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

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ABSTRACT

This paper focuses on impact of mergers of Bank of Baroda, Dena Bank and Vijaya Bank. Merger of banks will facilitate their efficiency in different types of area with their expand knowledge, experience and technology. It gives positive attention on development of economy and this will strength the position of Banks to compete in global field. The Government of India has decided to merge Vijaya Bank and Dena Bank with the Bank of Baroda on 1st April 2019. Analysis of financial Performance of Bank of Baroda, Dena bank and Vijaya Bank is done on the basis of five factors i.e. employees, branches, NPAs, total assets and net profit. The research is based on secondary data. In order to analyse the impact Merger on public sector bank pre-merger period and post-merger period. Conclusion of this paper is the Merger of bank is profitable because of to use resources in a better way of technology which will reduce the cost and increase the income merger of Dena and Vijaya bank in Bank of Baroda.

Keywords: Mergers, Public Sector Banks, Non-Performing Assets, Financial performance

Introduction:

Definition of Bank:

Bank: Institution authorized to influence cash and its substitutes by accepting term and demand deposits, creating loans, financing securities. Banks profit from the difference between the interest rates charged and paid.

Meaning of Bank: A bank can be a government-licensed institution. Its main activities consist of lending and disposing of cash. In Japan, regional banking units are sometimes a combination of cross-shareholder entities called the zaibatsu. Pest insurance is common in France, as most banks offer insurance services to their buyers (and currently real estate services).

Definition of Merger

Merger: Merger and Acquisition is the process of the consolidation of two or more companies through financial transaction purchase of assets. In this process ownership of one entity transferred to another entity. The purpose of this is to increase the growth of Business. There are the following types of mergers horizontal, vertical and conglomerate merger

What is Merger ?

- A merger is an agreement that unites two existing companies into one new company.
- Mergers are commonly done to expand a company's reach, expand into new segments, or gain market share.

Types of Mergers

1. **Horizontal Merger:** A merger between companies that are in direct competition with each other in direct competition with each other in terms of product lines and markets.
2. **Vertical Merger:** A merger between companies that are along the supply chain (e.g., a retail company in the auto parts industry merges with a company that supplies raw materials for auto parts).
3. **Conglomerate Merger:** A merger between companies in unrelated business activities (e.g., a clothing company buys a software company).

Review of Literature:

Kasliwal & Gupta (2021) research shows that the Indian banking sector needs to improve its corporate governance and international corporate governance by integrating small business into large business. In this study, two hands basic documents were used. The results of this research were reached through collective action. Banks can leverage their capital to increase their operations through different types of networks.

Hinal and Divekar (2020) discuss the merger and acquisition of BOB, Dena and Vijaya banks. The authors describe the M&A as one of their top growth tools. This paper shows that the impact of world economy is very difficult for small banks, weak banks need their support to survive, and this is one of the reasons has become association.

Ashok Botta (2019) discusses the benefits of joint venture banking in relation to Baroda of Bank, Vijaya Bank and Dena Bank. Mergers and acquisitions generally refer to the strategic tools used to acquire certain shares as a participant in mergers. The paper focused on who joined the union for different reasons.

Research Methodology:

Type of Research: “Descriptive methodology is used for the study.”

Objectives:

- 1) To understand reasons for merger of Bank of Baroda with Dena Bank and Vijaya Bank.
- 2) To study the financial performance of Bank of Baroda, Dena and Vijaya bank before and after the merger.
- 3) To investigate the benefits of Bank of Baroda merging with Dena Bank and Vijaya Bank.
- 4) To identify challenges of Merger.

Hypothesis:

“After the mergers, financial performance of Bank of Baroda results in positive manner and overall performance of company is improved”.

Methods and Sources of Data Collection:

✓ Sources of Data Collection:

- The study is purely based on secondary data taken from the annual reports of selected units and other websites.
- All the data related to history, growth and development of selected banking industries, it is being collected mainly from the books and magazine related to the banks and published papers, reports, articles and from the various newspapers, and other journals.

✓ Sampling Technique:

“Convenience Sampling Technique is used for the study.”

✓ Tools of Data Analysis:

Comparative Analysis of Data is done through MS-Excel.

Merger of Banks:

1. Bank of Baroda



Bank of Baroda (BOB or BoB) is an Indian public bank headquartered in Baroda, Gujarat. With 132 million customers, \$218 billion in operations and 100 foreign offices worldwide, it is India's second largest bank after the State Bank of India. As of 2019 data, it is ranked 1145th in the Forbes World 2000 list. Maharaja Sayajirao Gaekwad III of Baroda established the bank on 20 July 1908 in the Kingdom of Baroda, Gujarat. On 19 July 1969, the Government of India nationalized the Bank of Baroda, designated as a non-profit public sector entity (PSU) and 13 other major commercial enterprises in India.

Bank of Baroda is an Indian multinational public sector banking and financial services company. It is owned by the Government of India and has its headquarters in Vadodara, Gujarat. It has a head office in Mumbai, Maharashtra. Based on 2017 data, it ranks 1145th on the Forbes Global 2000 list. As of July 2017, BOB had total assets of over Rs 3.58 trillion (making it India's second largest bank by assets) and had 5,538 branches and 10,441 ATMs in India and abroad. The Indian government approved the merger of Bank Baroda, Vijaya Bank and Dena Bank on September 17, 2018 to create the third

largest bank in the country. The proposed merger would be the country's first three party bank merger, with a combined business of Rs 148.2 trillion, making it the third largest lender after State Bank of India (SBI) and ICICI Bank.

2. Vijaya Bank



Vijaya Bank was a PSU bank which was merged with [Bank of Baroda](#) on 1 April 2019 with its head office in [Bangalore, Karnataka](#), India. It was one of the [nationalised banks](#) in India. The bank offered a wide range of financial products and services to customers through its various delivery channels. As of March 2017, the bank had a network of 2031 branches throughout the country and over 4,000 customer touch points including 2001 ATMs. The bank has 2,031 branches nationwide (as of March 2017) and more than 4,000 customer touch points, including 2,001 ATMs. Vijaya Bank was established on October 23, 1931 at Mangaluru, Dakshina Kannada District, Karnataka, by a group of farmers led by A. B. Shetty. Since it was established on the auspicious day of Vijayadashami, it is called "Vijaya Bank".

During the economic chaos caused by the Great Depression of 1927-

1930, Shetty approached key figures in Bunt to establish a bank for the purpose of providing credit facilities at lower interest rates to enable farmers to work their land and prevent them from falling into the clutches of loan sharks. So Shetty hired 14 Bunts and on October 23, 1931 Vijaya Bank was established. Initially, the authorized capital of the bank was Rs 5 lakh and the issued capital was Rs 2 lakh. The paid-up capital is Rs 8,670.

3. Dena Bank

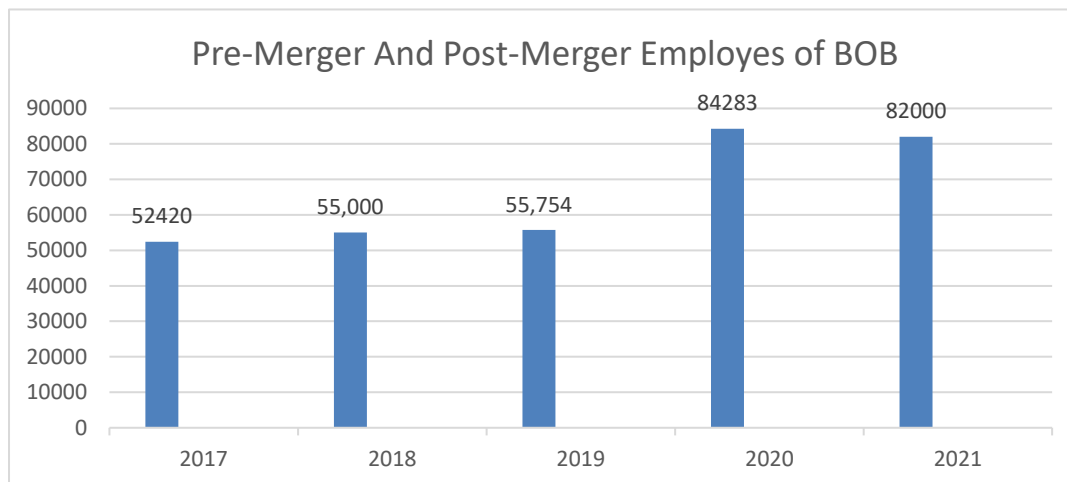


Dena Bank was a government-owned bank that in 2019 merged with Bank of Baroda. It was headquartered in Mumbai and had 1,874 branches. The bank was founded in 1938 as a privately owned Bank. In 1969 the Government of India nationalized Dena Bank. Dena Bank was incorporated on May 26, 1938 by the Devkaran Nanjee family as Devkaran Nanjee Banking Company. It adopted the new name Dena Bank when it was incorporated as a public company in December 1939. In July 1969, the Indian government nationalized Dena Bank along with 13 other major banks. It is now a public sector bank, incorporated under the Companies Banking (Acquisition and Transfer of Businesses) Act 1970. The Bank is authorized to carry on business other than banking under the Banking Regulation Act 1949, for example under section 6 of the Banking Regulation Act 1949. On September 17, 2018, the Government of India's Ministry of Finance proposed to merge 3 state-owned banks - Vijaya Bank, Bank of Baroda and Dena Bank - into a single bank. The merged bank will be India's third largest bank with a total business volume of over 1,482,000,000,000 rupees (\$21 billion). The boards of the three big banks are to meet to consider the proposal. The objective behind bank mergers is to reduce non-performing assets. The overall NPA for Bank Baroda, Bank Vijaya and Dena Bank is 12.4%, 6.9% and 22%, respectively. Dena Bank is currently operating under Rapid Corrective Action (PCA) due to non-performing loans.

Data analysis:

Operation analysis of merger

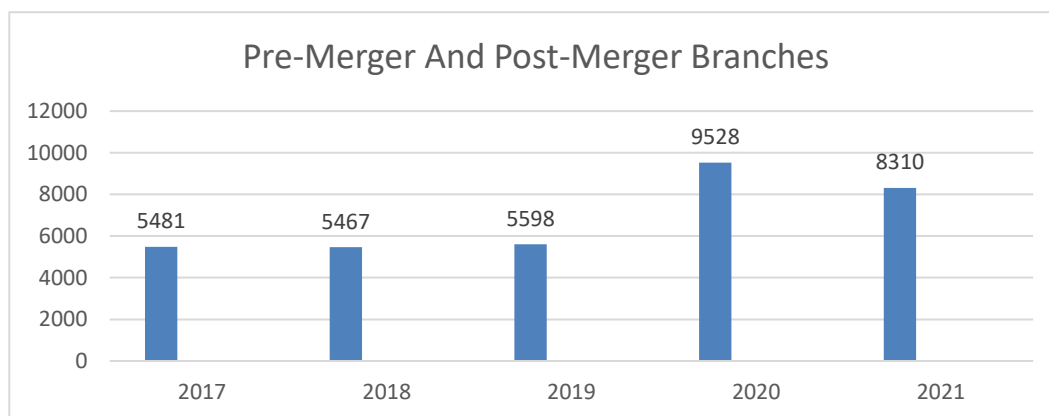
The operational performances of Bank of Baroda after the merger are analysed as follow:



Year	2017	2018	2019	2020	2021
Employees	52,420	55,000	55,754	84,283	82,000

Interpretation

- The number of employees of Bank of Baroda as on 2017 was 52,420. On 2018 increases to 55,000 and on March 31, 2019 was 55754, and after the merger on March 31, 2020 number of employees was 84283. The total number of employees increased by 28,529 in number and 51.17% in percentage. And on March 31, 2021 number of employees was 82,000.



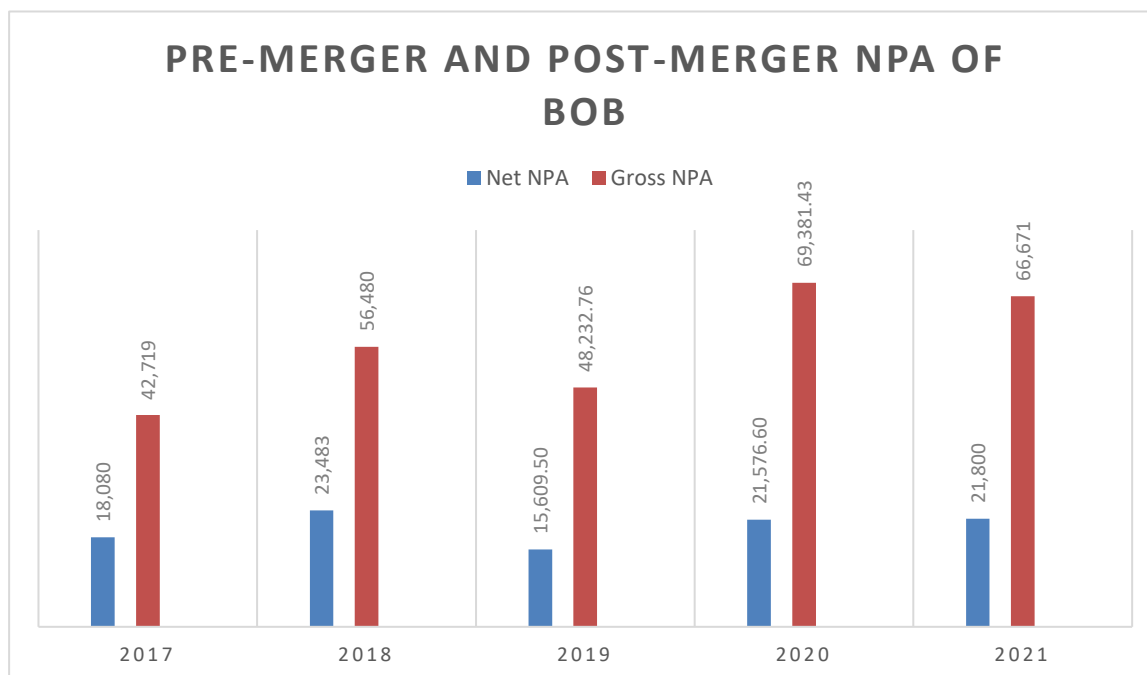
Year	2017	2018	2019	2020	2021
Branches	5481	5467	5598	9528	8310

Interpretation

- The standalone branches of Bank of Baroda were 5481 on 31st March 2017 and on 31st March 2018 decreases to 5467. As of March 2019 the standalone branches of Bank of Baroda were 5598. After one year of the Merger, the number of branches increased to 9,528 at the end of 31st March 2020. And it slightly decreases to 8310 on 31st March 2021

Financial Analysis of Merger

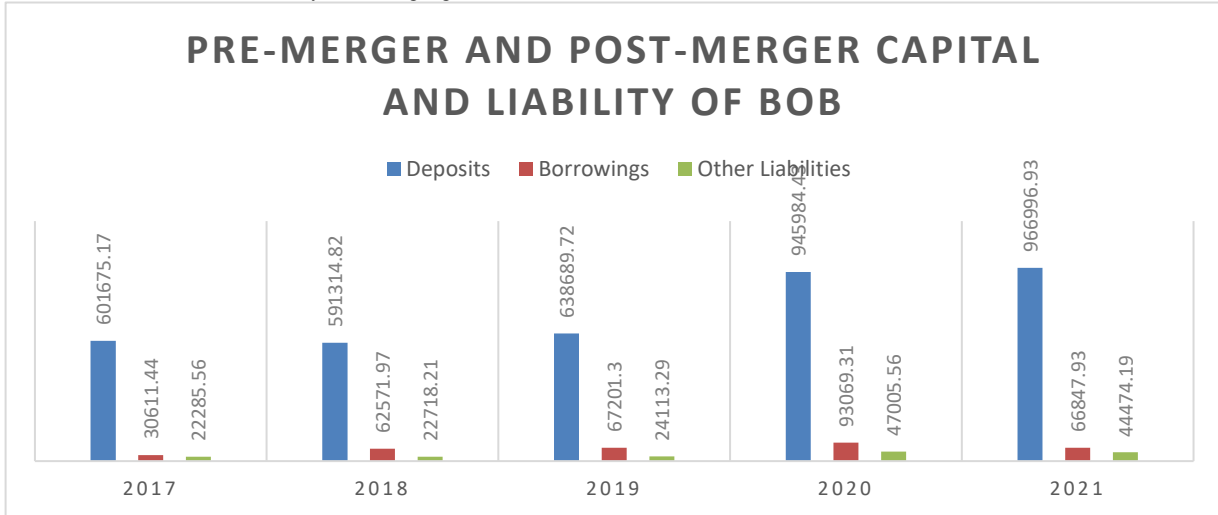
The pre-merger and post-merger financial analysis of Bank of Baroda.



Year	2017	2018	2019	2020	2021
Net NPA	18,080	23,483	15,609.5	21,576.6	21,800
Gross NPA	42,719	56,480	48,232.76	69,381.43	66,671

Interpretation

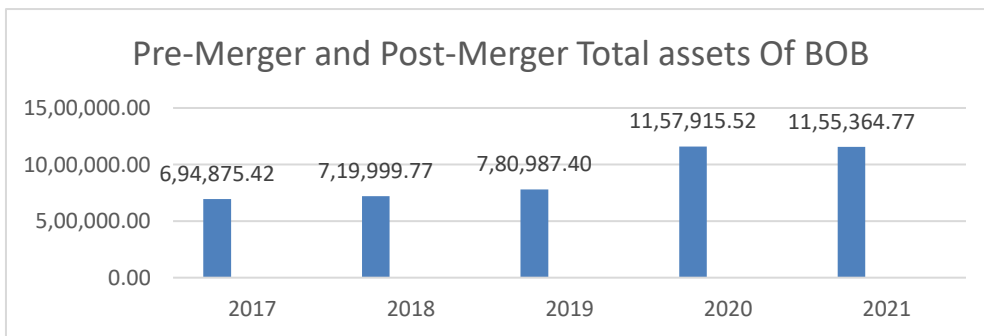
- Non-Performing Assets (NPA) of bank of Baroda as on 2017, net NPA is rs.18,080 it increases to rs.23,483 on 2018 and on 2019 decreases to rs.15,609.5 and after one year of merger net NPA increases to rs.21,576.6 later it increases to rs.21,800 on 2021.
- Non-Performing Assets (NPA) of bank of Baroda as on 2017, Gross NPA is rs.42,719 it increases to rs.56,480 on 2018 and on 2019 decreases to rs.48,232.76 and after one year of merger gross NPA increases to rs.69,381.43 later it decreases to rs.66,671 on 2021.



Year	2017	2018	2019	2020	2021
Deposits	601,675.17	591,314.82	638,689.72	945,984.43	966,996.93
Borrowings	30,611.44	62,571.97	67,201.3	93,069.31	66,847.93
Other Liabilities	22,285.56	22,718.21	24,113.29	47,005.56	44,474.19

Interpretation

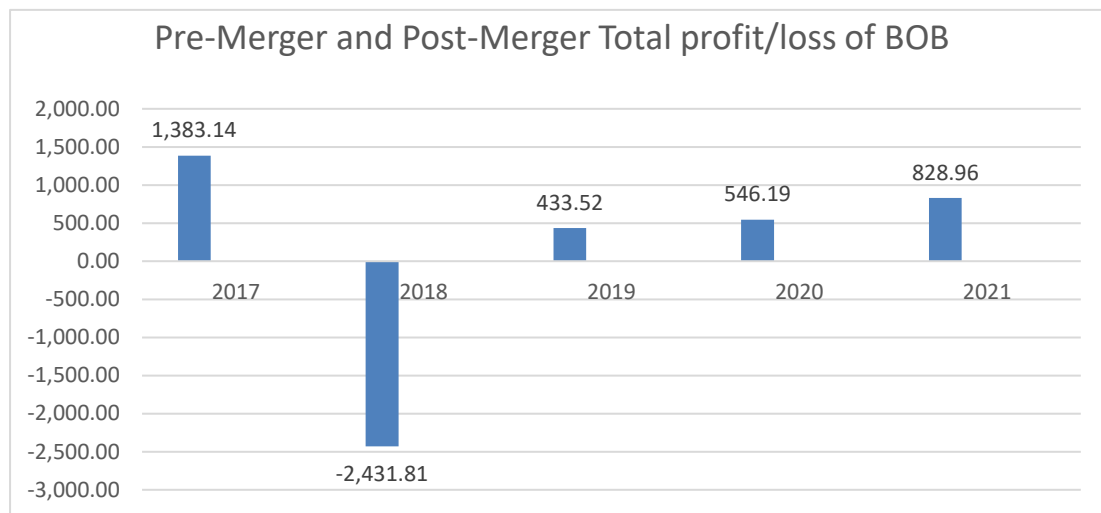
- After the merger, Bank of Baroda’s Deposit increased by 48%, borrowing increased by 38.5%, and other liabilities increased by 95%.



Year	2017	2018	2019	2020	2021
Total Assets	6,94,875.42	7,19,999.77	7,80,987.4	11,57,915.52	11,55,364.77

Interpretation

- Total assets of Bank of Baroda were rs.6,94,875.42 as on 2017 and later it increases to rs.7,19,999.77 on 2018. Total assets were rs.7,80,987 as of 31st march, 2019. After one year of the Merger, total capital and liabilities increased to rs.11,57,915 which increased by 67%. And on 31st march, 2021 slightly decreases to rs.11,55,364.77



Year	2017	2018	2019	2020	2021
Total Profit/Loss	1,383.14	-2,431.81	433.52	546.19	828.96

Interpretation

- Net profit of Bank of Baroda was 1,383.14 crore as on 31st March 2017. On 31st March 2018 it decreases to -2,431.81 crore and 433.52 crore as of 31st March, 2019. After one year of the Merger, net profit increased to 546.19 which increased by 26%. And in 2021 it increases to 828.96 crore which shows profitability.

Findings:

From the analysis it can be figured out that the banks need to improve in terms of their profitability and their growth post-merger. There should be a proper guidance for the banks throughout the premerger period and post-merger period so that their financial performance is positively impacted. Top management must have an appropriate analysis of past data of financial performance to form better merger deals.

Conclusion:

- The merger of Bank of Baroda, Vijaya Bank and Dena Bank is done as a merger to save weak areas from collapse and thus, increase their efficiency.
- The two main issues raised by are the decrease in the profitability of Vijaya bank and Dena bank and the increase in non-performing assets. The two banks are linked because the increase in non-performing assets will directly affect the profitability of the bank.
- Another effect affecting the results is the increase in operating costs. These three banks are located all over India.
- Overall performance of Bank of Baroda is improved so, the **hypothesis is accepted.**

Acknowledgement:

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