



ANALYSIS OF PRE & POST MERGER PERFORMANCE OF VIJAYA BANK & DENA BANK WITH BANK OF BARODA

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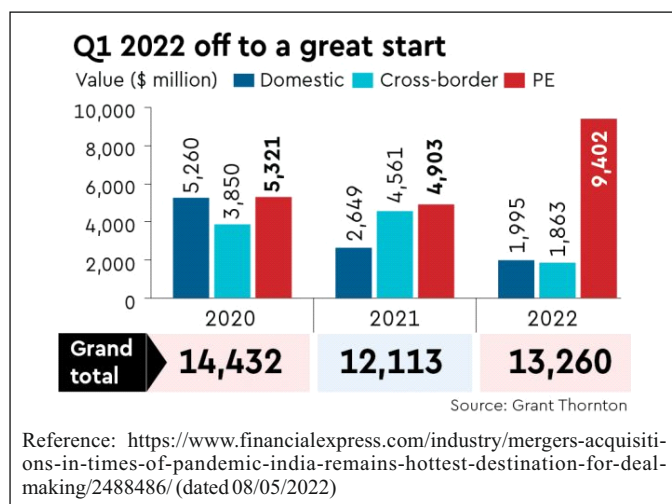
ABSTRACT

In today's era to get competitive advantages, efficiency, value creation routes of Merger and Acquisition (M&A) have become the buzzwords for corporate around the world. This study Analyst Pre & Post Merger Performance of Merging Entity i.e. Vijaya Bank & Dena Bank and merged entity i.e. Bank of Baroda. **Objective:** To analyst post-merger financial position of Dena Bank, Vijaya Bank & Bank of Baroda and find out the impact of merger to the stakeholders. **Significances of the study:** This study will help to Merged & Merging entities Investor, Government, Society, other banks, Customer and future researcher. **Conclusion:** As per data analysis, it's strongly indicated that Merger of the Dena Bank, Vijaya Bank and Bank of Baroda is very progressive for merged & Merging Entity and stakeholders to create value creation and reduce possibility of insolvency.

KEY WORDS: Merger, Acquisition, Ratio Analysis, Merged Entity, Merging Entity, Insolvency

INTRODUCTION:

Indian economy system is great witnessing of Banking Nationalization and reforms since 1969. On April 4, 2022 HDFC and HDFC Bank announced that their boards have approved an all-stock amalgamation of the former into the latter (HDFC Bank). It shall be biggest M&A deals in Corporate as well as Banking System of India. The merger, of course, would be subject to regulatory approvals. As per below snapshot, In spite of Covid-19 pandemic M&A activity in India is at its high level in Quarter 1 of Year 2022 (January to March).



In the year 2018, Government of India has decided to Merger of 10 PSUs bank into 4 Large PSUs Bank. In this Government has decided to merge Vijaya Bank & Dena Bank into Bank of Baroda. This Merger effected from 1st April 2019 and Shareholders of Vijaya & Dena Bank gets shares of Bank of Baroda as per Swap ratio. This study Analyst Pre & Post Merger Performance of Vijaya Bank & Dena Bank with Bank of Baroda

REVIEW OF LITERATURES:

The studies on M&A in India started very late. The first study could be traced of 1986. Hence the Indian Studies covered are for the time span of 1986 to 202. The following were the major efforts at research in the subject, which have been referred for the research purpose.

- Kaveri (1986) studied the effect of merger on revival of sick units. Researcher studied nine merger cases for the period of 1975 to 1984. To measure effectiveness of merger by comparing actual performance and various expectations laid down for each merger. The performance is analyzed based on various financial indicators like, profit, sales, share prices etc. The study concluded that revival of sick unit is possible through merger and merged companies performed better after merger.
- Shah (2005) examined the effect of merger on corporate performance by taking five case studies of Pharma companies. Financial ratios of 2

years before and 2 years after the merger were analysed and the study shows that four out of the five acquirer companies managed to improve operating and financial synergies. The only exception was Pfizer India Ltd. with Parke-Davis (India) Ltd, where margins and returns on capital employed showed declining trends.

- Indhumathi, Selvam and Bennet E (2009) have taken a sample of companies from various sectors which underwent acquisition in the similar industry during the period of 2002 to 2005 listed on Bombay Stock Exchange. It is proposed to compare the liquidity performance of the thirteen sample acquirer and target companies before and after the period of acquisition by using ratio analysis and t-test during the study period of three years. The study found that the shareholders of the acquirer companies improved their liquidity performance after the event.
- Bharathi (2010) studied financial efficiency of merged banks in India. Researcher has taken sample of 9 banks' merger during the period of 1995-2005 and applied factor analysis. Five years pre and post merger ratios are grouped into seven factors to study the effect of merger on performance of the banks. Study concluded that the performance of acquirer banks have not improved much after merger.
- Banerjee, Soumya (2017) studied post merger performance of selected Indian companies. Researcher studied total 72 Indian companies which underwent merger during 2004-05 from various industries. The study found that merger is not very much fruitful to the acquiring firms, in most of the cases. The result of paired t-test is showing that only two sector viz., Financial Intermediation and Manufacturing showing significant improvement with respect to profit after tax (PAT) and return on assets (ROA) respectively.

RESEARCH GAPS:

- Majority of the Indian studies are examining effect of mergers. There are few studies concentrating on acquisition and takeover. Indian studies show mixed results, some variables show improvement in performance and some deteriorate. Some studies concluded that performance of the acquirer firm deteriorate or did not change significantly after M&A and some concluded that performance of acquirer has improved.
- The literature review highlighted the research gaps in the research relating to the Pre & post Merger performance of recently merged Dena Bank, Vijaya Bank & Bank of Baroda. Study reveals impact of Merger on financial position of the Banks. Study also reveals stock index price movement in the pre and post Merger period.

OBJECTIVE OF THE STUDY:

- To study whether Merger is Progressive to stakeholders or not?
- To Analyst Post merger performance of the Bank through comparison of ratios
- To study overall benefits to merging banks.

- To study Infrastructure (Branches & ATMs) position of the Banks

DATA COLLECTION:

The study is to be dealt with secondary data. The secondary data will be collected from the published and unpublished information of selected companies. The further information needed for this study will be collected from annual reports, journals and web portals.

BENEFITS EXPECTED DUE TO MERGER:

Following benefits but not limited to this, may be received at Long run due to merger:

- According to BOB Statement, "the complementary branch presence will add to network in western and southern state" it will help to increase market shares.
- Help to the corporate customer of Dena Bank who were Facing restrictions in borrowings from bank because of limitations imposed by the RBI under Prompt Corrective Action (PCA).
- Reduce risk of bankruptcy & Insolvency as it will build up confidence of Stakeholders.
- Benefit of Set-off Profit & Loss and reduction of Tax Burden.
- Reduction in Fixed cost & Increase efficiency due to decrease in Branches
- Technology & Security sharing benefits available to all 3 Banks.

PERFORMANCE ANALYSIS:

- Pre-Merger Position:**

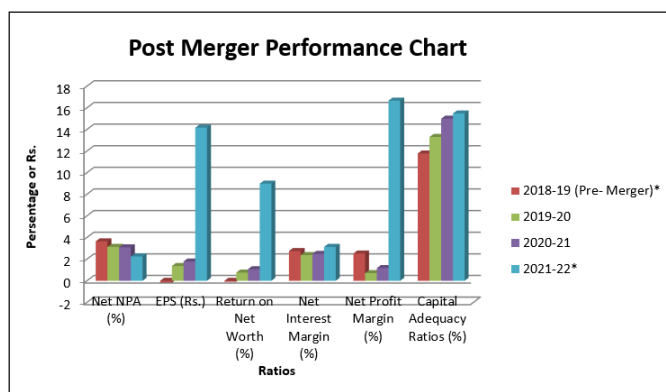
Table No. 1

Ratios	Year	Dena Bank	Vijaya Bank	Bank of Baroda
Operating Profit (In cr.)	2015-16	925	1548	8816
	2016-17	1390	2421	10975
	2017-18	1171	3097	12005
	2018-19	1237	3156	13486
Net Profit/(Loss) (In cr.)	2015-16	-935	382	-5395
	2016-17	-864	750	1383
	2017-18	-1923	727	-2432
	2018-19	-1755	569	434
Net NPA (%)	2015-16	6	5	5
	2016-17	11	2	5
	2017-18	12	4	5
	2018-19	4.80	3.08	3.33
EPS	2015-16	-15.5	4.44	-23.89
	2016-17	-11.89	7.57	6
	2017-18	-18.06	6.83	-10.53
	2018-19	-16.48	5.70	1.64
Return on Net Worth (%)	2015-16	-13.09	5.84	-13.42
	2016-17	-12.52	10.25	3.43
	2017-18	-20.89	7.39	-5.6
	2018-19	-19.06	5.78	0.94
Net Interest Margin (%)	2015-16	1.85	1.89	1.89
	2016-17	1.85	2.26	1.94
	2017-18	2.04	2.42	2.15
	2018-19	2.25	2.96	2.36
Net Profit Margin (%)	2015-16	-8.78	3.15	-12.24
	2016-17	-8.48	6.06	3.27
	2017-18	-21.53	5.77	-5.57
	2018-19	-20.31	3.88	0.87
Capital Adequacy Ratios (%)	2015-16	11.00	12.58	13.17
	2016-17	11.39	12.73	12.24
	2017-18	11.09	13.90	12.13
	2018-19	11.16	13.07	13.42
No. of Branch	2018-19	1775	2119	5553
No. of ATM	2018-19	1513	2163	9572

- Post-Merger Position:**

Table No. 2

Ratio	2018-19 (Pre-Merger)	2019-20	2020-21	2021-22
Operating Profit (In Cr.)	17879	19691	20629	22338
Net Profit/ (Loss) (In Cr.)	-75	546	829	7324.68
Net NPA (%)	3.65	3.13	3.09	2.25
EPS (Rs.)	-0.19	1.36	1.78	14.16
Return on Net Worth (%)	-0.10	0.76	1.07	8.98
Net Interest Margin (%)	2.75	2.37	2.49	3.13
Net Profit Margin (%)	2.52	0.71	1.17	16.66
Capital Adequacy Ratios (%)	11.77	13.30	14.99	15.47
No. of Branches	9447	9482	8214	8185
Total Deposit (In Cr.)	915159	945984	966997	978034
No. of ATMs	13248	10033	11613	11535



Disclaimer:

- Financial result for Dena & Vijaya bank for March -2019 & for Bank of Baroda March- 2022 is not available hence, whenever required Converted figure of 9 month to 12 month or average analyzed. Hence ratio may some very in this particular year.
- All figures are present standalone result of respected banks.

PERFORMANCE ANALYSIS :

Due to Merger of Dena Bank & Vijaya Bank with Bank of Baroda, analysis can be discovering from the above table as per following:

- In Table 1 data Show that Dena Bank reported operating profit in the year 2015 to 2018 however due to NPA Provisions or incremental of bad loan Bank stated heavy net loss. Dena Bank position is not well as per the ratio analysis. However Net interest margin slightly increased.
- In Table 1 data Show that Vijaya Bank reported incremental operating profit in the year 2015 to 2018 and also reported handsome Net profit due to well managed NPA in every year. As per given ratios its clearly direct that financial and business position of Vijaya Bank is good compare to Dena Bank & Bank of Baroda.
- In Table 1 data show that business of Bank of Baroda is approx. 3 times of the (Vijaya + Dena Bank). Ratios show that Bank reported operating profit every year however due to heavy NPA provisions in year 2015 & 2017 it's reported Net Loss and remaining year reported Net Profit. However Market share is Large compared to Dena & Vijaya Bank is key point that Bank of Baroda befitted merged entity and Dena & Vijaya Bank befitted Merging entity.
- Table 2 Indicate Post merger Performance and show following results:
 - Post Merger the Merged Entity operating healthy business operation and reported every year growth in Net profit and in the year 2021-22 Apr to Dec-2021 reported nine monthly profits of Rs. 5812 Crore.
 - Remarkable achievement of merger is continues reducing NPA every year i.e. 3.65% in March 2019 to 2.25 % in Dec-2021. It's indicating healthy Assets quality position.
 - Capital adequacy ratio is reached at double i.e. 15.47% against regulatory requirement (Minimum 8% as per rule). It's indicating sol-

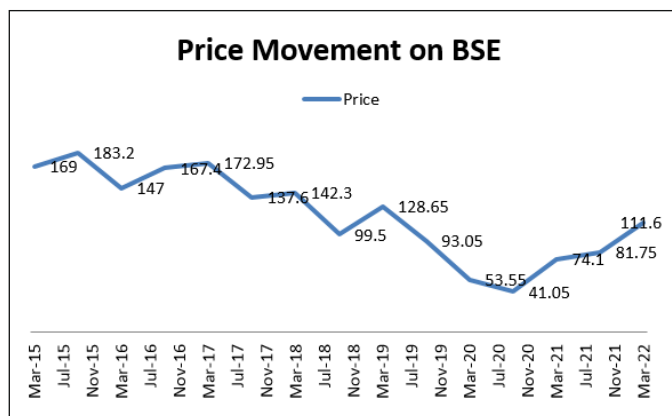
vency position of the Banks and build up stakeholder's confidence.

- No. of Branches & ATMs also reduced accordingly fixed cost like salary, rent, and overhead expenses etc. well optimized.
- As per BOB Statement, Cost to Deposit reduced to 3.50% in Dec-21 it is also help in improves profitability.

CONCLUSION:

As per above Table 1 & 2, analysis of Pre & Post Merger performance ,financial Ratios and share price movement it's strongly indicated that Merger of the Dena Bank, Vijaya Bank and Bank of Baroda is very progressive for all 3 Banks and stakeholders to create value creation.

• Bank of Baroda Share Price Movement on BSE:



For shareholders of the Merging entity The board of the banks approve swap ratio i.e. For every 1000 equity shares of Vijaya Bank and Dena Bank, respectively, investors got 402 & 110 equity shares of Bank of Baroda. (Pre-Merger average price of Vijaya Bank, Dena Bank & Bank of Baroda on 07.03.2019 is Rs. 46.1, 12.2 & 114)

As per above chart due to Covid-19 pandemic share price of Bank of Baroda at around Rs. 40 in July-2020 However producing strong Performance in the Year 2020 & 2021 hence, share price surge by 2.5 times i.e. from Rs. 40 to around Rs. 111 in March-2022.

LIMITATION OF THE STUDY:

- The period of pre and post Merger data analysis will be limited to four & three year respectively.
- Study is covered only financial data analysis, other factors like Impact on employee, Impact on customer etc. not covered.
- The study will be based on secondary data hence; all the limitations pertaining to secondary data will apply to the study.

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