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Effect of Amalgamation on Financial Performance: A Case Study of Canara Bank Ltd

Yogashree C

Assistant Professor, Department of Management Studies, Rajeev Institute of Technology, Hassan, India

Abstract: ***In the era of 21 century, one has to follow the path of growth, which contains various challenges and issues. To obtain benefits such as entering in new market, cost reduction, cross selling, risk diversification, increasing shareholder's value, M&A can be done within the industry or outside the industry. Banking sector of India is also in news for its various deals of Merger and Amalgamation in recent years. This paper has focused on amalgamation of Syndicate bank into Canara Bank. The main objective of this study is to analyze financial performance of Canara Bank pre and post- amalgamation. Data has been collected from various Annual Reports of Canara Bank for pre and post-amalgamation period. Analyses shows that there is no significant benefit has been achieved by Canara Bank Ltd after the amalgamation. Analysis also shows that there is no improvement in company's Return on Equity, Interest Coverage, Earning Per Share and Dividend Per Share.***

Keywords: Financial Performance, Banking, Amalgamation and Return on Equity

1. Introduction

The Indian banking sector has witnessed many mergers, acquisitions and amalgamations in the recent past. The last decade saw some big players like the ICICI bank and HDFC bank acquiring Bank of Rajasthan and Centurion Bank of Punjab. There is also a talk in the business circles that 2 public sector banks, United Bank of India and Dena bank will be merged with bigger entities. One of the prominent motives behind a takeover bid in the banking arena is to reap the benefits of economies of scale. Mergers, acquisitions and amalgamations help banks achieve significant growth in their operations and in minimizing expenses. For instance, M&A help banks to save the costs that are incurred on opening of new bank branches. Competition is minimized when there is less number of banks leading to an increased market share. Merger, acquisition and amalgamation also help better utilization of resources. This study analyzes the takeover deal of Syndicate bank by Canara Bank and the synergies gained by the deal. This amalgamation brings together two strong industry players to form a more robust and fundamentally sound bank. Syndicate Bank was known as "Small man's big bank" in the South Indian banking sector, with a legacy of nine decades. Canara Bank has made its mark in financial services arena as a conglomerate addressing all customers' needs under one banner. The amalgamated entity Canara Bank Ltd will definitely leave its impact on the national banking scene.

2. The Parties

Canara Bank Limited

Canara Bank Ltd. is an India-based bank. It was established in the year 1906 and its office is based in Karnataka. Canara bank today is one of India's fastest growing banks, which caters to wide variety of banking needs of both individuals and corporate. It provides consumer banking services, commercial banking services, investment banking services, and numerous other financial services. With a portfolio of over 14 subsidiaries across India and the world and a few joint ventures, Canara has spread its businesses wide across the market and country with over 5,850 branches, including over eight overseas branches. The bank is listed on the NSE and BSE.

Syndicate Bank

With roots as far back as the 1925, 'Syndicate Bank' comes with a long heritage of banking in the trade communities of south India. It was established by three visionaries Sri Upendra Ananth Pai, a businessman, Sri Vaman Kudva, an engineer and Dr.T M A Pai, a physician with an intention to provide financial support to the local weavers. Syndicate Bank is the best example to be cited in serving the people in the very best way. Their emblem - containing the picture of a faithful and friendly animal i .e, the dog indicates the motto and the way in which they deal with the public. The dog is identified as a companion and a trustworthy and faithful servant. So is the Syndicate Bank. It serves its masters, i.e., the customers in a most friendly and faithful manner. The Bank offers financial products and services such as demand deposits, online banking, cash management, insurance, loans, and time deposits. The bank operates over 3,700 branches. Its domestic branch network consists of over 1,230 rural, approximately 1,030 semi-urban, over 820 urban and approximately 680 metro branches.

Chronology of Events

August 30, 2019 – Finance Minister announced amalgamation of Syndicate bank into Canara bank.
September 4, 2019 - Prior intimation of board meeting - Amalgamation of Syndicate bank into Canara bank.
September 13, 2019 – Outcome of the board meeting- Amalgamation of Syndicate bank into Canara bank.
November 20, 2019 – In-Principle approval of alternate mechanism to proposed amalgamation of Syndicate into Canara bank.
March 5, 2020 – Stock exchange disclosure regarding share exchange ratio for amalgamation of Syndicate bank into Canara bank & intimation of record date.
March 5, 2020 – Gazattee notification of scheme of amalgamation of Syndicate bank into Canara bank
March 18, 2020 – Newspaper publication – Amalgamation – Expert committee updates.
April 1, 2020 – The amalgamation of Syndicate bank into Canara bank came into existence.

3. Structure of the Deal

The key terms of the Scheme are:
- **Appointed Date:** August 30, 2019
- **Swap Ratio:** 158 equity shares of face value INR 10 of Canara Bank shall be issued to the shareholders of Syndicate Bank for every 1000 equity shares of face value INR 10 of Syndicate Bank held by them.
- **Directorship:** 1 director from the board of Syndicate Bank has been appointed on the board of Canara Bank.
- **Transfer of employees:** all employees of Syndicate Bank will on and from the Effective Date, become employees of Canara Bank, and all years of services in Syndicate Bank for employees still in service on the Effective Date shall be counted in determining employee benefits, such as gratuity, incentive plans, ESOPs, etc.
- **Branding:** As of the Appointed Date, Syndicate Bank has ceased to exist and all usage of the name has been replaced with Canara's. However, Canara has entered into an agreement with the Syndicate Bank to allow Canara to continue to use the Syndicate Bank trademark and name for a certain transitional period.
- **Partial Shares:** Under the Scheme, no partial shares may be issued. Instead, all equity shares in lieu of all fractional entitlements of shareholders, shall be consolidated and allotted to a trust / director / officer appointed by the board of Canara (post-amalgamation), who shall hold the shares on behalf of the members entitled to such fractional entitlements, with the express understanding that such trust / person shall sell the shares on the market, within 60 days of allotment. The proceeds of the sale are to be returned to the bank which will appropriately distribute them amongst the members in proportion to their respective fractional entitlements.

4. Challenges of this Deal

The major challenge was related to human resources management. The HR process to be aligned. Because there could be different policies for perquisite, transfer and promotions. But the Canara bank has postponed this issue to the next fiscal year. The employees of Syndicate bank were worried whether their pay structure would continue or not. Some of the employees of Syndicate bank had other concerns too. Employees in positions like regional manager, sales head, zone manager, etc., were apprehensive that duplication of positions could lead to transfers or even to their losing their jobs. Another major challenge is technology integration. There is two ways of looking at technology integration. First is integrating the database, product and processes, apart from the integrating of people related affairs. The second way is to look at customer facing, employee-facing and also back-office technologies.

Synergies Out of the Amalgamation

- This bank has become the fourth-largest public sector bank with a business of Rs 15.20 lakh crore, which will be roughly 1.5 times of Canara Bank.
- The amalgamation increased the geographical presence and further deepened Canara's network. The amalgamation increased Canara's number of branches and it is the third-largest branch network in India with 10, 342 branches, which has a strong presence in South India.
- It will have the potential to reduce huge cost due to network overlaps, a similar culture to enable smooth consolidation and cost-saving and income opportunities for joint ventures and subsidiaries.
- The amalgamated bank have a total business of Rs 1,520,295 crore with gross advances of Rs 6,61,365 crore.
- There will be a quick realization of gains as both banks operate on the iFlex Core Banking System.
- The deposit of the bank is Rs 858,930 crore and the current account saving account (CASA) ratio is 30.21 percent.
- The bank has a Common Equity Tier 1 (CET1) of 8.62 percent and Capital to Risk (Weighted) Assets Ratio (CRAR) of 12.62 percent.
- The merged bank has employee strength of 89,885.
- The net NPA of the bank will be 5.62 percent after the amalgamation.

5. Literature Review

- Schuler and Jackson (2001) conducted a study on a three-stage model of mergers and acquisitions that systematically identified several human resources issues and activities. Numerous examples were offered to illustrate the issues and activities in each of the three stages. The study concluded with a description of the role and importance of the HR department and leader has its presence in business environment, in order to get competitive advantage the acquirer must consider the HR perspective to bring effectiveness in a deal of a merger.
- Paul (2003) conducted a study on the merger of Bank of Madura with ICICI Bank. The researcher evaluated the valuation of the swap ratio, the announcement of the swap ratio, share price fluctuations of the banks before the merger decision announcement and the impact of the merger decision on the share prices. It was concluded that synergies generated by the merger would include increased financial capability, branch network, customer base, rural reach, and better technology. However, managing human resources and rural branches may be a challenge given the differing work cultures in the two organizations.
- Murthy (2007) conducted a study on five bank mergers in India viz. Punjab National Bank and New Bank of India, ICICI Bank and Bank of Madura, ICICI Ltd. and ICICI Bank, Global Trust Bank and Oriental Bank of Commerce and Centurion Bank with Bank of Punjab. It was concluded by the author that consolidation is necessary due to stronger financial and operational structure, higher resources, wider branch network, huge customer base, technological advantage, focus on priority sector, and penetration in rural market. Further, some issues as challenges in aforesaid mergers were identified as managing human resources, managing the client base, acculturation, and stress of bank employees.
- Saraswathi (2007, p. 230) conducted a study on the merger of Global Trust Bank and Oriental Bank of Commerce. It was found by the author that this merger paved the way to several things in the transition period

and pre merger strategy. It visualized the need for the diverse cultures to arrive at an understanding and to work hand in hand. Apart from the integration of diverse cultures, a way to inherit the advanced processes and expertise of the staff in a phased and systematic manner should be paved. It is also equally important and challenging for the transferee bank in handling the issues relating to continuance of the services of employees of the transferor bank and their career planning.

- Mahesh, R., & Prasad, D. (2012), conducted a study to examine whether the private sector banks of India have attained financial performance efficiency during the post merger & acquisition period especially in the areas of profitability, leverage, liquidity, and capital market standards, by using Paired sample t-test. It was concluded that there is irrelevant improvement in return on equity, expenses to income, earning per share and dividend per share post-merger.

Scope of the Study

The focus of this research paper is on amalgamation of Syndicate bank into Canara bank limited. Financial performance of Canara bank limited has been analyzed by the comparison of Pre and Post amalgamation details provided in the annual report.

Objectives of the Study

- To examine the synergies and challenges of amalgamation of Syndicate Bank into Canara Bank Ltd.
- To examine the post amalgamation effect on financial performance of Canara Bank Ltd.

Research Methodology:

The study is analytical in nature and it is based on the secondary data. The information has been retrieved from annual report of Canara Bank Ltd.

Research Hypothesis

- H (0) = There is no significant progress in Key Performance Ratios of the Canara Bank Ltd.
- H (0) = There is no significant progress in Valuation Ratios of the Canara Bank Ltd.
- H (0) = There is no significant progress in Per Share Ratios of the Canara Bank Ltd.

Data Description

This study analyzes the effect of amalgamation on pre and post financial performance of Canara Bank Ltd. Data for the years 2019 and 2018 have been taken to analyze pre merger financial performance and half yearly data of 2020 has been taken to analyze post amalgamation financial performance. For this study relevant ratios have been identified and calculated for the said period. Following are the broad categories of ratios and classified in to various relevant ratios.

Ratio	Standard
Key Performance Ratios	
Net Profit Margin $=$ Net Income/Total Sales Revenue	High
Operating Profit Margin $=$ Operating Profit/ Total Sales Revenue	High
Return on Assets $=$ NPAT/Total Assets	High
Return on Equity $=$ (NPAT $-$ Preference Dividend)/ Equity	High
Valuation Ratios	
Earnings Yield $= 1 \div$ P/E	High
Price to Sales Ratio $=$ Market Cap/ Total Sales	Low
Per Share Ratios	
Cash EPS $=$ Cash Flow/Number of shares outstanding	High
Book Value $=$ (Shareholders' Equity $-$ Preferred Equity)/ No. of Common Shares	High

Data Analysis

To test the hypotheses pre and post amalgamation financial ratios have been calculated and compared to see if there are any significant statistical changes in financial performance by using paired sample t-test at a confidence level 0.05 or 95% (2 tailed). The results are shown in the following table for the Canara Bank Ltd.

Particular	Ratio Value		Mean	Standard Deviation	t-Value
	Post	Pre			
Net Profit Margin (%)	-4.56	0.74	-1.91	3.75	0.79
Operating Profit Margin (%)	-20.53	-13.3	-16.915	5.11	0.81
Return on Assets (%)	-0.3	0.04	-0.13	0.24	0.78
Return on Equity (%)	-5.68	1.16	-2.26	4.84	0.76
Earnings yield(X)	-0.24	0.02	-0.11	0.18	0.97
Price To Sales (X)	0.19	0.47	0.33	0.20	0.50
Cash EPS (Rs.)	-21.7	10.14	-5.78	22.51	0.80
Book Value	381.4	480.29	430.845	69.93	0.47

Testing of Hypotheses

Liquidity Ratios

In post amalgamation- all key performance ratios have been decreased. The falling of these ratios shows the worsening position of the bank and its inability to generate more revenue and to control its expenses in the first quarter of year 2020. Based on the results of t-test (95% significance level), the null hypotheses H (0) = There is no significant progress in Key Performance Ratios of the Canara Bank Ltd, is accepted.

Valuation Ratios

- In post amalgamation-Earning Yield have been decreased to -0.24. This indicates the bank has earned very return per share as compared to the amount invested.
- In post amalgamation-Price to Sale have been decreased to 0.19. It shows the bank shares are undervalued. Based on the results of t-test (95% significance level), the null hypotheses H (0) = There is no significant progress in Valuation Ratios of the Canara Bank Ltd, is accepted.

Per Share Ratios

In post amalgamation- Per Share ratios have been decreased. It is a result of decreased net profit. The bank did not make good financial decision and strategies which affected the book value and cash EPS in the first quarter of year 2020. Based on the results of t-test (95% significance level), the null hypotheses H (0) = There is no significant progress in Per Share Ratios of the Canara Bank Ltd, is accepted.

6. Conclusion

Thus, as per the above discussion it can be say that Amalgamations are considered as corporate events which helps an organization to create synergy and provide sustainable competitive advantage, but, simultaneous these sorts of corporate events have the potential to create severe personal trauma and stress which can result in psychological, behavioral, health, performance, and survival problems for both the individuals and companies, whether it is a bank or a non banking financial corporation, involved in it. The post-merger integration process is a difficult and complex task. It comes along with long lists of activities and tasks that have to be fulfilled within a short time and partly with incomplete information. The results showed that there is no significant improvement in the various ratios of Canara Bank in post amalgamation period. The null hypothesis of the study has not been rejected which stated that there is no significant progress or improvement in the financial position of the Canara Bank in post period. Canara Bank, the amalgamated company was unable to encash the benefit of synergy in the short term. Re-pricing of existing Canara Bank savings account deposits negatively impacted on margins. But for a long term it will be beneficial for Canara Bank. The amalgamated entity benefited from wider customer base, distribution network and product suite, this would translate into higher cross-selling of Canara's products.

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