



A Study on Merger of Bank of Baroda, Vijaya Bank and Dena Bank

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ABSTRACT

Banking sector in any country plays very important role in every economy and is one of the fastest growing sectors in India. Without stable and Effective banking system, no country can grow. India is a world's largest emerging economic giant. For the past few years, India's Banking system has grown very rapidly. In order to grow the development of the banks, The Government of India (GOI) has started merging various Public Sector Banks (PSBs). Also GOI has started merging weak banks. This study is about the merger of Bank of Baroda, Vijaya Bank and Dena Bank. The Study helps us in knowing the pre- merger and post- merger performance of the Bank. This Paper evaluates the Financial Performance of the banks before merger and after merger through analysis of various ratios of the banks. The aim of this paper is to know that whether it is beneficial to the Banks get merged or not.

Keywords: Banking Sector, Economy, Merger Public Sector Banks (Psbs), Pre-Merger, Post-Merger, Financial Performance.

1. INTRODUCTION

The process of mergers has increase substantial importance in today's corporate world. This process is extensively used for restructuring the business organizations. In India, the concept of merger was initiated by the government bodies. A merger is a corporate strategy of combining different companies into a single company in order to enhance the financial and operational strengths of both organizations. Mergers may result in a stronger company with combined assets, competencies, and markets. Merger has already became a rescue to the organization who are on verge to close their operations and entity. The merger of State Bank of India and its Associate Banks, the biggest ever merger of Public Sector Banks in Indian Banking Industry was observed.

Here, we are going to throw some light on the three way merger of Bank of Baroda, Vijaya Bank and Dena Bank, which was decided on 17th September 2018 and was executed on 1st April 2019. This has made Bank of Baroda as the second largest Public Sector Bank in India, after Sate Bank of India. Since BOB has a nation-wide reach while Dena Bank and Vijaya Bank are more localized, the merger provide better coordinated for network, low-cost deposits and subsidiaries. The reason for the merger was to strengthen the efficiency of weak bank like Dena bank and also tackle the issue of NPAs and Bad Loans. This research paper shows the improvement in ratios after the merger and how merger can be effective for the Banks.

The objectives of this study is to to know the advantages of Mergers of the Bank , to know the reasons for Mergers in Banking Industry and to analysis the impact of Mergers on Selected Bank that is BOB, Vijaya Bank and Dena Bank.

2. LITERATURE REVIEW

Krishn A Goyal and Vijay Joshi (2011): conducted a study on overview of Indian banking industry and highlighted the changes occurred in the banking sector after post liberalization. The need of Merger and Acquisition in India has been examined under this study. It also gave the idea of changes that occurred after M&As in the banking sector in terms of financial, human resource & legal aspects. It also described the benefits come out through M&As and examined that M&As is a strategic tool for expanding their horizon.

Dr. K. Karthikeyan and V. Hema (2020): conducted a study to analyze the performance of three financial institutions that are Bank of Baroda, Dena Bank and Vijaya Bank using CAMEL method. This research aims to evaluate financial analysis of these banks through Capital adequacy, Asset quality, Management efficiency, Earnings and Liquidity. The findings of this paper reveal that to some extent mergers and acquisitions have been successful in Indian banking sector

Dr Mubarak and Asha Barikara (2021): In their research paper, an attempt has been made to know the impact of banks performance after merger will really give acceleration to the economic growth rate or not. For study they have taken the data of Punjaj National Bank, Canara Bank, Union Bank and Indian bank. The paper examines that Sick banks survived after merger.

Sai Kishore V ,Hema Divya and K.V.L. Madhav (2021): studies about the the factors that lead to the merger of Bank of Baroda, EVijaya Bank and E-Dena Bank.. Seven years financial data before the merger decision of the three banks is collected for this analysis. Data analysis is done using the financial tools such as Ratio Analysis and Trend Analysis. It examines the strength of the ratios of the banks and is merger efficient and advantage in case of BOB, Vijaya Bank and Dena bank.

A.N.Tamragundi and Devarajappa S (2016): examined the impact of mergers on performance of selected commercial banks in India. The impact of mergers on performance of the banks has been evaluated from three prospective. There is a significant improvement in Deposits, Advances, Businesses and Number of Employees of all selected banks. Therefore, this result indicates that Mergers can help commercial banks to achieve physical performance.

3. RESEARCH METHODOLOGY

The research paper on the title “A Study on Merger of Bank of Baroda, Vijaya Bank and Dena Bank” is done on the basis of descriptive analysis method, based on secondary sources. For this study, various articles and research papers on the relevant topics are examined and various data has been taken from websites of the Banks. This study uses three years before and two years after the merger to study the report.

4. DATA ANALYSIS AND INTERPRETATION

This part of the study focuses on the examination of financial indicators of the involved three banks by working on the below-listed ratios over a period of Four financial years from 2016 to 2018 as PRE-MERGER and 2020 and 2021 as POST-MERGER.

1) NET PROFIT (in Cr)

	PRE-MERGER			POST-MERGER	
	2016	2017	2018	2020	2021
BANK OF BARODA	5396	1383.56	(2432)	546.2	829
VIJAYA BANK	382	750	727		
DENA BANK	(935.32)	(863.63)	(1923.15)		

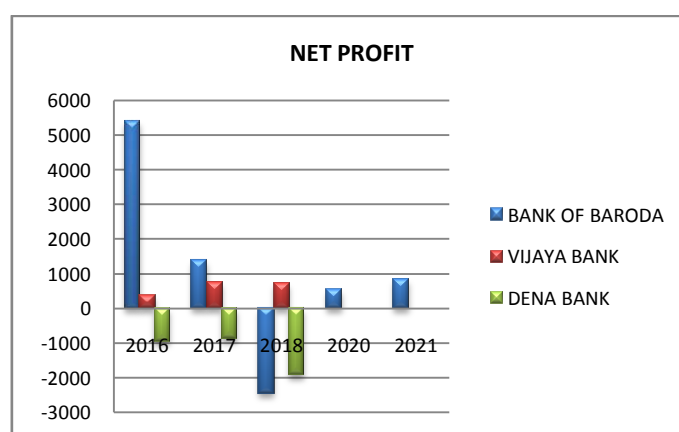


Fig. 1

It is observed from the figure 1 that the Bank of Baroda faced a huge loss in 2018 which got settled in 2020 after merger with Vijaya Bank and Dena Bank. Dena Bank was in continuous loss.

2) OPERATING PROFIT (in Cr)

	PRE-MERGER			POST-MERGER	
	2016	2017	2018	2020	2021
BANK OF BARODA	8,816	10,975	12,005	19,691.4	20,629.8
VIJAYA BANK	1,549	2,421	3,098		
DENA BANK	925.30	1,390.21	1,171.16		

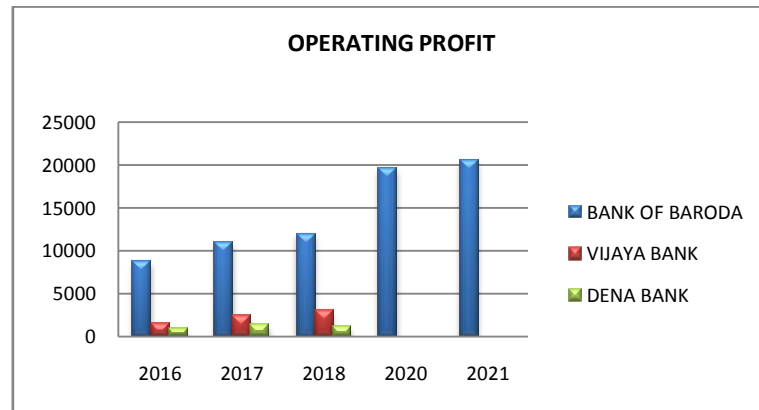


Fig 2

In figure 2, it is observed that the operating profit increases after the merger in Bank of Baroda from 12000 Cr to 19000 Cr which is increase by around 35%

3) RETURN ON ASSETS (ROE) (%)

	PRE-MERGER			POST-MERGER	
	2016	2017	2018	2020	2021
BANK OF BARODA	(0.78)	0.20	(0.34)	0.06	0.07
VIJAYA BANK	0.28	0.49	0.44		
DENA BANK	(0.75)	(0.67)	(1.59)		

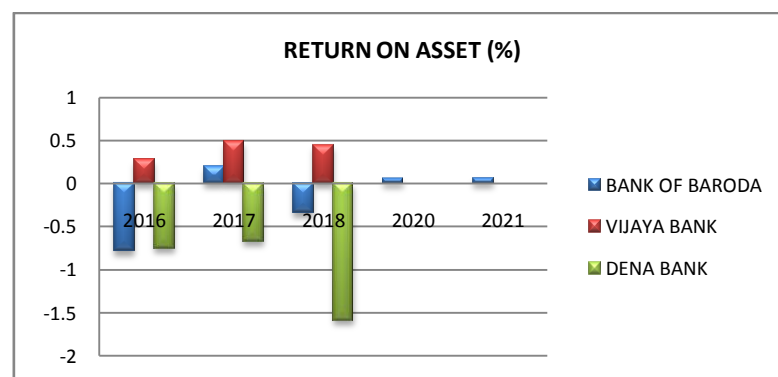
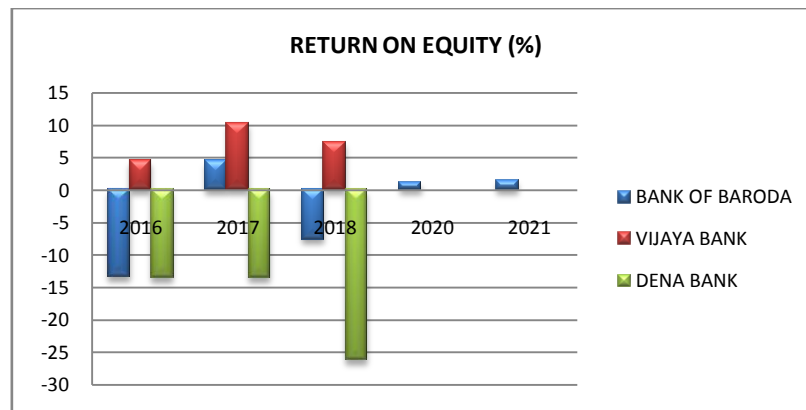


Fig 3

In figure 3, the return on assets after merger improved to certain level that is it became positive return rather than being negative before merger of Bank of Baroda.

4) RETURN ON EQUITY (%)

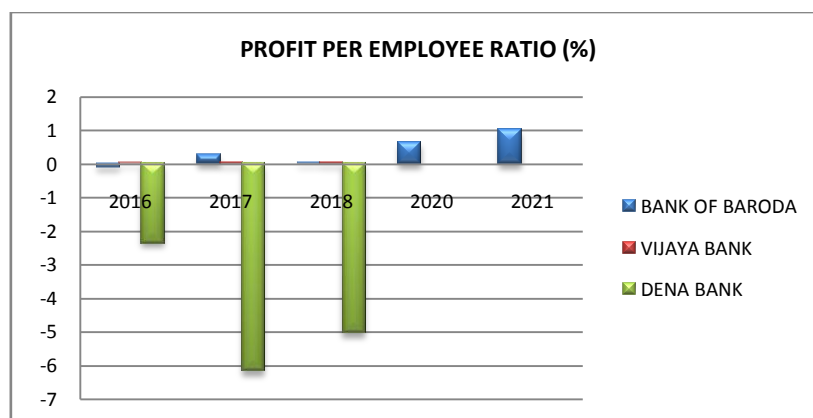
	PRE-MERGER			POST-MERGER	
	2016	2017	2018	2020	2021
BANK OF BARODA	(13.42)	4.53	(7.64)	1.23	1.50
VIJAYA BANK	5.84	10.25	7.39		
DENA BANK	(13.54)	(13.50)	(26.17)		

**Fig 4**

In figure 4, the return on equity after merger improved and that is it became positive return rather than being negative before merger of Bank of Baroda and is beneficial to the shareholders.

5) PROFIT PER EMPLOYEE RATIO (in %)

	PRE-MERGER			POST-MERGER	
	2016	2017	2018	2020	2021
BANK OF BARODA	(0.10)	0.26	0.04	0.65	1.00
VIJAYA BANK	0.03	0.05	0.05		
DENA BANK	(2.35)	(6.18)	(14.13)		

**Fig 5**

In figure 5, before merger the profit per employee ratio is less than that of after the merger. The post-merger period has the highest profit per employee ratio ever in the span of six years of the Bank of Baroda

6) GROSS NPA RATIO (in %)

BANK	PRE-MERGER			POST-MERGER	
	2016	2017	2018	2020	2021
BANK OF BARODA	9.99	10.46	12.26	9.40	8.87
VIJAYA BANK	6.64	6.59	6.34		
DENA BANK	9.98	16.27	22.04		

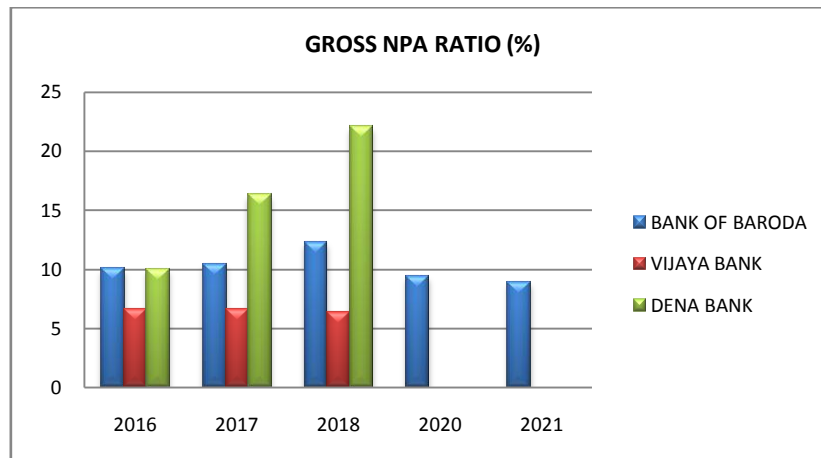


Fig 6

In fig 6, The Gross NPA Ratio of Dena bank is the highest following the Gross NPA ratio of Bank of Baroda and Vijaya bank. After merger, the Bank of Baroda has comparatively low Gross NPA then that before merger. That means having low NPA is efficient for the banks.

7) NET NPA RATIO (in %)

	PRE-MERGER			POST-MERGER	
	2016	2017	2018	2020	2021
BANK OF BARODA	5.06	4.72	5.49	3.13	3.09
VIJAYA BANK	4.81	4.36	4.32		
DENA BANK	6.35	10.66	11.95		

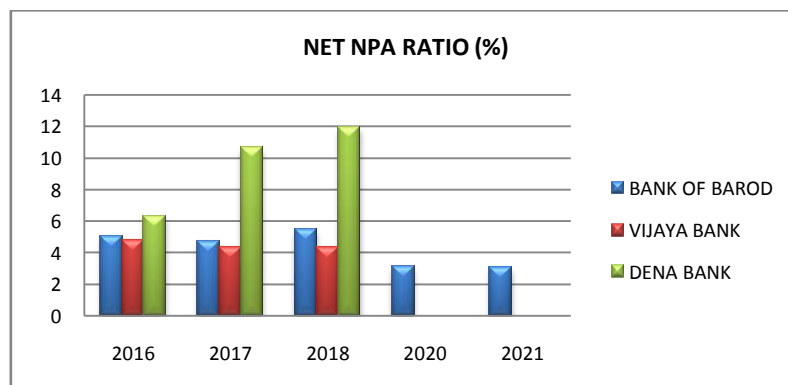
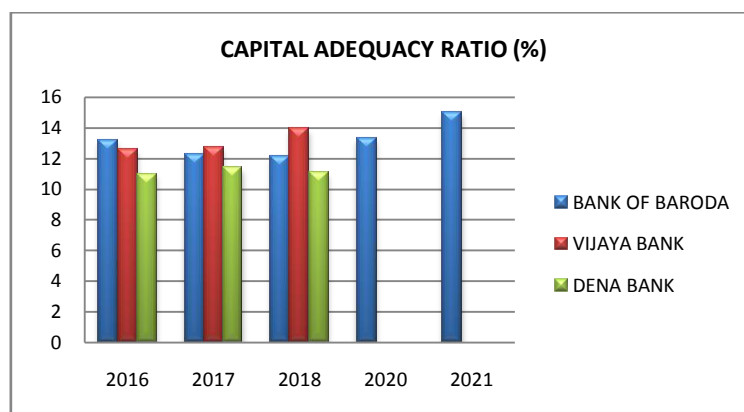


Fig 7

In fig 6, The Net NPA Ratio of Dena bank is the highest following the Net NPA ratio of Bank of Baroda and Vijaya bank. After merger, the Bank of Baroda has comparatively low Net NPA then that before merger. That means having low NPA is efficient for the banks

8) CAPITAL ADEQUACY RATIO (in %)

	PRE-MERGER			POST-MERGER	
	2016	2017	2018	2020	2021
BANK OF BARODA	13.17	12.24	12.13	13.30	14.99
VIJAYA BANK	12.58	12.73	13.90		
DENA BANK	11	11.39	11.09		

**Fig 8**

In fig 8, The Capital Adequacy Ratio all three banks are closer to each other. Vijaya Bank has a good consistent CAR compared to other two banks. After merger, Bank of Baroda's CAR increases.

5. FINDINGS AND CONCLUSION

5.1 Findings

- The government's decision to merge two strong banks Bank of Baroda and Vijaya Bank with the weak bank Dena Bank was the best strategy and successful.
- It is observed that performance of Bank of Baroda increases after merger with Dena Bank and Vijaya Bank.
- The Non-Performing Assets also reduces after the merger, which increase the efficiency of the management of Bank of Baroda. Merger of the three banks which forms the second largest Public Sector Bank of India is expected to withstand such crisis by implementing better tools to control NPA growth and further bring down the NPA figures.

5.2 Conclusion

Mergers are the best tool to overcome the issues of low performing entity and organization. It is better for the company or banks to get merged rather than to get liquidate and close the entity. The merger can be savior for the customers of the banks and also to the shareholders and management of the banks. Merging the banks with one another is a challengeable one related to cultural, integration, human resource and operational issues. Mergers leads Public sector bank(PSBs) to get strengthen and became efficient and results in the growth of the economy. The merger of Bank of Baroda, Vijaya bank and Dena bank leads the Bank of Baroda to be the second highest Public sector unit (PSU) after State bank of India.

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