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A STUDY ON PRE AND POST-MERGER FINANCIAL PERFORMANCE OF CANARA BANK

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ABSTRACT

Mergers and acquisitions are most widely used strategy by firms to strengthen and maintain their position in the marketplace. In the present times, the banking sector is a rapidly growing industry in India. A comparatively new development in the Indian banking sector is enhanced through mergers and acquisitions. The aim of the research was to focuses on the impact of pre & post-merger financial performance of Canara bank. 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. The impact of merger on a company's stock and the effect on the equity share of the shareholder's capital is usually proportional. Performance of the bank pre- and post-merger usually is in the green and improved. Most findings of research state that to a certain extent M&A's have been successful in Indian banking sector. The results conclude that merger of bank and capital infusion to banking sector leads to stability in the banking sector as well as growth of economy.

Keywords: Merger, Acquisition, financial, Canara Bank, Syndicate Bank, performance

INTRODUCTION

Mergers and acquisitions within the banking sector may be a common development across the globe. The first objective behind this move is to realize growth at the strategic level in terms of size and client base. This, in turn, will increase the credit-creation capability of the incorporated bank staggeringly. Little banks fearing aggressive acquisition by an outsized bank typically enter into a merger to extend their market share and defend themselves from the attainable acquisition Banks conjointly like mergers and acquisitions to reap advantages the advantages the advantages of economies of scale through reduction of prices and maximization of each economic and noneconomic benefits.

In a relatively short period of time, India's financial industry has made some outstanding milestones for the world's largest and most diverse democracy. The government's strategy plan to reposition and integrate the Indian banking sector into the global financial system includes a banking sector or industry reform process. The Indian banking sector has seen several transformations, as well as a wave of successful mergers and acquisitions, all of which have supported its growth. Mergers and acquisitions are the most popular way for companies to improve and maintain their market position.

M&As are seen to be a quick and effective approach to enter new markets and adopt new technology. Another aspect of bank mergers is the removal of bank competition. This enables for a large amount of money to be reallocated to the development banking business that was previously provided to stimulate competition. A bank with a significant bad debt

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portfolio and minimal income may combine with another bank in order to get assistance and stay afloat. In India, mergers between unviable banks should accelerate so that the weak institutions may be reformed, giving job security for the workforce, allowing for the operation of assets locked in unviable banks, and contributing to the nation's economy through enhanced money flow.

Canara Bank widely known for customer centricity, it was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, then a small port town in Karnataka. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. In June 2006, the Bank completed a century of operation in the Indian banking industry. The eventful journey of the Bank has been characterized by several memorable milestones. Today, Canara Bank occupies a premier position in the comity of Indian banks.

Over the years, the Bank has been scaling up its market position to emerge as a major Financial Conglomerate with as many as ten subsidiaries/sponsored institutions/joint ventures in India and abroad. As at March 2022, Canara Bank services over 10.6 crore customers through a network of 9,734 branches and 12,208 ATMs/Recycler spread across all Indian states and Union Territories. Syndicate Bank is merged with the Canara Bank. After this merger, Canara bank would be the fourth largest Public Sector of India. The total business of Canara would be 15.20 lac crore with a branch strength of 10,342. This merger will reduce the cost of operations owing to network overlaps. These two banks have a similar work culture that is why it would lead to facilitate a smooth transition.

Syndicate Bank was one of India's oldest and largest commercial banks. Upendra Ananth Pai, T. M. A. Pai, and Vaman Srinivas Kudva founded it. Canara Industrial and Banking Syndicate Limited was the name of the bank when it was founded. It is Canara Bank's wholly owned subsidiary. On July 19, 1969, the Government of India nationalised the bank, along with 13 other major commercial banks in India. The bank's headquarters were in Manipal, India, a university town. The bank was merged into Canara Bank on April 1, 2020. Syndicate Bank collaborated with the United Nations Environment Programme (UNEP) in 2003 to provide loans for the purchase of solar lamps. In December 2003, Syndicate Bank announced sabbatical leave scheme with partial pay to reduce its employee overhead. It held its equity share offering in July 2005. 45 million shares with a face value of $10 were offered at a price range of $46-$50. Karnataka Vikas Grameena Bank was formed in September 2005 by the merger of four rural banks in Karnataka sponsored by Syndicate Bank: Malaprabha Grameena Bank, Bijapur Grameena Bank (BGB), Varada Grameena Bank, and Netravati Grameena Bank.The Pigmy Deposit scheme was relaunched as Pigmy 2007 in March 2007. Pigmy 1928 was also a continuation of the older scheme. By March of 2015, the bank had 3552 branches.

The Government of India approved the amalgamation of Syndicate Bank into Canara Bank to make it a globally competitive lender. With the amalgamation, the new bank will become the fourth largest bank after State Bank of India, PNB+OBC+United Bank of India & Bank of Baroda (as at Dec 2019). Any amalgamation of one or more banks provides a broader geographic footprint and helps to derive the benefit of size, scale, strength. Now, the combined entity has a network of close to 10,396 branches and approximately 13,408 ATMs across India. (Canara Bank – 8,837 ATMs & 6,333 Branches, Syndicate Bank – 4,571 ATMs & 4,063 branches).

Canara Bank amalgamated with Syndicate Bank to become India's fourth largest bank in terms of business (15.2 lakh crores) and third largest in terms of branch network. In the current environment, the central government believes that merging banks will assist to recover and minimise problematic NPAs. The RBI will have an easier time monitoring a smaller number of banks. Another component of bank mergers is cost reduction. When it

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comes to Syndicate Bank and Canara Bank, the two banks were united with the banking software they both use, iflex. The announcement of amalgamation by Honourable Finance Minister was made with the following objectives:

- Unlocking potential through consolidation - creation of Next Gen Banks
- Repositioning PSBs with scale for building of USD 5 Trillion Economy
- Big banks with Enhanced capacity to increase credit
- Creation of Banks with a strong national presence and international reach
- Operational efficiency gains to reduce cost of lending
- Enhanced risk appetite
- Wider offerings with enhanced customization
- Better ability to raise resources from market

LITERATURE REVIEW

Al-Mamun, (2012) found the public image of industrial banking sports in their trend towards existing financial practices in the respective countries. As a result, there is a significant difference between Bangladeshi and Indian business banks' trend towards regular banking. Thus, fashion in the direction of standard banking for Bangladeshi and Indian financial institutions is not going to be too quick.

Manikyam, (2014) explained the transformation of the financial condition with the effect of monetary reforms. Rivalry from global banks and technological innovation has forced banks to reconsider their policies and strategies. Different products offered by foreign banks to Indian customers have compelled Indian banks to broaden and upgrade themselves in a good way to succeed and survive inside the market.

Arora, (2014) reveals that M&A, taking place in the banking sector, are beneficial not only to banks but also to every sector of the economy.

Gwaya Ondieki Joash and Mungai John Njangiru (2015) opined that the primary motivation for firms, particularly those in Kenya's banking industry, to combine and acquire others is to expand their market share and profitability and improve resources like as skills, management systems, equipment, processes, and procedures with the goal of increasing productivity.

Chigbu(2015) reveal that Merger & Acquisition procedure are very composite and long lasting as they have to go through a lot of legal compliance and taxation procedure is also complicated. The study observed that Merger & Acquisitions helps in reconstruct the national and global market.

Svetlana Santosh Tatuskar (2016) 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 pre-merger period.

Jyoti H. Lahoti (2016) opined that merger and acquisitions are important corporate strategy actions that aid the firm in external growth and provide it competitive advantage. Mergers and acquisitions (M&A) are being increasingly used in today’s globalized economy, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and geographies, and capitalizing on economies of scale etc.

Dr sarbapriya ray, g. c. (2017) analyze and assess the impact of merger of Oriental Bank of Commerce and Global Trust Bank on the efficiency of said banks in terms of different financial parameters. Most of the financial indicators of Oriental Bank of Commerce and Global Trust Bank display noteworthy improvement in their operational performance during post merger period. Therefore, the results of the study reveal that average financial ratios of sampled banks in Indian banking sector showed a notable and important improvement in terms of liquidity, profitability, and stakeholders wealth.

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Dr. Veena K.P. (2017) highlight the theoretical background of merger and acquisition and evaluation of assets quality in Indian banking sector and to examine the pre and post merger performance of net NPAs to net advances and gross NPAs to gross advances in ING Vysya and Kotak Mahindra bank. Study results net NPAs to net advances, gross NPAs to gross advances, net NPAs to total assets post merger performance was high and improved compared to the pre merger performance of Kotak Mahindra bank. Further the total investment to total assets the post merger performance was less or reduced after ING Vysya Bank merged with Kotak Mahindra Bank.

Burhan Ali Shah and Niaz Khan (2017) 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.

Sonia Singh and Shubhankar Das (2018) opined that procedural, physical, and socio-cultural context tactics and policies were critical in the post-merger and acquisition process. Furthermore, the qualitative effects of post-M&A operations such as accounting reports, market appraisals and key informant descriptions are huge and critical to the Bank's and its subsidiaries' success capabilities.

Ujjwala, P, (2019) examines the details of merger in between Bank of Baroda, Dena Bank & Vijaya Banks. The primary objective behind this move is to achieve growth at the strategic level in terms of size and client base. The tripartite amalgamation reflects the government's focus towards consolidation and strengthening of public-sector banking and also to deal with the raising problematic issues like non-performing assets (NPAs) and default of loans.

Ishwarya J, (2019) looks at Mergers and Acquisitions (M&A's) that have happened in Indian banking sector to understand the resulting synergies and the long term implications of the merger. The paper also analyses emerging trends and recommends steps that banks should consider for future. To study on merger of SBI and its associates. The empirical findings of this study suggest that trend of merger in Indian banking sector has so far been restricted to restructuring of weak and financially distressed banks. Therefore, the Government and policy makers should be more cautious in promoting merger as a way to reap economies of scale and scope.

Neelam Tandon et al. (2019) 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.

Prajeesh P., and Dr. Kavitha S (2020) studied on the Consolidation And Merger Of PSB's In India, Issues And Challenges. Indian economy has witnessed many changes throughout the decades. There are many public sector banks in India; given this, consolidation and merger is a good idea in principle. The merger will help the banks to improve operational efficiency and customer services; this would involve synergies in the branch network, low-cost deposits and subsidiaries.

Prabhavathi Kalshetty et al. (2020) evaluate the pre and post performance and NPA of the merging banks in the Indian banking industry. The financial performance evaluation was based on various financial metrics like profitability and liquidity. How an elevated GNPA of combined bank would be elevated and how the merged entity would trade at a premium valuation and further dilution. In another result, the results show how a lead anchor bank which is already under stress will make the merger more complex. On the advances side all banks have a similar mix of loan portfolios. Hence, the loan mix of the combined entity will have a minimal change.

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Abhay Kant (2020) opined that bank make efficient use of company's asset for enhancing the operational efficiency and also makes in-depth analysis the pros and cons of the merger and acquisition and also recommends that bank adopt better tools and techniques to overcome Non-Performing Assets.

Kavana A, Kavya E (2021) look at Canara Bank's financial performance before and after the merger. India's banking sector has made headlines for its multiple mergers and acquisitions. In recent years, there has been a lot of amalgamation. The focus of this article was on the merger of Syndicate Bank and Canara Bank. Data was gathered from a variety of sources. Canara Bank's annual reports from before and after the merger. According to analysis, Canara Bank Ltd has reaped no meaningful benefits as a result of the merger. The Return on Equity, Interest Coverage, Earnings Per Share, and Dividend Per Share of the firm have not improved, according to the analysis.

Jia Li et.al (2021) empirical findings tell the tale of M&A in China's banking industry during the previous 15 years. Initially, some inefficient banks decided to merge in order to increase their efficiency. According to efficiency measurement and GMI, M&A worked in the short term but had a varied impact on banks' accumulating and earning processes. The M&A transactions boosted banks' overall production and earning processes, while the accumulation process remained stable. The difference is due to a learning event that occurred during the earning process. Furthermore, the dissection of GMI revealed the various effects of M&A on the productivity change feature in each process. The EC improved during the earning process, despite a negative indication.

Jasvin Patel et al.(2021) studied of financial performance of proposed merger and post-merger in public banking sector. Our aim is to analyzing the performance of banking system in India and examines financial performance of proposed merger and post-merger in public baking sector and measure the profitability, liquidity and credit management of selected banks. To achieve these objectives, we would collect the data of financial ratio and its figures from money control and on the basis of the calculated averages we would make the visual graphs ratios, we would also analyze their financial performance after merger as if their performance, either there has been positivity

Shraddha Thakur (2022) investigate the impact of Merger and Acquisition on the efficiency of banks so as to find the areas that will need to be addressed at the time of proposed M&A of banks and also analysed the motive behind such forced Merger and Acquisition announced by the Government of India in the banking sector. For this purpose, the study has taken into consideration five variables for the comparative analysis capital, business, advances, deposit and net profit in the pre and post M&A of banks. The conclusion of study witnessed that merger and acquisition has positively influence the efficiency of banks.

S. Sasikala and B. Sudha (2022) 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.

Dr. R. Vennila and Dr.Pooja Kumari (2022) focuses on the effect of post-merger performance of Canara bank in India. In the present times, the banking sector is a rapidly growing industry in India. 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. The impact of merger on a company's stock and the effect on the equity share of the shareholder's capital is usually proportional. Performance of the bank pre- and post-merger usually is in the green and improved. Most findings of research state that to a certain extent M&A's have been successful in Indian banking sector.

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OBJECTIVES OF THE RESEARCH

- To assess the financial performance of Canara banks after merger.
- To compare the financial performance of Canara Bank between pre and post-merger periods.

RESEARCH METHODOLOGY

The study is completely based on Secondary Data. The secondary data were collected from the official website of moneycontrol.com. Researcher used Comparative Financial Statement to find out the financial performance with Absolute change and percentage of changes and to compare the financial performance with two different periods. Ratio analysis is used to assess the liquidity, profitability and solvency position of canara bank.

DATA ANALYSIS

Table 1 comparative statement of Canara bank (2020-21)

EQUITIES ANDLIABILITIES	2021 (Rs. In Cr)	2020 (Rs. In Cr)	Absolute Change	% of changes
Total Share Capital	1,646.74	1,030.23	616.51	59.84
Total Reserves and Surplus	60,762.85	40,175.72	20,587.13	51.24
Total Share Holders Funds	62,409.59	41,205.95	21,203.64	51.46
Total Capital and Liabilities	11,79,539.60	7,41,440.27	4,38,099.33	59.09
Total Assets	11,79,539.60	7,41,440.27	4,38,099.33	59.09
Bills for Collection	53,385.99	35,939.89	17,446.10	48.54
Contingent Liabilities	5,07,289.38	3,73,712.88	1,33,576.50	35.74

Table 2 comparative statement of Canara bank (2021-22)

EQUITIES ANDLIABILITIES	2022 (Rs. In Cr)	2021 (Rs. In Cr)	Absolute Change	% of changes
Total Share Capital	1,814.13	1,646.74	167.39	10.16
Total Reserves and Surplus	68,147.19	60,762.85	7,384.34	12.15
Total Share Holders Funds	69,961.32	62,409.59	7,551.73	12.10
Total Capital and Liabilities	12,57,663.53	11,79,539.60	78,123.93	6.62
Total Assets	12,57,663.53	11,79,539.60	78,123.93	6.62
Bills for Collection	0	53,385.99	-53,385.99	-100.00
Contingent Liabilities	0	5,07,289.38	-5,07,289.38	-100.00

Syndicate Bank merged with Canara bank in 2021. The above table portrays the consolidated Balance Sheet after the merger. It was found that the Equity share capital of the Canara Bank is Rs. 1646.74 Crores in the year 2021 compared to the pre-merger value of Rs. 1030.23 crore in 2020. The Absolute changes is accounted as Rs. 616.51 crore ie. 59.84% of changes in Equity capital. Total amount of Reserves and surplus accounted a growth of 51.24% with the value of Rs. 60762.85 crore compared with the previous year Rs. 40175.72 Crores. Total shareholders funds shown a greater increase of 51.46% with the value of Rs.62409.59 Crores in 2021.

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It was found that the deposits, borrowings and other liabilities and provisions also shown a growth of 61.65%, 16.96% and 79.14% with the increased values of Rs. 10,10,985.02, Rs. 50,012.80 and Rs. 56,132.19 crores respectively. Cash and Bank balances shown a tremendous increase in the post-merger period ie.91.01% with the increased value of Rs.43,115.94 crores in 2021. Balances with banks and money at call and short notice growth is 195% with a highest value of Rs. 1,35,750.44 crores in 2021. Investments shown a grater change of Rs.93,545.88 with a percentage change of 48.56%. Advances, Fixed Assets and other assets also shown a positive growth of 47.84%, 35.42% and 61.92% respectively.

The overall Capital, Assets and Liabilities exhibits a higher performance of 59.09% with the value of Rs.11,79,539.60 crores in 2021 when compared to Rs.7,41,440.27 crores. The resulted financial performance of Canara bank between 2020 and 2021 is good and effective.

Table 2 reflects the consolidated Balance Sheet after one year of merger. The values taken up to April 2022 for analysis. It was found that the Equity share capital of the Canara Bank is Rs. 1814.13 Crores in the year 2022 compared to the previous year value of Rs. 1646.74 crore in 2021. The Absolute changes is accounted as Rs. 167.39 crore ie. 10.16% of changes in Equity capital. Total amount of Reserves and surplus accounted a growth of 12.15% with the value of Rs. 68,147.19 crore compared with the previous year Rs. 60,762.85 Crores. Total shareholders' funds shown a greater increase of 12.10% with the value of Rs.69,961.32 Crores in 2022. It was found that the deposits reflected a growth of 7.45% with the value of Rs.10,86,340.95 in 2022. Borrowings, other liabilities and provisions also shown a negative change of - 7.45% and -1.88% with the values of Rs.46,284.96 and Rs.55,076.30 crores respectively. Cash and Bank balances shown an increase in the post-merger period ie.19.76% with the increased value of Rs.51,637.07 crores in 2022. Balances with banks and money at call and short notice growth reflects a negative change of -3.68% since the period is four months comprising January to April with a value of Rs. 1,30,754.35 crores in 2022. Investments shown a grater change of Rs.3,11,347.24 with a percentage change of 8.79%. Advances and Fixed Assets also shown a positive growth of 10.10% and 1.58% respectively. The Other assets resulted with the negative change of -23.96%.

The overall Capital, Assets and Liabilities exhibits a higher performance of 6.62% even with four months financial performance with the value of Rs.12,57,663.53 crores in 2022 when compared to Rs.11,79,539.60 crores in 2021.

Table 3 Key ratio

Key Ratios	March 2022	March 2021	March 2020
Financial Ratios			
Basic EPS (Rs.)	35.04	19.11	-23.55
Book Value [ExclRevalReserve]/Share (Rs.)	385.65	328.68	338.5
Operating Revenue Per Share	389.17	426.37	482.99
Net Profit/Share (Rs.)	31.94	16.41	-19.63
Performance ratios			
ROCE (%)	1.95	1.79	1.36
Net Profit Margin (%)	8.2	3.84	-4.06
Return On Assets (%)	0.46	0.24	-0.26
Return On Equity/Net worth (%)	8.41	5.34	-5.69

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From the above table 3 reflects the Key Financial Ratios of Canara Bank from 2020 to 2022. It was clearly seen that the Basic EPS of Canara Bank was increased to 35.04 from the negative value -23.55 in 2020. Book Value of Canara bank shown a positive growth of 385.65 from 338.5 from 2020 to 2022. Operating Revenue per share increased to 389.17 in the year 2022. And Net Profit per share was increased to 31.94 in 2022 from the negative value of 19.63 in 2020. On the whole the Key Financial ratios reflects the positive and wealthy financial performance of Canara Bank after the merger. AccordinIg to the above table 3 Return on Capital employed ratio was increased to 1.95 in 2022 which was accounted as 1.36 before merger. Net Profit margin of Canara Bank was in 2020 was increased to 8.2 positively in the year 2022. Return on assets showed a positive sign of 0.46 in 2022 compared to the negative value of -0.26 in 2020. Return on Equity with Net worth was increased to 8.41 in 2022, previously it showed a negative value of -5.69 in 2020. The overall key performance of Canara Bank was quite good in post-merger period.

Table 4 pre and post ratio value of Canara Bank

Particulars	post	pre	Mean	Standard Deviation	t- value
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 sale(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	38.14	480.845	430.845	69.93	0.47

All important performance ratios have fallen since the merger. These ratios are dropping, indicating the bank's weakening condition and inability to earn more income and reduce costs in the first quarter of 2020. Earning Yield has been reduced to -0.24 following the merging. This means that the bank achieved a high return per share in relation to the amount invested. After the merger, the Price to Sale ratio was reduced to 0.19. It demonstrates that the bank's stock is undervalued. The Per Share ratios have been reduced since the merger. It's due to a decline in net profit. In the first quarter of 2020, the bank made poor financial decisions and tactics, negatively impacting the book value and cash EPS.

CONCLUSIONS

As a result of the above discussion, it can be concluded that mergers and acquisitions are considered corporate events that help an organisation create synergy and provide long-term competitive advantage; however, these types of corporate events also have the potential to cause severe personal trauma and stress, which can result in psychological, behavioural, health, performance, and survival issues for both individuals and companies, whether they are banks or non-banks. Not just in commercial banking, the Canara Bank has also carved a distinctive mark, in various corporate social responsibilities, namely, serving national priorities, promoting rural development, enhancing rural self- employment through several training institutes and spearheading financial inclusion objective. These insightful words of the founder continue to resonate even today in serving the society with a purpose. The growth story of Canara Bank in its first century was due, among others, to the continued

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patronage of its valued customers, stakeholders, committed staff and uncanny leadership ability demonstrated by its leaders at the helm of affairs. Canara Bank strongly believe that the next century is going to be equally rewarding and eventful not only in service of the nation but also in helping the Bank emerge as a "Preferred Bank" by pursuing global benchmarks in profitability, operational efficiency, asset quality, risk management and expanding the global reach.

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