

A STUDY ON THE EFFECT OF POST - MERGER FINANCIAL PERFORMANCE OF CANARA BANK

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ABSTRACT

In India, the banking system has undoubtedly earned numerous outstanding achievements, in a comparatively short time, for the World's largest and the most diverse democracy. The reform process of the banking sector or industry is part and parcel of the government strategic agenda aimed at repositioning and integrating the Indian banking sector into the global financial system. There have been several reforms in the Indian banking sector, as well as quite a few successful mergers and acquisitions, which have helped it, grow manifold. Mergers and acquisitions are most widely used strategy by firms to strengthen and maintain their position in the marketplace. In the present times, the banking sector is a rapidly growing industry in India. A comparatively new development in the Indian banking sector is enhanced through mergers and acquisitions. It permits banks to achieve a world class position and throw superior value to the stakeholders. The impact of merger on a company's stock and the effect on the equity share of the shareholder's capital is usually proportional. Performance of the bank pre- and post-merger usually is in the green and improved. Most findings of research state that to a certain extent M&A's have been successful in Indian banking sector. Henceforth, this study focuses on the effect of post-merger performance of Canara bank in India.

Keywords: Post - Mergers, Pre – Merger, Financial Performance, Liquidity and solvency

INTRODUCTION

The Indian banking industry plays a vital role in the economic development of the country. The Indian banking industry has witnessed many reforms in last three decades. The Merger and acquisition are one of the important tools to achieve the growth. The merger as per the Godbole (2013) is the “combination of all the assets, liabilities, loans & business of two or more companies such that one of them survives.” Many firms across the globe have adopted the strategy of merger and acquisition to achieve high growth in business. Further, the merger and acquisition also serve the purpose of expansion, reducing the level of competition and creation of a large entity. A merger is the intentional combination of two organizations on extensively equivalent things into another legitimate substance. The organizations consent to merger are generally equivalent as far as size, clients, size of activities and so on consequently, the term 'merger of equivalents' is utilized.

BACKGROUND OF THE STUDY

In today's fast-growing world, mergers and acquisitions is an approach used by corporations for their growth, extending their business to other dominions and to overcome financial struggle. Abolition of competition between the banks is another aspect for bank mergers. By doing this considerable amount of funds used for supporting competition can be used for the growth banking business. Sometimes, a bank with a big bad debt portfolio and poor revenue will merge itself with another bank to seek backing for survival. Merger in India between unviable banks is growing quickly so that the weak banks can be reformed providing continuity of employment with the working force, operation of the assets blocked up in the unviable banks and adding beneficially to the prosperity of the nation through increased flow of funds. Bank mergers make the bank vigorous to survive in the changing business environment. Through mergers the weaker banks find it easier to adapt themselves quickly and grow in the domestic and international financial markets. Mergers and acquisitions have moulded the Indian Banking sector in a perfect manner. Though there seem to be diverse opinions on this particular material, yet there is always hope for an improvement in the current condition after bank mergers.

REASONS FOR BANKING MERGERS

- Merger of weaker banks: The exercise of merger of weaker banks with stronger banks was encouraged in order to provide stability to weak banks but Narasimhan committee conflicted with this practice. They said that mergers can diversify risk management.
- Rise in market competition: Invention of new financial products and merging of regional financial system are the reasons for merger. Markets industrialized and became more competitive and because of this, market share of all individual firm condensed and hence, mergers and acquisition started.
- Economies of scale: Ability of producing economies of scale when firms are merged.
- Skill & Talent: Allocation of skill takes place between two organization which helps them to progress and become more competitive.
- Technology and Products: Introduction of e- banking and some monetary instruments/ derivatives. Removal of admission barrier opened the gates for new banks with high technology and old banks can't compete with them and hence they decide to merge.
- Positive Synergies: When two companies merge their sole motive is to create a positive result which is higher than the shared effect of two individual companies working alone. Two features of it are cost synergy and revenue synergy. Ill performing banks survived after merger and enhanced branch network geologically.
- Larger Customer Base: i.e., through rural reach and increased market share. Achievement of infrastructure & restrict competition and prevent congestion of banks & utilize underutilized resources so that the banks can contest with the foreign banks in a global era.

Based upon the above said criteria's Indian Banking Sector merged few banks in 2021 such as Oriental Bank of Commerce and Union Bank of India with Punjab National Bank. Syndicate Bank with Canara Bank, Allahabad Bank with Indian Bank, Andhra Bank and Corporation Bank with Union Bank of India. It is significant to assess the performance of all the merged banks in this situation.

WHY CANARA BANK IS SIGNIFICANT?

Canara Bank widely known for customer centricity, it was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, then a small port town in Karnataka. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business

diversification for the Bank. In June 2006, the Bank completed a century of operation in the Indian banking industry. The eventful journey of the Bank has been characterized by several memorable milestones. Today, Canara Bank occupies a premier position in the comity of Indian banks.

Canara Bank has several firsts to its credit. These include:

- Launching of Inter-City ATM Network
- Obtaining ISO Certification for a Branch
- Articulation of Good Banking – Banks Citizen Charter
- Commissioning of Exclusive Mahila Banking Branch
- Launching of Exclusive Subsidiary for IT Consultancy
- Issuing credit card for farmers
- Providing Agricultural Consultancy Services

Over the years, the Bank has been scaling up its market position to emerge as a major Financial Conglomerate with as many as ten subsidiaries/sponsored institutions/joint ventures in India and abroad. As at March 2022, Canara Bank services over 10.6 crore customers through a network of 9,734 branches and 12,208 ATMs/Recycler spread across all Indian states and Union Territories. Syndicate Bank is merged with the Canara Bank. After this merger, Canara bank would be the fourth largest Public Sector of India. The total business of Canara would be 15.20 lac crore with a branch strength of 10,342. This merger will reduce the cost of operations owing to network overlaps. These two banks have a similar work culture that is why it would lead to facilitate a smooth transition.

OBJECTIVES OF THE STUDY

- ❖ To assess the financial performance of Canara banks after merger
- ❖ To find out the liquidity and profitability and solvency position of Canara bank during post-merger
- ❖ To compare the financial performance of Canara Bank between pre and post-merger periods.

METHODOLOGY

The study is completely based on Secondary Data. The secondary data were collected from the official website of moneycontrol.com. The period of the study is limited to three years considering Pre merger and post-merger concepts ie. 2020 to 2022. The study focuses on the Merger and the effect of merger on the financial performance of Canara Bank, for this purpose,

complete Financial Statement of Canara Bank was taken into consideration. Researcher used Comparative Financial Statement to find out the financial performance with Absolute change and percentage of changes and to compare the financial performance with two different periods. Ratio analysis is used to assess the liquidity, profitability and solvency position of canara bank.

ANALYSIS AND INTERPRETATION

A. Comparative Statement Analysis

TABLE 1

Comparative Statement of Canara Bank for the year 2020 and 2021

EQUITIES AND LIABILITIES	2021 (Rs. In Cr)	2020 (Rs. In Cr)	Absolute Change	Percentage of changes
SHAREHOLDER'S FUNDS				
Equity Share Capital	1,646.74	1,030.23	616.51	59.84
Total Share Capital	1,646.74	1,030.23	616.51	59.84
Revaluation Reserve	0	6,332.79	-6,332.79	-100.00
Reserves and Surplus	60,762.85	33,842.93	26,919.92	79.54
Total Reserves and Surplus	60,762.85	40,175.72	20,587.13	51.24
Total Share Holders Funds	62,409.59	41,205.95	21,203.64	51.46
Minority Interest	0	730.1	-730.10	-100.00
Deposits	10,10,985.02	6,25,408.32	3,85,576.70	61.65
Borrowings	50,012.80	42,761.77	7,251.03	16.96
Other Liabilities and Provisions	56,132.19	31,334.13	24,798.06	79.14
Total Capital and Liabilities	11,79,539.60	7,41,440.27	4,38,099.33	59.09
ASSETS				
Cash and Balances with Reserve Bank of India	43,115.94	22,572.96	20,542.98	91.01
Balances with Banks Money at Call and Short Notice	1,35,750.44	46,016.86	89,733.58	195.00
Investments	2,86,191.25	1,92,645.37	93,545.88	48.56
Advances	6,39,286.54	4,32,403.38	2,06,883.16	47.84
Fixed Assets	11,271.17	8,323.35	2,947.82	35.42
Other Assets	63,924.26	39,478.35	24,445.91	61.92
Total Assets	11,79,539.60	7,41,440.27	4,38,099.33	59.09
CONTINGENT LIABILITIES, COMMITMENTS				
Bills for Collection	53,385.99	35,939.89	17,446.10	48.54
Contingent Liabilities	5,07,289.38	3,73,712.88	1,33,576.50	35.74

Source: www.moneycontrol.com

Syndicate Bank merged with Canara bank in 2021. The above table portrays the consolidated Balance Sheet after the merger. It was found that the Equity share capital of the Canara Bank is Rs. 1646.74 Crores in the year 2021 compared to the pre-merger value of Rs. 1030.23 crore in 2020. The Absolute changes is accounted as Rs. 616.51 crore ie. 59.84% of changes in Equity capital. Total amount of Reserves and surplus accounted a growth of 51.24% with the value of Rs. 60762.85 crore compared with the previous year Rs. 40175.72 Crores. Total shareholders funds shown a greater increase of 51.46% with the value of Rs.62409.59 Crores in 2021.

It was found that the deposits, borrowings and other liabilities and provisions also shown a growth of 61.65%, 16.96% and 79.14% with the increased values of Rs. 10,10,985.02, Rs. 50,012.80 and Rs. 56,132.19 crores respectively. Cash and Bank balances shown a tremendous increase in the post-merger period ie.91.01% with the increased value of Rs.43,115.94 crores in 2021. Balances with banks and money at call and short notice growth is 195% with a highest value of Rs. 1,35,750.44 crores in 2021. Investments shown a grater change of Rs.93,545.88 with a percentage change of 48.56%. Advances, Fixed Assets and other assets also shown a positive growth of 47.84%, 35.42% and 61.92% respectively.

The overall Capital, Assets and Liabilities exhibits a higher performance of 59.09% with the value of Rs.11,79,539.60 crores in 2021 when compared to Rs.7,41,440.27 crores. The resulted financial performance of Canara bank between 2020 and 2021 is good and effective.

TABLE 2

Comparative Statement of Canara Bank for the year 2021 and 2022

EQUITIES AND LIABILITIES	2022	2021	Absolute Change	Percentage of changes
SHAREHOLDER'S FUNDS				
Equity Share Capital	1,814.13	1,646.74	167.39	10.16
Total Share Capital	1,814.13	1,646.74	167.39	10.16
Revaluation Reserve	0	0	0.00	0.00
Reserves and Surplus	68,147.19	60,762.85	7,384.34	12.15
Total Reserves and Surplus	68,147.19	60,762.85	7,384.34	12.15
Total Share Holders Funds	69,961.32	62,409.59	7,551.73	12.10
Minority Interest	0	0	0.00	0.00
Deposits	10,86,340.95	10,10,985.02	75,355.93	7.45
Borrowings	46,284.96	50,012.80	-3,727.84	-7.45
Other Liabilities and Provisions	55,076.30	56,132.19	-1,055.89	-1.88
Total Capital and Liabilities	12,57,663.53	11,79,539.60	78,123.93	6.62
ASSETS				
Cash and Balances with Reserve Bank of India	51,637.07	43,115.94	8,521.13	19.76

Balances with Banks Money at Call and Short Notice	1,30,754.35	1,35,750.44	-4,996.09	-3.68
Investments	3,11,347.24	2,86,191.25	25,155.99	8.79
Advances	7,03,864.05	6,39,286.54	64,577.51	10.10
Fixed Assets	11,449.70	11,271.17	178.53	1.58
Other Assets	48,611.12	63,924.26	-15,313.14	-23.96
Total Assets	12,57,663.53	11,79,539.60	78,123.93	6.62
CONTINGENT LIABILITIES, COMMITMENTS				
Bills for Collection	0	53,385.99	-53,385.99	-100.00
Contingent Liabilities	0	5,07,289.38	-5,07,289.38	-100.00

Source: www.moneycontrol.com

Table 2 reflects the consolidated Balance Sheet after one year of merger. The values taken up to April 2022 for analysis. It was found that the Equity share capital of the Canara Bank is Rs. 1814.13 Crores in the year 2022 compared to the previous year value of Rs. 1646.74 crore in 2021. The Absolute changes is accounted as Rs. 167.39 crore ie. 10.16% of changes in Equity capital. Total amount of Reserves and surplus accounted a growth of 12.15% with the value of Rs. 68,147.19 crore compared with the previous year Rs. 60,762.85 Crores. Total shareholders' funds shown a greater increase of 12.10% with the value of Rs.69,961.32 Crores in 2022.

It was found that the deposits reflected a growth of 7.45% with the value of Rs.10,86,340.95 in 2022. Borrowings, other liabilities and provisions also shown a negative change of - 7.45% and -1.88% with the values of Rs.46,284.96 and Rs.55,076.30 crores respectively. Cash and Bank balances shown an increase in the post-merger period ie.19.76% with the increased value of Rs.51,637.07 crores in 2022. Balances with banks and money at call and short notice growth reflects a negative change of -3.68% since the period is four months comprising January to April with a value of Rs. 1,30,754.35 crores in 2022. Investments shown a grater change of Rs.3,11,347.24 with a percentage change of 8.79%. Advances and Fixed Assets also shown a positive growth of 10.10% and 1.58% respectively. The Other assets resulted with the negative change of -23.96%.

The overall Capital, Assets and Liabilities exhibits a higher performance of 6.62% even with four months financial performance with the value of Rs.12,57,663.53 crores in 2022 when compared to Rs.11,79,539.60 crores in 2021.

B. Ratio Analysis

Table 3

KEY FINANCIAL RATIOS OF CANARA BANK (in Rs. Cr.)

Financial Ratios	March 2022	March 2021	March 2020
Basic EPS (Rs.)	35.04	19.11	-23.55

Book Value [ExclRevalReserve]/Share (Rs.)	385.65	328.68	338.5
Operating Revenue Per Share	389.17	426.37	482.99
Net Profit/Share (Rs.)	31.94	16.41	-19.63

From the above table reflects the Key Financial Ratios of Canara Bank from 2020 to 2022. It was clearly seen that the Basic EPS of Canara Bank was increased to 35.04 from the negative value -23.55 in 2020. Book Value of Canara bank shown a positive growth of 385.65 from 338.5 from 2020 to 2022. Operating Revenue per share increased to 389.17 in the year 2022. And Net Profit per share was increased to 31.94 in 2022 from the negative value of -19.63 in 2020. On the whole the Key Financial ratios reflects the positive and wealthy financial performance of Canara Bank after the merger.

Table 4

KEY PERFORMANCE RATIOS OF CANARA BANK (in Rs. Cr.)

PERFORMANCE RATIOS	2022	2021	2020
ROCE (%)	1.95	1.79	1.36
Net Profit Margin (%)	8.2	3.84	-4.06
Return On Assets (%)	0.46	0.24	-0.26
Return On Equity/Net worth (%)	8.41	5.34	-5.69

According to the above table Return on Capital employed ratio was increased to 1.95 in 2022 which was accounted as 1.36 before merger. Net Profit margin of Canara Bank was -4.06 in 2020 was increased to 8.2 positively in the year 2022. Return on assets showed a positive sign of 0.46 in 2022 compared to the negative value of -0.26 in 2020. Return on Equity with Net worth was increased to 8.41 in 2022, previously it showed a negative value of -5.69 in 2020. The overall key performance of Canara Bank was quite good in post-merger period.

KEY FINDINGS AND TAKEAWAYS

- ♣ According to the Comparative Statement analysis between 2020 to 2021, it was found that the Total capital and Liabilities and Assets shown a higher amount of growth of 59.09% with the value of Rs.11,79,539.60 crores. It symbolizes the stability of the financial performance of Canara Bank.
- ♣ According to the Comparative Statement analysis between 2021 to 2022, it was found that the Total capital and Liabilities and Assets shown a higher amount of growth of

6.62% with the value of Rs.12,57,663.53 crores. It reflects the stable growth of Canara bank even with Quarter performance comparison.

- ♣ Table 3 analysed the Key Financial ratios of Canara Bank, which shows the overall liquidity and solvency position of Canara Bank and it is quite good.
- ♣ Table 4 specifies the Key Performance ratios of Canara Bank, which impacted the financial performance of Canara bank and it is extremely good.
- ♣ From the comparative statement analysis and ratio analysis it was found that the overall performance of Canara bank is shown a tremendous growth after merger. Canara bank become the fourth largest bank after merger.
- ♣ It is suggested to have mergers in banking sector, the merged banking companies have wider customer base and that will reflect in their profitability and liquidity position.
- ♣ Corporate strategy merger helped the banking companies like Canara bank to become the largest and high prioritized bank in India.
- ♣ Once the banking companies wants to increase their equity and net worth and other financial assets of the company means merger is the suitable way.

CONCLUSION

The banking industry (PSB) has been undergoing major Mergers and Acquisitions in the recent years for achievement of consolidation of banks. Not just in commercial banking, the Canara Bank has also carved a distinctive mark, in various corporate social responsibilities, namely, serving national priorities, promoting rural development, enhancing rural self-employment through several training institutes and spearheading financial inclusion objective. Promoting an inclusive growth strategy, which has been formed as the basic plank of national policy agenda today, is in fact deeply rooted in the Banks founding principles. "A good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people". These insightful words of the founder continue to resonate even today in serving the society with a purpose. The growth story of Canara Bank in its first century was due, among others, to the continued patronage of its valued customers, stakeholders, committed staff and uncanny leadership ability demonstrated by its leaders at the helm of affairs. Canara Bank strongly believe that the next century is going to be equally rewarding and eventful not only in service of the nation but also in helping the Bank emerge as a "Preferred Bank" by pursuing global benchmarks in profitability, operational efficiency, asset quality, risk management and expanding the global reach.

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