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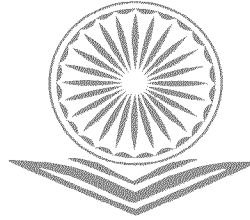
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5. A Study of Effect of Bank Merger on Financial Performance of Banks in India

Dr. Shivaji Pawar

HOD, Department of Economics, K.B. College of Arts and Commerce for Women.

Ms. Pradnya Garad

HOD, Department of Economics, K.B. College of Arts and Commerce for Women.

Abstract

In the month of August 2019, the finance minister MS. Nirmala Sitharaman has proclaimed to unified ten Public Sector Banks into four entities. the essential logic behind this merger is to extend the worldwide fight of the Indian banks. currently the entire Public Sector Banks reduced to twelve from twenty seven in 2017 in India.

In this paper we have considered the sample by the statement given by the Indian Finance Minister, the 10 banks which are about to merge Punjab National Bank, Oriental Bank, United Bank of India as one merge, United Bank, Andhra Bank, Corporation Bank as the second merge, Canara Bank and Syndicate Bank as third merge and finally the fourth merging of banks are Indian Bank and Allahabad Bank. To evaluation, the data is collected from the financial statements of the banks.

Introduction

The Indian banking sector has not remained insulated from the worldwide forces driving Merger across the countries. Merger activity within the Indian banking sector isn't one thing new because it came about even before the independence. However, economic reforms introduced within the early 1990 brought out a comprehensive modification within the business strategy of banks, whereby they resorted to mergers and amalgamations to reinforce size and potency to realize competitive strength.

Merger within the money sector, above all the banking sector, are undertaken chiefly either to maximise the worth of companies or for private interest of managers. Mergers will increase expected future profits either by reducing operating expense or by increasing expected returns or a mix of each. price reduction through Merger might gain many edges as well as economies of scale, economies of scope, infusing economical management, reduction, and

diversification of risk because of territorial or product diversification, access to capital markets or the next credit rating, Merger might conjointly alter banks to form the supply of further services creating them capable of facing competition from larger banks. By this fashion, mergers also can result in increase in returns by permitting giant size companies to higher serve large customers, providing “one-stop shopping” for a range of various product, augmented product or geographical diversification, resulting in enlarged pool of potential customers and enhancing the risk-taking elements. Merger might even be used as a deterrent against unwanted potential acquisitions, notably hostile takeovers, by different larger banks within the future.

Keywords : Banks, Merge, Performance

Objectives of the Study

- To evaluate the bank performance in terms of Profitability, Deposits and NPA ratios
- To find out the impact of merger of the banks and to know the performance of pre-merger and post -merger.

Literature Review

Bank merger may be a scenario of previous individual banks are consolidated into one bank (Piloff and Santomero 1999)

When associate degree freelance bank loses its charter and becomes a district of another bank with one headoffice and unified branch network then it's called merger (Dario Focarelli 2002)

After 1990s, the number and the volume of the bank mergers and the acquisitions increased with the introduction of Monetary Union. In this respect, the studies suggests that the potency will improve by bank mergers (Humphrey and valley 2004).

Merger and acquisition is one among the main facet of company world in monetary services. It is defined as the combination of the one or more companies to form one with an objective of wealth maximization (Altunbas and Ibanez 2004).

Through the word merger the banks and monetary intermediaries square measure more and more consolidating because the reasons behind this might be for managing the risks and obligations to fulfill the restrictive needs and taking the advantage of mixing (Gaikwad and Bhaduri 2014).

Merger can be defined as unifying of two players into a single entity or a process of combining two business entities under the single management (Devarajappa 2012).

Research Methodology

The data is collected through secondary source i.e. bank annual reports, published articles and research papers, news articles and websites.

The comparison of pre-merger and post-merger of the banks for three (3) years has been done using the financial parameters like Net Profit, Loans, Advances, Net NPA (NNPA), Gross NPA (GNPA), Enterprise price, Book Value, capitalization, Deposits (CAGR%), CASA deposits, return on Equity (ROE) and return on Assets (ROA).

Merger of PNB, OBC and UBI

Oriental Bank of Commerce (OBC) and United Bank of Bharat (UBI) area unit unified with the Punjab commercial bank (PNB). therefore once this merger currently the PNB are the second-largest Public Sector Banks of once the bank of India in terms of the branch network. Its total branches would be eleven,437 and therefore the total Business of the PNB would be Rs. **17.95 Lac Crore.**

Merger of Syndicate Bank and Canara Bank

After this merger; the Canara bank would be the fourth largest Public Sector of Republic of India. the entire business of Canara would be fifteen.20 animal product large integer with a branch strength of 10,342. This merger would scale back the price of operations thanks to network overlaps. These 2 banks have the same work culture that's why it might result in facilitate a swish transition.

Merger of Andhra Bank, Corporation Bank and Union Bank of India

Andhra Bank and Corporation Bank square measure unified with Union Bank of India. This merger would create Union Bank of Asian country fifth largest Public Sector Bank. This merger would have the potential to extend the post-merger bank's business by 2-4.5 times. After this merger, the overall business of Union Bank of Asian country would be Rs. 14.59 whereas total branches would be 9,609.

Merger of Allahabad Bank and Indian Bank

In the fourth merger, the Indian bank would be incorporate with the Allahabad Bank. when the merger, Allahabad bank would be the seventh largest Public Sector Bank of India. when the merger, the overall business of Allahabad bank would be Rs. 8.08 24|metallic element|metal} and therefore the number of branches would be half-dozen,104. So when the

merger of those 2 banks the scale of business would get doubled which might increase their market competition for them.

Bank Names	Advances			Gross NPA			Net NPA		
	March 2019	March 2018	March 2017	March 2019	March 2018	March 2017	March 2019	March 2018	March 2017
Punjab National Bank	4,64,474.05	4,33,734.72	4,19,493.15	78,472.20	86,620.05	55,170.45	30,037.66	48,684.29	48,684.29
Oriental bank of Commerce	1,59,284.81	1,36,397.87	1,37,706.00	21,717.07	21,717.07	26,133.60	9,439.62	9,439.62	14,282.88
United bank of India	66,955.10	62,490.20	66,139.30	12,053.38	12,053.38	16,552.11	5,785.61	5,785.61	10,216.30
Union Bank	7,96,932.15	2,88,760.56	2,86,466.58	48,729.00	48,729.15	33,712.00	20,312.00	20,312.42	24,326.00
Andhra Bank	1,58,822.69	1,49,064.13	1,36,846.33	28,973.97	28,973.97	28,124.36	9,091.40	9,091.40	12,636.87
Corporation Bank	1,21,251.21	1,19,868.84	1,40,356.79	27.63	65.11	116.82	6,926.64	6,326.64	14,077.02
Canara Bank	4,17,222.77	3,61,702.99	3,42,808.76	19,224.12	19,224.12	47,468.47	32,955.11	32,955.11	28,542.40
Syndicate Bank	2,05,044.40	2,10,683.67	1,89,669.35	24,680.37	24,680.37	25,758.60	12,627.73	12,627.73	13,239.46
Indian Bank	1,81,264.92	1,61,261.91	1,36,568.93	13,353.45	13,353.45	11,890.14	6,799.11	6,799.11	5,959.56
Allahabad Bank	1,42,212.16	1,52,060.74	1,30,752.70	28,704.78	28,794.78	26,562.60	7,419.31	7,419.31	12,229.10
Total	22,23,965.75	21,15,995.85	20,56,007.89	2,95,936.47	3,04,121.46	2,71,783.35	1,31,408.19	1,50,055.24	1,84,293.88

The above table shows the Advances, Gross NPA, and Net NPA of the merging banks.

Bank Names	Enterprise value			Book Value			Market capitalisation		
	March 2019	March 2018	March 2017	March 2019	March 2018	March 2017	March 2019	March 2018	March 2017
Punjab National Bank	7,27,149.56	7,60,637.58	6,69,325.84	97.28	148.79	196.65	920.81	552.11	425.58
Oriental bank of Commerce	2,51,414.18	2,10,581.43	2,21,997.75	137.94	286.27	407.93	1,370.21	632.77	346.17
United bank of India	99,233.43	1,30,221.30	1,26,077.51	15.48	78.87	52.54	7627.92	3000	1,394.36
Union Bank	4,54,819.44	4,44,162.23	4,13,817.65	150.24	214.76	340.9	1,763.02	1,568.57	687.44
Andhra Bank	2,28,077.75	2,21,421.61	1,98,917.77	45.64	90.24	166.87	2884.49	1,098.83	681.16
Corporation Bank	2,09,534.31	1,89,460.11	2,35,563.20	27.63	65.12	110.82	1,198.84	333.11	229.41
Canara Bank	6,32,097.54	5,60,856.33	5,31,934.20	480.29	485.58	565.97	753.24	733.24	597.29
Syndicate Bank	2,82,599.05	2,86,578.30	2,71,372.28	24,680.37	24,680.37	25,758.60	2487.91	1417.27	904.54
Indian Bank	2,55,887.75	2,31,932.73	2,02,981.67	403.69	384.11	357.32	480.29	480.29	480.29
Allahabad Bank	2,28,609.89	2,28,794.33	2,13,413.43	43.54	121.66	102.24	2487.91	1417.27	904.54
Total	33,00,432.90	32,27,646.13	30,72,411.25	26,082.10	26,405.77	28,147.84	21,774.64	10,933.46	6,650.79

The above table shows the Enterprise value, Book value, and Market capitalisation of the merging banks.

Bank Names	Deposits CAGR %			Deposits			Loans(CAGR %)			
	March 2018	March 2018	March 2017	March 2017	March 2018	March 2019	2016	March 2017	March 2018	March 2019
Punjab National Bank	5.26	3.30	12.41	6,21,704.02	6,42,226.19	6,76,030.14	71.1	65.79	63.53	65.49
Oriental bank of Commerce	12.20	-5.47	4.99	2,19,139.99	2,07,346.06	2,32,645.38	69.67	69.98	60.46	68.69
United bank of India	4.37	1.88	9.05	1,26,939.35	1,29,226.38	1,34,983.22	38.62	53.17	47.68	49.63
Union Bank	1.81	7.96	10.42	3,78,391.58	4,08,501.64	4,15,315.27	73.66	72.22	68.09	65.05
Andhra Bank	5.61	6.46	12.23	1,95,441.25	2,08,070.48	2,18,821.00	73.82	70.48	69.23	68.59
Corporation Bank	0.68	16.89	7.50	2,20,599.62	1,83,335.95	1,84,867.84	65.56	63.04	55.43	60.86
Canara Bank	14.15	5.96	3.23	4,95,275.34	5,24,771.86	5,99,033.27	64.54	65.68	65.5	71.07
Syndicate Bank	-4.72	4.69	-0.45	2,40,560.86	2,77,776.11	2,59,896.96	70.76	70.65	72.6	69.76
Indian Bank	16.22	14.13	2.37	1,82,509.28	2,08,294.22	2,42,075.95	72.86	67.76	73.99	75.17
Allahabad Bank	0.34	5.81	0.61	2,00,644.40	2,13,603.83	2,14,334.07	72.01	69.79	67.35	61.59
Total	55.97	27.83	62.25	29,01,364.89	29,98,232.72	31,79,303.20	682.72	668.56	645.88	656.90

The above table shows the Deposits CAGR%, deposits, and loans CAGR% of the merging banks.

Bank Names	Net profit			CASA deposits		
	March 2017	March 2018	March 2019	March 2017	March 2018	March 2019
Punjab National Bank	1,324.80	-12,282.82	-9,975.49	260016	263247	285040
Oriental bank of Commerce	-1,094.07	-5,871.74	54.99	49891	65,697	68,387
United bank of India	219.51	-1454.45	-2315.93	60085	59263	63642
Union Bank	555.21	-5,247.37	2,947.45	130308	139241	150141
Andhra Bank	174.33	5,361.03	-2,786.13	57315	64,596	68,998
Corporation Bank	561.21	3,950.42	6,332.98	44,933	54123	58306
Canara Bank	1,121.92	9,548.24	347.02	149749	1,67035	1,74809
Syndicate Bank	358.95	-3,222.84	2,588.29	75865	80409	84,678
Indian Bank	1,405.68	1,258.99	321.95	66677	78,461	83459
Allahabad Bank	-313.52	-4,674.37	-8,333.96	91598	98419	106070
Total	4,314.02	-12,634.91	-10,818.83	9,86,437.00	10,70,491.00	11,43,530.00

The above table shows the Net profit, and CASA deposits of the merging banks

Bank Names	Return on assets			Return on Equity (%)		
	March'2017	March'2018	March'2019	March'2017	March'2018	March'2019
Punjab National Bank	196.65	148.79	97.28	3.47	-32.85	-24.2
Oriental bank of Commerce	407.93	186.27	137.94	-8.63	-56.55	0.31
United bank of India	52.54	28.87	15.48	3.41	-18.85	-21.89
Union Bank	340.9	214.76	150.24	2.36	-20.9	-12.15
Andhra Bank	166.87	90.24	45.64	1.53	-31.54	-21.16
Corporation Bank	110.82	65.12	27.63	4.65	-39.81	-40.43
Canara Bank	563.97	485.58	480.29	3.96	-14.51	1.16
Syndicate Bank	156.81	105.43	66.6	2.85	-24.06	-17.4
Indian Bank	357.32	384.11	403.69	9.72	7.95	1.97
Allahabad Bank	192.24	121.66	43.54	-2.68	-60.61	-134.7
Total	2,546.05	1,830.83	1,468.33	20.64	-291.73	-268.49

The above table shows the ROA, and ROE of the merging banks.

The above shown tables gives the detailed figures of all the variables considered for three years for the financial year 2017 to 2019. After the merge, the profitability of public sector banks has improved, and the total gross non-performing assets has come down to Rs.2.9 lakh crores at the end of march 2019 from Rs. 3.04 lakh crore at the end of March 2018.

“After successfully completing the amalgamation during the previous year, the bank is now reaping the synergy benefits. Since we have achieved this level (of profitability) despite the challenging environment, we expect this to be sustainable unless we are hit by further crisis.

But Post-merger, public sector banks (PSBs) have seen an improvement in profitability in the year ended March 2021 despite the coronavirus pandemic induced disruptions.

Analysis

The merged PSBs total assets account for about 90% of all the PSBs. So the following analysis of data of all PSBs can be considered equivalently for the merged PSBs in the same reasoning.

The following data has been summarized from RBI's Financial Stability Report released in January 2021.

Credit growth (y-o-y) of all banks, which had declined to 5.7% by March 2020, plummeted further to 5.0% by September 2020. For PSBs, credit growth zoomed from 3.0% in March 2020 to 4.6% in September 2020.

The other business component or deposit growth of all banks was buoyant at 10.3% (y-o-y), driven by precautionary savings. PSBs recorded a growth of 9.6%, among the highest in the last five years.

On the earnings front, PSBs net interest income (NII) grew at a much higher rate of 16.2% in September 2020 (13.0% in March 2020). Net interest margin (NIM) jumped up in September

2020. However, growth in other operating income (OOI) plummeted to 1.2% from 29.2% in March 2020.

Earnings before provisions and taxes (EBPT) of PSBs grew by 17.6%. Return on assets (RoA) and return on equity (RoE) improved substantially with the recovery in RoE of PSBs being particularly noteworthy after languishing at sub-zero and near zero levels for the past four years. Falling interest rates led to cost of funds declining.

So profits parameters have recorded significantly optimistic growth for the merged PSBs in H1FY21.

Conclusion

The year 2020 has been very harmful to businesses. If in such a dismal year the banks may place up such a bright show, during a booming economy that is probably going to return up within the next 1-2 years. So this banks merger has brought enhancements within the monetary results even in Associate in Nursing aberration year like this and registered high up growth over the past a pair of years since once the Public Sector Banks had started sick from a 2-3 years of losses. And with inexperienced shoots within the international economies, bigger rewards measure to be seen within the future. Thus the PSBs, that half-dozen years ago had a lion's share of seventy one of total bank business in Asian country (these days 61%), would contribute to the \$ five trillion Indian growth story dream and additionally they themselves would join with the state.

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