

THE IMPACT OF THE MERGER WITH SYNDICATE BANK ON CANARA BANK'S PROFITABILITY

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ABSTRACT

Banking sector serve as the backbone of an Indian economy as it facilitates channelizing the surplus public funds into the most productive channels, inculcating saving habits and accelerating the rate of capital formation. The Indian banking industry has witnessed the paradigm shift from traditional functioning of banks' lending and borrowing to the modern banking which includes internet banking, mobile banking, micro-banking, insurance and locker facilities to strengthen their financial system. In present scenario, the Indian banking industry has suffered many challenges in relation to their normal functioning of business such as booming of net loss, mounting of NPA, proliferating operating costs, erosion of net worth, intensifying unhealthy competition between public and private sector banks that necessitates the Government of India announced Mergers and Acquisition to revive the performance of Indian banking industry. Mergers and Acquisitions as a phenomenon are implemented to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scale, adopt advanced technologies, raise efficiency and improve profitability. The main objective of this study to examine the impact of Syndicate Bank merger on profitability of Canara Bank. The study period covers four years the pre and post-merger of banks. The year of merger as a base year and hence, it is excluded from the evaluation to have consistency in evaluation of pre and post-merger performance of acquirer banks. The study has taken into consideration four variables, i.e., deposits, advances, business, and net profit for the comparative analysis in the pre and post- merger.

Keywords: Banking System, Mergers & Acquisitions, Globalization, Performance, Profitability.

Introduction:

Mergers and Acquisitions represent a widely used technique to increase the rate of growth in the size of the firm as well as its market share. Mergers and Acquisitions are considered as a relatively fast and efficient approach to expand into new markets and incorporate new technologies. The Indian banking system has achieved various milestones in a relatively short amount of time. This is the world's largest and most diverse democracy which itself is a challenge as the companies must cater to such a diverse customer base. It is part and parcel of the agenda

of the government to reform the banking sector by repositioning and integrating it into the global financial system. In the past years, there have been various reforms and successful mergers which have had a positive impact on the banking sector. Many public sector, private sector and other banks are engaged in mergers and acquisitions activities in India. In the present times, the banking sector is a rapidly growing industry in India. Merging of the Indian banking sector through mergers and acquisitions on commercial considerations and business strategies – is a vital prerequisite. 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. Performance of the bank pre and post-merger usually is in the green and improved. Most findings state that to a certain extent mergers and acquisitions have been successful in Indian banking sector. Mergers and acquisitions have moulded the Indian Banking sector in a perfect manner. Though there seem to be diverse opinions on this, yet there is always hope for an improvement in the current condition after bank mergers. The following are the reasons for the mergers to take place in banks.

- **Merger of weaker banks:** The exercise of merger of weaker banks with stronger banks was encouraged 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 and 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:** It is possible through rural reach and increased market share. Achievement of infrastructure and restrict competition and prevent congestion of banks and utilize underutilized resources so that the banks can contest with the foreign banks in a global era.

Review of Literature:

Dr Naveen Prasadula (2022) paper titled post-merger performance of the State Bank of India: An Analysis opined that Mergers is a significant development in the banking industry, with a long-term impact. According to

the findings, the SBI's performance was satisfactory throughout the post-merger period. Despite initial losses

owing to NPAs and aggregated losses of partner banks, the bank has since generated a profit and returned to a strong 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 of company's asset for enhancing the operational efficiency and makesin-depth analysis the pros and cons of the merger and acquisition and recommends that bank adopt better tools and techniques to overcome Non-Performing Assets. titled The merger of associate banks with State Banks of India: A pre- and post-merger analysis. The study opined that SBI's consolidation with its partners led in the development of a monopoly and a lack of competitive spirit resulted in a slow rate of growth. The study also addresses a variety of concerns that emerge as an obstacle including significant numbers of merged client accounts, branch overlaps, and varied company cultures that must be unified that emerge as the challenge.

Sonia Singh and Shubhankar Das (2018) titled "Impact of post-merger and acquisition activities on the financial performance of banks: a study of Indian private sector and public sector banks." The study opined that procedural, physical, and socio-cultural context tactics and policies were critical in the post-merger and acquisition process.

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

Burhan Ali Shah and Niaz Khan (2017) titled "Impacts of Mergers and Acquisitions on Acquirer Banks' Performance." The study concludes 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. In the post-merger period, net interest margin and administrative expenditures to profit before taxes ratios show just a minor improvement. The liquidity ratios of the acquiring banks have also deteriorated in the post-merger era. Thus, study opined that bank may be better off investing their resources on developing their networks rather than participating in unsuccessful mergers.

Svetlana Santosh Tatuskar (2016) titled "pre-merger v/s post-merger performance evaluation of public sector banks vis a vis private sector banks in India that have merged during period 1993-94 to 2004-05."The conclusion of study states that that acquiring bank performance during with respect to capital adequacy, asset quality, management efficiency, and earning quality and liquidity management seemed to exhibit slow improvement in the performance during post-merger period in contrast with premerger period.

Jayashree R Kotanal (2016): Mergers and Acquisition is a useful tool for the growth and expansion in any industries and the Indian banking sector is no exception. It is helpful for the survival of the weak banks by merging in to the larger bank. This study shows the impact of Mergers and Acquisitions in the Indian Banking sector.

Statement of the Problem:

With increasing competition and the economy heading towards globalization, mergers and acquisitions are expected to occur at a much large scale than any time in the past and have played a major role in achieving the competitive edge in the dynamic market environment. While financial services and communication services were leading in the mergers and acquisitions race, there were many mergers and acquisitions dealt in banking sector as

well and hence the study.

Significance of the Study:

The economic liberalization has resulted in many mergers. Many studies have been conducted on different mergers. The merger of public and private sector banks in India have created a great boom in the Indian economy. It creates many problems among the customers and in many sectors. No empirical study has been conducted so far 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 and forecasting the probable effects of merger, on various factors that can arise in the merger of Syndicate Bank into Canara Bank.

Objectives of the Study:

- To identify the motives behind the merger and acquisition of the banking sector.
- To understand the relationship between the various financial variables and financial performance of banks.
- To examine the impact of merger of Syndicate Bank into Canara Bank on deposits, advances, business and net profit of Canara Bank.
- To offer suggestions for further improvement of financial performance of Canara Bank.

Research Methodology:

The research methodology is the systematic, theoretical analysis of the methods applied to a field of study. It comprises the theoretical analysis of the body of the methods and principles associated with a branch of knowledge. This study seeks to analyse the impact of mergers on profitability of anchor banks. The data relating to the banks were collected from different secondary sources.

Research Design:

Research design is the plan, structure and strategy of investigation conceived to obtain answers to research questions. Research design is purely a framework or a plan for study that guides in the collection of data. Analytical research design is adopted for analysing the data.

Sources of Data:

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

Tools for Analysis of Data:

The data collected from different secondary sources are analysed using the descriptive statistics.

Period of the Study:

Three year prior to and one-year post merger have been taken into consideration for the study: • Pre-merger year

Limitations of the Study:

- The study is confined to recent merger of Syndicate Bank into Canara Bank.
- The study is based on secondary data derived from various sources.
- The reliability and validity of the result of the findings of the present study is based upon data published in different sources.

Profile of Sample Banks:

Canara Bank is an Indian public sector bank based in Bangalore. Established in 1906 at Mangalore by Ammembal Subba Rao Pai, the bank was nationalized in 1969. Outside India, the bank has offices in London, Dubai and New York. Ammembal Subba Rao Pai, a philanthropist, established the Canara Hindu Permanent Fund in Mangalore, India, on 1 July 1906. In 1996, Canara Bank became the first Indian Bank to get ISO certification for "Total Branch Banking" for its Seshadripuram branch in Bangalore. Canara Bank has now stopped opting for ISO certification of branches.

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

On 30 August 2019, Finance Minister Nirmala Sitharaman announced that Syndicate Bank would be merged with Canara Bank. The Board of Directors of Canara Bank approved the merger on 13 September. The Union Cabinet approved the merger on 4 March 2020. The merger was completed on 1 April 2020 with Syndicate Bank shareholders receiving 158 equity shares in the former for every 1,000 shares they hold. Canara Bank has become the fourth-largest public sector bank of the country. After the merger, the combined business is INR 15.20 lakh crore and a lower gross NPA ratio of 8.77%.

Data Analysis and Interpretation:

The core parameter that has been taken into consideration for analysing the impact of mergers on the efficiency of the selected banks are deposits, advances, business and net profit.

Table:1

Comparative Analysis of Deposits in Pre and Post Merger of the Sample Banks (Rs. in Cores)

	Canara Bank	Syndicate Bank
Pre-Merger Deposits:		
2017	4,95,275	2,60,560
2018	5,24,771	2,72,776
2019	5,99,033	2,59,896

Post-Merger Deposits:

2021	10,10,874
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Pre-Merger Growth%:

2018	5.95	4.68
2019	14.15	-4.72

Post M&A Change %:

2021	17.69
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Source: Annual Reports.

Table 1 shows the comparative analysis of pre and post-merger deposits of the selected banks. The Canara Bank's deposits before absorption of Syndicate Bank was amounted to Rs. 4,95,275 crores in the year 2017 which was increased 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. 2,60,560 crores in the year 2017 which was increased to Rs. 2,72,776 crores in the year 2018 but in the year 2019, the bank's deposits declined to Rs. 2,59,896 crores. Thus, growth in deposits of Canara Bank was proportionately more than that of Syndicate Bank as the deposits growth rate of Canara Bank was 5.95% in the year 2018 in contrast with Syndicate Bank which was 4.68%. In the year 2019, the deposits growth rate of Canara bank was 14.15% but on the other hand, the rate of deposits of Syndicate Bank is recorded at 4.72% which clearly indicate a decline in the rate of deposits. The Table 4 also indicated that after merger, Canara Bank has witnessed an exponential growth in deposits which amounted to Rs. 10, 10,874 crores in the year 2021 which is 17.69% more than the combined deposits of Canara Bank and Syndicate Bank as in the year 2019.

Table:2**Comparative Analysis of Advances in Pre and Post Merger of Sample Banks (Rs. in Crores)**

	Canara Bank	Syndicate Bank
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-Merger Growth%:		
2018	11.6	2.75
2019	12.05	-5.22

Post-Merger Change %:

2021	1.85
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Source: Annual Reports

Table 2 exhibits the comparative analysis of advances in the pre and post-merger of selected banks. The Canara Bank's advances before absorption of Syndicate Bank was amounted to Rs. 3,42,008 crores in the year 2017 which was increased to Rs. 3,81,707 crores in the year 2018 and it further increased to Rs.4,27,727 crores in the year 2019. The Syndicate Bank's advances before merging with Canara Bank was reported in their annual report as follows- Rs. 2,05,044 crores in the year 2017; Rs. 2,10,638 crores in the year 2018 and Rs.1,99,669 crores in the year 2019. Thus, the growth rate of advances of Canara Bank was proportionately more than that of Syndicate Bank's growth rate. It can be clearly seen from the table that rate of advances of Canara Bank has been increased by 11.60% and 12.05% in the year 2018 and 2019 respectively whereas the rate of advances of Syndicate Bank has shown a mere growth of 2.75% in the year 2018 and 5.22% in the year 2019. The table also witnessed that after the merger of Canara Bank and Syndicate Bank, the advances in the year 2021 was amounted Rs. 6,39,049 crores which was 1.85% more than the total advances of Canara Bank and Syndicate Bank as in the year 2019.

Table:3**Comparative Analysis of Business in Pre and Post Merger of Sample Banks (Rs. in Crores)**

	Canara Bank	Syndicate Bank
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-Merger Growth%:		
2018	8.26	3.83
2019	13.26	-4.94
Post-Merger Change %:		
2021	11	

Source: Annual Reports

Table 3 reveals the comparative analysis of business in the pre and post-merger of banks. The business comprises of the advances and deposits of the banks. The Canara Bank's business before absorption of Syndicate Bank amounted to Rs. 8, 37,284 crores in the year 2017, Rs. 9, 06,479 crores in the year 2018 and Rs. 10, 26,760 crores in the year 2019. On the other hand, Syndicate Bank's business before merging with Canara Bank was amounted to Rs. 4, 65,605 crores; Rs. 4, 83,459 crores, Rs. 4, 59,566 crores in the year 2017, 2018 and 2019 respectively. Thus, business growth of Canara Bank is proportionately more than that of Syndicate Bank's business growth rate. In the year 2018 and 2019, the business growth of Canara Bank was 8.26% and 13.26% respectively in

contrast with the business of Syndicate Bank which was only 3.83% in the year 2018 and showed a negative change of 4.94% in the year 2019. The Canara Bank has witnessed an exponential growth in business after the merger which amounted to Rs. 16, 49,923 crores which is 11% more than the total business of Canara Bank and Syndicate Bank as in the year 2019.

Table:4

Comparative Analysis of Net Profit in Pre and Post Merger of Sample Banks (Rs. in Crores)

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

Source: Compiled from Annual Reports of Banks.

Table 4 gives a comparative picture of net profit in the pre and post-merger of the selected banks. Before acquiring Syndicate 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 Syndicate Bank earned a net profit of Rs. 358 crores in the year 2017 and incurred losses amounting to Rs. 3,222 crores and Rs. 2,588 crores in the year 2018 and 2019 respectively. It is quite evident from the above table that Canara Bank has earned net profit of Rs. 2,557 crores in the year 2021 after the absorption of Syndicate Bank.

Findings of the Study:

- **Deposits:** The deposits of Canara Bank after merger has been increased by 17.69%, in comparison to the combined deposits of Canara Bank and Syndicate Bank which amounted to Rs. 8,58,929 crores. The obvious reasons for such an increment in deposits may be improved service quality, financial inclusion initiatives, diversified product portfolio financial innovation, attractive interest rate of deposits as after merger the financial system structure of banks became stronger.

- **Advances:** The advances of Canara Bank after merger gone up by 1.85% in comparison to the combined advances of Canara Bank and Syndicate Bank which was Rs. 6,27,396 crores. The substantial increase in advances may be due to the improving cash recovery and credit rating, infusion of funds through investing various profitable

portfolios by bank, better fund management, improving operational efficiency and exponential growth of interest income.

- **Business:** The business of Canara Bank after merger have been gone up to 11%, in the year 2021 in comparison to the combined business of Canara Bank and Syndicate Bank which was Rs.14,86,326 crores. The driving forces behind such a hike in the business of the banks is successful leveraging of synergy benefits such as increased scale of operation by establishing new franchise either through new geographies or by growing market share, wider spectrum of product portfolios, improving credit rating, asset quality and revamping organisational structure.

- **Net Profit:** The merged bank viz. Syndicate Bank prior to merger reported net losses amounted to Rs. 2588 Crores. 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. The mainspring behind this substantial transformation in the profitability positions of the banks are improved managerial efficiency, lower credit and liquidity risk, diversified business risk, reduced cost of funds, expansion in market share and financial innovation etc.

Suggestions for Improvement:

The following are the suggestions of study which are as follows:

- The sensitivity analysis of the employees is to be addressed while considering merger of banks as the whole system of acquiring and acquired banks completely change which significantly influence the working culture the employees.
- Before taking any strategic decision regarding merger, the Government should consider the pros and cons of mergers as these challenges may severely impact the normal functioning of the banks after merger.
- After merger of banks, the staff of acquired banks should be provided with the proper training, enabling them to work efficiently and effectively.
- The strong banks should not be merged with the weak banks as they will create the hostile position of strong bank after merger. The strong bank may face problems such as booming out operating cost, higher defaulter rate and poor fund management, etc.
- RBI should provide roadmap to acquiring bank regarding improvement in financial performance in global financial market and to face challenges of technology integration after merger of banks.

Conclusions:

As a consequence of the many mergers and acquisitions that have taken place in the financial services industry over the course of the last few years, the industry now boasts a number of major companies on a worldwide scale.

These noteworthy combinations of banking institutions have recently taken place in the financial sector. The most current research reveals that there were positive changes in the bank's deposits, advances, business, and profitability throughout the time period that was taken into account for the study both before and after the merger of Syndicate Bank with Canara Bank. The time period that was taken into consideration for the study was between 2000 and 2010. Despite this, there are forecasts that are positive about the future gains in profitability that will occur. On the other hand, the data suggest that mergers brought about a better degree of cost efficiency for the institutions that were merging into one another. In spite of the fact that a merger is a dangerous business transaction, the majority of failed financial institutions have, as a result of the merger, shown a significant increase in their performance. There is a possibility that this outperformance was directly responsible for the success of the merger.

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