Impacts of Mergers and Acquisitions on Acquirer Banks'Performance." The studyconcludes that in the post-merger era, major profitability ratios, including ROE, ROA,net mark-up, and non-mark-up income to total assets, have decreased. Inthe post-merger period, net interestmargin and administrative expenditures to profit before taxes ratios show just a minor improvement. The liquidityratios of the acquiring banks have also deteriorated in the post-merger era. Thus, study opined that bank may bebetteroffinvestingtheirresourcesondevelopingtheirnetworksratherthanparticipatinginunsuccessfulmergers.

Svetlana Santosh Tatuskar (2016) titled "pre-merger v/s post-merger performance evaluation of public sectorbanksvisavisprivatesectorbanksinIndiathathavemergedduringperiod1993-94to2004-05."Theconclusionofstudystatesthatthat acquiringbankperformanceduringwithrespecttocapitaladequacy,assetquality,managementefficiency,and earning quality and liquidity managementseemed to exhibitslowimprovementintheperformanceduringpost-mergerperiodincontrastwithpremergerperiod.

Jayashree R Kotanal (2016): Mergers and Acquisition is a useful tool for the growth and expansion in anyindustries and the Indian banking sector is no exception. It is helpful for the survival of the weak banks by mergingintothelargerbank.ThisstudyshowstheimpactofMergersandAcquisitionsintheIndianBankingsector.

StatementoftheProblem:

Withincreasingcompetitionandtheeconomyheadingtowardsglobalization,mergersandacquisitionsareexpected to occur at a much large scale than any time in the past and have played a major role in achieving thecompetitive edge in the dynamic market environment. While financial services and communication services wereleadinginthemergersandacquisitionsrace,thereweremanymergersandacquisitionsdealtinbankingsectoras wellandhencethestudy.

Significance oftheStudy:

The economicliberalizationhasresultedinmanymergers.Manystudieshavebeenconductedon differentmergers. The merger of public and private sector banks in India have created a great boom in the Indian economy.Itcreatesmanyproblemsamongthecustomersandinmanysectors.Noempiricalstudyhasbeenconductedsofar on the pre and post-merger profitability, return etc. It is therefore significant enough to make a study on this.Thus, this study would help in understanding andforecasting the probableeffects of merger, on various factorsthatcan ariseinthe mergerofSyndicateBank into CanaraBank.

ObjectivesoftheStudy:

- Toidentifythemotivesbehindthemergerandacquisitionofthebankingsector.
- Tounderstandtherelationshipbetweenthevariousfinancial variablesandfinancialperformanceofbanks.
- ToexaminetheimpactofmergerofSyndicateBankintoCanaraBankondeposits,advances,businessandnetprofitofCanaraBank.
- Toooffersuggestionsforfurtherimprovementoffinancialperformanceofcanarabank.

ResearchMethodology:

The research methodology is the systematic, theoretical analysis of the methods applied to a field of study. Itcomprisesthetheoreticalanalysisofthebodyofthemethodsandprinciplesassociatedwithabranchofknowledge.Thisstudyseekstoanalysetheimpactofmergersonprofitabilityofanchorbanks.Thedatarelatingto thebanks were collectedfromdifferentsecondarysources.

ResearchDesign:

Research design is the plan, structure and strategy of investigation conceived to obtain answers to researchquestions. Research design ispurely a framework or a plan for study that guidesin the collection of data.Analyticalresearchdesignisadoptedfor analysingthedata.

Sources ofData:

The secondary sources of data collection are RBI Bulletins, Annual Reports and Manuals of sample banks, Books,Periodicals,Journals,ResearchStudies,Websites etc.

Toolsfor AnalysisofData:

Thedatacollectedfromdifferentsecondarysourcesareanalysedusingthedescriptivestatistics.

PeriodoftheStudy:

Threeyearpriortoandone-yearpostmergerhavebeentakenintoconsiderationforthestudy:•Pre-mergeryear

2017-19.•Post-mergeryear2020-21and2021-2022.

LimitationsoftheStudy:

- Thestudyisconfinedtorecentmergerof SyndicateBankintoCanaraBank.
- Thestudyisbasedonsecondarydataderivedfromvarioussources.
- Thereliabilityandvalidityoftheresultofthefindingsofthepresentstudy isbasedupondatapublishedindifferentsources.

ProfileofSampleBanks:

Canara Bankis anIndian public sector bankbased inBangalore. Established in 1906at Mangalore by Ammembal Subba Rao Pai, the bank was nationalizedin 1969. Outside India, the bank hasoffices in London, Dubai and New York. Ammembal Subba Rao Pai, a philanthropist, established the CanaraHinduPermanentFundinMangalore,India,on1July1906.In1996,CanaraBankbecamethefirstIndianBankto get ISO certification for "Total Branch Banking" for its Seshadripuram branch in Bangalore. Canara Bank hasnowstoppedoptingforISOcertificationof branches.

Syndicate Bank was one of the oldest and major commercial banks of India. It was founded by Upendra AnanthPai, T. M. A. Pai and Vaman Srinivas Kudva. At the time of its establishment, the bank was known as CanaraIndustrialand Banking Syndicate Limited. The bank, along with 13 major commercial banks ofIndia, wasnationalised on 19 July 1969, by the government of India. It was headquartered in the university town of Manipal,India.

On30August2019,FinanceMinisterNirmalaSitharamanannouncedthatSyndicateBankwouldbemergedwith Canara Bank. The Board of Directors of Canara Bank approved the merger on 13 September. The UnionCabinet approved the merger on 4 March 2020. The merger was completed on 1 April 2020 with Syndicate Bankshareholders receiving 158 equity shares in the former for every 1,000 shares they hold. Canara Bank has becomethe fourth-largest public sector bank of the country. After the merger, the combined business is INR 15.20 lakhcroreand alowergrossNPA ratio of8.77%.

DataAnalysisandInterpretation:

Thecoreparameterthathasbeentakenintoconsiderationforanalysingtheimpactofmergersontheefficiencyof theselectedbanksaredeposits,advances,businessandnet profit.

Table:1

ComparativeAnalysisofDepositsinPreandPostMergeroftheSampleBanks(Rs.inCores)

	CanaraBank	SyndicateBank
Pre-MergerDeposits:		
2017	4,95,275	2,60,560
2018	5,24,771	2,72,776
2019	5,99,033	2,59,896

Post-MergerDeposits:		
2021	10,10,874	
Pre-MergerGrowth%:		
2018	5.95	4.68
2019	14.15	-4.72
PostM&AChange%:		
2021	17.69	

Source: AnnualReports.

Table 1 shows the comparative analysis of pre and post-merger deposits of the selected banks. The Canara Bank'sdeposits before absorption of Syndicate Bank was amounted to Rs. 4,95,275 crores in the year 2017 which wasincreased to Rs. 5,24,771 crores in the year 2018 and it further increased to Rs. 5,99,033 crores in the year 2019.On the other hand, Syndicate Bank's deposit before merging with Canara Bank was amounted to Rs. 2,60,560crores in the year 2017 which was increased to Rs.2,72,776 crores in the year 2018 but in the year 2019,thebank's depositsdeclinedtoRs. 2,59,896 crores. Thus,growth indeposits of Canara Bank was proportionatelymore than that of Syndicate Bank as the deposits growth rate of Canara Bank was 5.95% in the year 2018 incontrast with Syndicate Bank which was 4.68%. In the year 2019, the deposits growth rate of Canara bank was14.15%butontheotherhand,therateofdepositsofSyndicateBankisrecordedat4.72%whichclearlyindicatea decline in the rate of deposits. The Table 4 also indicated that after merger, Canara Bank has witnessed anexponential growth in deposits which amounted to Rs. 10, 10,874 crores in the year 2021 which is 17.69% morethanthe combineddepositsofCanaraBankandSyndicateBankasintheyear2019.

Table:2

ComparativeAnalysisofAdvancesinPreandPostMergerofSampleBanks(Rs.inCrores)

	CanaraBank	**SyndicateBank**
Pre-Merger:		
2017	3,42,008	2,05,044
2018	3,81,707	2,10,683
2019	4,27,727	1,99,669
Post-Merger:		
2021	6,39,048	
Pre-MergerGrowth%:		
2018	11.6	2.75
2019	12.05	-5.22

Post-MergerChange%:	
2021	1.85

Source: AnnualReports

Table 2 exhibits the comparative analysis of advances in the pre and post-merger of selected banks. The CanaraBank's advances beforeabsorption of SyndicateBank was amounted to Rs. 3,42,008 crores in the year 2017which was increased to Rs. 3,81,707 crores in the year 2018 and it further increased to Rs.4,27,727 crores in theyear 2019. The Syndicate Bank's advances before merging with CanaraBank was reported in their annualreportasfollows-Rs.2,05,044croresintheyear2017;Rs.2,10,638croresintheyear2018andRs.1,99,669croresinthe year 2019. Thus, the growth rate of advances of Canara Bank was proportionately more than that of SyndicateBank's growth rate. It can be clearly seen from the table that rate of advances of Canara Bank has been increasedby 11.60%and 12.05% inthe year 2018and2019 respectively whereas the rate ofadvances of Syndicate Bankhas shown amere growth of 2.75% in the year 2018 and 5.22% in theyear2019.Thetable also witnessed thatafter the merger of Canara Bank and Syndicate Bank, the advances in the year 2021 was amounted Rs. 6,39,049croreswhichwas1.85%morethanthetotaladvancesofCanaraBankandSyndicateBankasintheyear2019.

Table:3

ComparativeAnalysisofBusinessinPreandPostMergerofSampleBanks(Rs.inCrores)

	CanaraBank	**SyndicateBank**
Pre-Merger:		
2017	8,37,284	4,65,605
2018	9,06,479	4,83,459
2019	10,26,760	4,59,566
Post-Merger:		
2021	16,49,923	
Pre-MergerGrowth%:		
2018	8.26	3.83
2019	13.26	-4.94
Post-MergerChange%:		
2021	11	

Source: AnnualReports

Table 3 reveals the comparative analysis of business in the pre and post-merger of banks. The business comprisesof the advances and deposits of the banks. The Canara Bank's business before absorption of Syndicate Bankamounted to Rs. 8, 37,284 crores in the year 2017, Rs. 9, 06,479 crores in the year 2018 and Rs. 10, 26,760 croresintheyear2019.Ontheotherhand,SyndicateBank'sbusinessbeforemergingwithCanaraBankwasamountedtoRs.4 ,65,605crores;Rs.4,83,459crores,Rs.4,59,566croresintheyear2017,2018and2019respectively.

Thus, business growthof Canara Bankis proportionatelymore than thatof Syndicate Bank's business growthrate.Intheyear2018and2019,thebusinessgrowthofCanaraBankwas8.26%and13.26%respectivelyin contrast with the business of Syndicate Bank which was only 3.83% in the year 2018 and showed a negativechange of 4.94% in the year 2019. The Canara Bank has witnessed an exponential growth in business after themerger which amounted to Rs. 16, 49,923 crores which is 11% more than the total business of Canara Bank andSyndicateBankas intheyear2019.

Table:4

ComparativeAnalysisofNetProfitinPreandPostMergerofSampleBanks(Rs.inCrores)

Year	CanaraBank	SyndicateBank
Pre-Merger:		
2017	1,121	358
2018	-4,222	-3,222
2019	347	-2,588
Post-Merger:		
2021	2,557	

Source: CompiledfromAnnualReportsofBanks.

Table 4 gives a comparative picture of net profit in the pre and post-merger of the selected banks. Before acquiringSyndicate Bank, Canara Bank recorded net profit of Rs. 1,121 crores in the year 2017, reported a net loss of Rs.4,222 crores in the year 2018 and thereafter earned a net profit of Rs.347 crores in the year 2019. The SyndicateBank earned a net profit of Rs. 358 crores in the year 2017 and incurred losses amounting to Rs. 3,222 crores andRs. 2,588 crores in the year 2018 and 2019 respectively. It is quite evident from the above table that Canara Bankhasearnednetprofitof Rs.2,557croresintheyear2021aftertheabsorptionofSyndicateBank.

FindingsoftheStudy:

• **Deposits:** The deposits of Canara Bank after merger has been increased by 17.69%, in comparison to thecombined deposits of Canara Bank and Syndicate Bank which amounted to Rs. 8,58,929 crores. The obviousreasonsforsuchanincrementindepositsmaybeimprovedservicequality,financialinclusioninitiatives,diversified product portfolio financial innovation, attractive interest rate of deposits as after merger the financialsystemstructureof banksbecamestronger.

• **Advances:** The advances of Canara Bank after merger gone up by 1.85% in comparison to the combinedadvances of Canara Bank and Syndicate Bank which was Rs. 6,27,396 crores. The substantial increase in advancesmaybeduetotheimprovingcashrecoveryandcreditrating,infusion offundsthrough investingvariousprofitable portfolios by bank, better fund management, improving operational efficiency and exponential growth of interestincome.

• **Business:** The business of Canara Bank after merger have been gone up to 11%, in the year 2021 in comparisonto the combined business of Canara Bank and Syndicate Bank which was Rs.14,86,326 crores. The driving forcesbehindsuchahikeinthebusinessofthebanksissuccessfulleveragingofsynergybenefitssuchasincreasedscale of operation by establishingnewfranchiseeither through new geographies or bygrowing market share,widerspectrumofproductportfolios,improvingcreditrating,assetqualityandrevampingorganisationalstructure.

• **Net Profit:** The merged bank viz. Syndicate Bank prior to merger reported net losses amounted to Rs. 2588Crores. On the other hand, the pre-merger net profit of Canara bank for the year 2019 is Rs. 347 crores.The post-merger profitability position of the anchor bank, i.e., Canara Bank stood as Rs.2,557 crores in the year 2021. Themainspringbehindthissubstantialtransformationintheprofitabilitypositionsofthebanksareimprovedmanagerialefficiency,lowercreditandliquidityrisk,diversifiedbusinessrisk,reducedcostoffunds,expansioninmarketshareandfinancial innovation etc.

SuggestionsforImprovement:

Thefollowingarethesuggestionsofstudywhichareasfollows:

• The sensitivity analysis of the employees is to be addressed while considering merger of banks as the wholesystem of acquiring and acquired banks completely change which significantly influence the working culture theemployees.

• Before taking any strategic decision regarding merger, the Government should consider the pros and cons ofmergersasthesechallengesmayseverely impactthenormalfunctioning ofthebanksaftermerger.

• Aftermergerofbanks,thestaffofacquiredbanksshouldbeprovidedwiththepropertraining,enablingthemtoworkefficientlyandeffectively.

• The strong banks should not be merged with the weak banks as they will create the hostile position of strongbank after merger. The strong bank may face problems such as booming out operating cost, higher defaulter rateandpoorfund management,etc.

• RBI should provide roadmap to acquiring bank regarding improvementin financial performance in globalfinancialmarketandtofacechallengesoftechnologyintegrationaftermergerofbanks.

Conclusions:

Asaconsequenceofthemanymergersandacquisitionsthathavetakenplaceinthefinancialservicesindustryoverthecourseofthe lastfewyears,theindustrynowboastsanumberofmajorcompaniesonaworldwidescale.

These noteworthy combinations of banking institutions have recently taken place in the financial sector.The mostcurrentresearchrevealsthattherewerepositivechangesinthebank'sdeposits,advances,business,andprofitability throughout thetime period that was taken intoaccountforthestudy both before andafter themergerof Syndicate Bank with Canara Bank. The time period that was taken into consideration for the study was between2000 and 2010.Despite this, there are forecasts that are positiveabout thefuture gains inprofitability that willoccur. On the other hand, the data suggest that mergers brought about a better degree of cost efficiency for theinstitutionsthatweremergingintooneanother.Inspiteofthefactthatamergerisadangerousbusinesstransaction,themajorityoffailedfinancialinstitutionshave,asaresultofthemerger,shownasignificantincreasein their performance. There is a possibility that this outperformance was directly responsible for the success of themerger.

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