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RESEARCH ARTICLE

PERFORMANCE EVALUATION OF SELECTED INDIAN COMMERCIAL BANKS: A CRITICAL STUDY IN THEIR POST MERGER PERIOD

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ABSTRACT

A spiraling wave of consolidation across the globe has heralded a sea change in the nature of the financial sector. Banking sector in India is not an exception to this phenomenon. By keeping the importance of Mergers and Acquisitions in Indian Banking Sector, the paper intends to study the performance evaluation of the merger Indian Commercial Banks in terms of their growth in Total Assets, Profits, Revenues, Investments and Deposits. In order to accomplish the objectives of the study the Mean, Growth Rate, Standard Deviation and t- test were employed. This study is also briefly peeps into some legal provisions providing room for consolidation and relevant provisions regarding Mergers, Amalgamations of banks under various Acts in India. It is found that the performance of sample banks is amplified in the post merger period over the pre merger period. Therefore if the banks plan the option of mergers carefully, they certainly improve their performance and may become the leaders of this sector to sustain their position in the global competitive world.

INTRODUCTION

Mergers and Acquisitions are not new and dates back from Imperial Bank of India which was formed by the amalgamation of the three presidency banks- the Bank of Bengal, the Bank of Bombay and the Bank of Madras in 1921. A few mergers have taken place thereafter mainly in the public sector- primarily to protect the interests of depositors of weak private banks. Broadly there are two ways to grow a business i.e., through organic growth and through inorganic growth. In organic growth path, the company incrementally grows its people, customers, infrastructure resources, and thus revenue and profits, an inorganic growth would provide instaneous growth enabling the company to skip a few steps on the growth ladder. Merger and Acquisition (M&A) is an inorganic growth strategy. Mergers, Acquisitions, Takeovers etc., are terms that are generally used interchangeably, but often differ by situation. Merger is defined as a combination of two or more companies into a single company where one survives and the other(s) lose(s) their corporate existence. The survivor acquires the assets as well as liabilities of the merged company or companies. It can also be defined as the fusion of two or more existing companies. All assets, liabilities and stock of one company stand transferred to Transferee Company in consideration of payment in the form of equity shares of Transferee Company or debentures or cash or a mix of these modes. Acquisition is the purchase by one company of controlling interest in the share capital of another existing company. This means that even after the takeover although there is change in the management both the firms retain their separate legal identity. Amalgamation is blending of two or more existing undertakings into one undertaking, the shareholders of each blending company becoming substantially the shareholders in the company which is to carry on the blended undertaking. A takeover is generally involves the acquisition of a certain block of equity capital of a company which enables the acquirer to exercise control over the affairs of the company.

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STATEMENT OF THE PROBLEM

M&A in the industrial and service sector have brought new life to the style of doing business in today's world. Globalization, technological changes, market deregulation and liberalization have driven the M&As wave across the world. Our thirst for global aspirations will compel us to invest invisible synergies of this dictum more visible in the near future. A spiraling wave of consolidation across the globe has heralded a sea change in the nature of the financial sector.

Since the financial sector is gearing to move towards Basel-II issues pertaining to consolidation gain momentum and this is visible in our country as well. Hence, the proposed study aimed on "Performance Evaluation of Selected Indian Commercial Banks: A Critical Study in Their Post Merger Period". Further it attempts to peep into list out some of legal perspectives of banking mergers and consolidations and to assess the successfulness of mergers and acquisitions strategy in Indian banking sector.

Table 1: Sample Banks

S.No	Name of the Sample Bank	Year of Merger
01	State bank of India	1996
02	Oriental Bank of Commerce	1997
03	Union Bank of India	1999
04	Bank of Baroda	2002
05	Punjab National Bank	2003

Objectives

The objectives of the present study are

1. To study relevant provisions regarding mergers, amalgamation and acquisition of banks under various Acts.
2. To analyse and compare the performance evaluation of merged banks before and after merger.

Methodology and scope of the study

The present study mainly depends on the secondary data. The secondary data were collected for four years before and four years after the merger. The required data were obtained from different RBI issues and IBA issues. The study is intended to analyze the impact of mergers in Indian Banking Sector with the parameters viz., growth of total assets, profits, revenue, investments and deposits were taken. The performance of the merged banks is compared by taking four years of pre-merger and four years of post- merger as the time frame. The Statistical tools like Mean, Growth rate, standard deviation and t- test were deployed to study the objectives. The scope of the study has been confined to five merged sample banks in India as shown in Table-1 with the following conditions though there were many mergers took place since nationalization as mentioned in Table 2.

i) The banks were merged two times or more since nationalization.
ii) The four years of data related to post- merger of banks are available.

Bank mergers / Amalgamations under various acts

Section 44A of the Banking Regulation Act, 1949 provides for the procedure to be followed in case of voluntary mergers/amalgamations of banking companies. Under these provisions a banking company may be amalgamated with another banking company by resolution passed by majority of two-third in value of the shareholders of each of the said companies. The banks have to obtain Reserve Bank of India's sanction for the approval of the scheme of amalgamation. Under Section 45(4) of the Banking Regulation Act, Reserve Bank of India may prepare a scheme of amalgamation of the banking company with other banking institution. Under compulsory amalgamation, Reserve Bank of India has the power to amalgamate a banking company with any other banking company, nationalized bank, SBI and subsidiary of SBI. Where as under voluntary amalgamation, a banking company can be amalgamated with another banking company only. Section 394 of the Companies Act, 1956 is the main section that deals with the reconstruction and amalgamation of the companies. Under Section 44A of the Banking Regulation Act, 1949 two banking companies can be amalgamated voluntarily. In the case of the amalgamation of any company such as a Non-Banking Finance Company with a banking company, the merger would be covered under the provisions of section 394 of the Companies Act and such schemes can be approved by the High Courts and such cases do not require specific approval of the RBI. Under Section 396 of the Act, Central Government may amalgamate two or more companies in public interest. Section 35 of the State Bank of India Act, 1955 confers power on State Bank of India to enter into negotiation for acquiring business including assets and liabilities of any banking institution with the sanction of the Central Government and if so directed by the Government in consultation with the Reserve Bank of India. As per Sub-section (13) of Section 38 of the SBI Act, Banking institution is defined as "Banking Institution" includes any individual or any association of individuals carrying on the business of banking. SBI may, therefore, acquire business of any other banking institution i.e. any individual or any association of individuals carrying on banking business.

Under Section 38 of the State Bank of India (Subsidiary Banks) Act, 1959 Subsidiary Bank may acquire the business, including the assets and liabilities of any other banking institution. Therefore, Subsidiary Bank may acquire business of a) Any individual doing banking business and b) Association of individuals doing banking business. In connection with the amalgamation of nationalised banks with other entities, the Section 9 of the Banking Companies (Acquisition) Act, 1970 provides that the Central Government after consultation with RBI may make a scheme providing for a) The reconstitution of any corresponding new bank into two or more corporations, b) The amalgamation of any corresponding new bank with any other corresponding new bank or with another banking institution. c)The transfer of the whole or any part of the undertaking of a corresponding new bank to any other corresponding new bank or banking institution, or d) The transfer of the whole or any part of the undertaking of any other banking institution to a corresponding new bank. Nationalized bank may be amalgamated with any other nationalized bank or with another banking institution i.e., a banking company or SBI or a subsidiary. A nationalized bank cannot be amalgamated with NBFC (Non- Banking Financial Companies). Under the provisions of Section 9 it is permissible for the Central Government to merge a corresponding new bank with a banking company or vice versa. Section 394(4) (b) of the Companies Act provides that a transferee company does not include any company other than a company within the meaning of Companies Act.

Analysis of the study

Changes in Growth of Total Assets of Sample Banks

Assets represent economic resources that are the valuable possessions owned by a firm. Assets are mainly used to

Table 2. List of Merged Banks Since 1969 to 2004

S.No	Name of Bank Merged	With Whom Merged	Year of Merger
1	Chawla Bank Ltd	New Bank of India	1969
2	Bank of Behar Ltd.	State Bank of India	1969
3	National Bank of Lahore Ltd.	State Bank of India	1970
4	Miraj State Bank Ltd.	Union Bank of India	1985
5	Lakshmi Commercial Bank Ltd.	Canara Bank	1985
6	Bank of Cochin Ltd.	State Bank of India	1985
7	Hindustan Commercial Bank Ltd.	Punjab National Bank	1986
8	Traders Bank Ltd.	Bank of Baroda	1988
9	United Industrial Bank Ltd.	Allahabad Bank	1989
10	Bank of Tamilnadu Ltd.	Indian Overseas Bank	1990
11	Bank of Tanjavur Ltd.	Indian Bank	1990
12	Parur Central Bank Ltd.	Bank of India	1990
13	Purbanchal Bank Ltd.	Central Bank of India	1990
14	New Bank of India	Punjab National Bank	1993
15	Bank of Karad Ltd.	Bank of India	1994
16	Kashinath Seth Bank	State Bank of India	1996
17	Punjab co-operative Bank Ltd	Oriental Bank of Commerce	1997
18	Bari Doab Bank Ltd.	Oriental Bank of Commerce	1997
19	Bareilly Corp. Bank Ltd.	Bank of Baroda	1999
20	Sikkim Bank Ltd.	Union Bank of India	1999
21	Times Bank Ltd.	HDFC Bank Ltd.	2000
22	Bank of Madhura	ICICI Bank	2001
23	Beneral State Bank Ltd.	Bank of Baroda	2002
24	Nedungadi Bank Ltd.	Punjab National Bank	2003
25	Global Trust Bank Ltd.	Oriental Bank of Commerce	2004

Table 3. Changes in Average Growth of Total Assets and Its Variability in Selected Sample Banks

S.No	Name of the bank	Mean		t - Value	Growth rate
		Before	After		
1	State Bank of India	327202.75 (83123.32)	153388.50 (198862.44)	5.61*	102.46**
2	Oriental Bank of Commerce	8199 (1660.78)	22726.75 (4170.97)	10.51*	177.19**
3	Union Bank of India	21612.5 (3714.08)	44084.25 (6093.85)	17.66*	103.96**
4	Bank of Baroda	56357.75 (7461.75)	92397.75 (15855.50)	7.29*	63.95**
5	Punjab National Bank	64487.25 (11480.36)	135270.25 (27619.56)	4.97*	109.76**

* - Significant level at 5%; ** - Mean growth rate; Note: The figures in the parenthesis indicate Standard Deviation

Table 4. Changes in Average Growth of Profits and Its Variability in Selected Sample Banks

(Rs. In Crores)

S.No	Name of the bank	Mean		t - Value	Growth rate
		Before	After		
1	State Bank of India	1126.5 (67.12)	2111 (372.38)	6.00*	87.40**
2	Oriental Bank of Commerce	8.25 (7.09)	58 (41.09)	2.79*	603.03**
3	Union Bank of India	162.75 (82.48)	280.75 (202.77)	1.80*	72.50**
4	Bank of Baroda	414.25 (98.70)	811 (121.09)	4.29*	95.78**
5	Punjab National Bank	346.25 (198.90)	1359 (168.98)	16.39*	292.49**

* - Significant level at 5%; ** - Mean growth rate; Note: The figures in the parenthesis indicate Standard Deviation

Table 5. Changes in Average Growth of Revenues and Its Variability in Selected Sample Banks

(Rs. In Crores)

S.No	Name of the bank	Mean		t - Value	Growth rate
		Before	After		
1	State Bank of India	14314.5 (1122.95)	27877.5 (4831.66)	7.04*	94.75**
2	Oriental Bank of Commerce	3653.75 (2622.85)	2336.75 (639.13)	-0.82*	-36.06**
3	Union Bank of India	2275.75 (432.40)	4326.25 (650.55)	16.15*	90.10**
4	Bank of Baroda	5609.75 (739.20)	7815.25 (384.32)	10.72*	39.32**
5	Punjab National Bank	6285.75 (1119.14)	10590.75 (917.72)	36.24*	68.49**

* - Significant level at 5%; ** - Mean growth rate; Note: The figures in the parenthesis indicate Standard Deviation

Table 6. Changes in Average Growth of Investments and Its Variability in Selected Sample Banks

(Rs. In Crores)

S.No	Name of the bank	Mean		t - Value	Growth rate
		Before	After		
1	State Bank of India	410221.5 (104351.40)	876870.5 (262787.13)	5.77*	113.76**
2	Oriental Bank of Commerce	2645.25 (845.70)	9413.5 (3019.62)	6.05*	255.86**
3	Union Bank of India	7383 (1411.78)	14983.5 (3338.08)	7.76*	102.95**
4	Bank of Baroda	16919.25 (2888.13)	35346.5 (3795.99)	10.85*	108.91**
5	Punjab National Bank	23501.75 (4124.90)	47649.25 (7435.48)	8.10*	102.75**

* - Significant level at 5%; ** - Mean growth rate; Note: The figures in the parenthesis indicate Standard Deviation

Table 7. Changes in Average Growth of Deposits and Its Variability in Selected Sample Banks

(Rs. in Crores)

S.No	Name of the Bank	Mean		t - Value	Growth rate
		Before	After		
1	State Bank of India	76062.5 (7686.94)	151913.75 (38479.93)	4.50*	99.72**
2	Oriental Bank of Commerce	6232 (1917.51)	19159.5 (5223.83)	7.60*	207.44**
3	Union Bank of India	19088.25 (3245.38)	37634 (5928.95)	13.72*	97.16**
4	Bank of Baroda	47271.25 (6725.16)	78600.75 (11745.99)	11.14*	66.28**
5	Punjab National Bank	52128.5 (10170.63)	108583.25 (16372.46)	16.15*	108.30**

* - Significant level at 5%; ** - Mean growth rate; Note: The figures in the parenthesis indicate Standard Deviation

Table 8. t- value of different variables

S.No	Name of the bank	Total assets	Profits	Revenues	Investments	Deposits
1	State Bank of India	S	S	S	S	S
2	Oriental Bank of	S	S	NS	S	S
3	Union Bank of India	S	NS	S	S	S
4	Bank of Baroda	S	S	S	S	S
5	Punjab National Bank	S	S	S	S	S

generate earnings. The total assets refer to net fixed assets and current assets. The growth of total assets indicates firm's ability to produce large volume of sales and to earn larger revenue. One aim of business strategy i.e., mergers and acquisition is the maximization of total assets of merged banks. It is expected that the bank units after merger would function efficiently. Table 3 shows the changes in average growth of total assets and its variability of sample merged banks. It is clear that all the banks namely State Bank of India, Oriental Bank of Commerce, Union bank of India, Bank of Baroda and Punjab National Bank have shown a tremendous upward growth in total assets after merger. The result of standard deviation clearly shows that the variation of assets of all merged banks after merger was higher than that of pre merger period. 't' test was used to test the significance of average change in total assets of merged banks after merger. The application of 't' test revealed that all merged sample banks got significant 't' values in their assets growth. The analysis of growth rate (Mean value) of total assets of sample banks clearly showed that Oriental Bank of commerce bank achieved higher growth (177.19) followed by Punjab National Bank (109.76), Union Bank of India (103.96), State Bank of India (102.46) and Bank of Baroda (63.95).

Changes in Growth of Profits of Sample Banks

The profit is an indication of the efficiency with which the business operations are carried out by corporate sector. The poor operational performance may result in poor sales leading to poor profits. The merger intends to boost profits through elimination of overlapping activities and to ensure savings through economies of scale. The amount of profit may be increased through reduction in overheads, optimum utilization of facilities, raising funds at lower cost and expansion of business. The merged banks are expected to grow fast in all aspects and the expectations of stakeholders of both acquiring and merged banks could be fulfilled. Here the profit refers to Net Profit. Table-4 illustrates the changes in average growth of profits and its variability in selected merger banks. According to the table, the average profits earned by merged banks taken for this study during post merger period was higher than the profits earned during pre-merger period. The standard deviation has shown that the variation in the growth of profits during post- merger period was higher than that of pre-merged period in the case of state Bank of India, Oriental Bank of Commerce, Union Bank of India, and Bank of Baroda. But in the case of Punjab National Bank the variation during pre merged period is higher than that of post merged period. The't' test clearly showed that the sample banks have significant profits earned by them. This shows that growth of profits of all merged banks is statistically significant except Union Bank of India. It is also understood from the table that Oriental Bank of Commerce bank achieved 603.03 highest growth rates in respect of profits among sample banks followed by Punjab National Bank 292.49, Bank of Baroda

95.78, State Bank of India 87.40 and Union Bank of India 72.50. The lower growth rate is seen in Union Bank of India.

Changes in Growth of Revenue of Sample Banks

The revenue is earned form the main line of business. Generally it excludes like income, non-income recurring income and extraordinary income. The economic activity of a company is considered to classify the income. In the case of financial institutions interest income is treated as main income. For the purpose of this study, revenue income refers to operating revenue. Table 5 presents the changes in average growth of revenue income and its variability of sample merged banks. It is clear that the sample merged banks viz., State Bank of India, Union Bank of India, Bank of Baroda, and Punjab National Bank have shown growth except Oriental Bank of Commerce in revenue income after merger than the before merger. The result of standard deviation indicated that the variation in the growth of revenue during post merged period was higher than that of pre merged period. In case of State Bank of India and Union Bank of India. In case of other three banks viz., Oriental Bank of commerce, Bank of Baroda and Punjab National Bank the variation during pre-merged period was higher than that of post-merged period. The't' test brought out the fact that all sample merged banks have achieved significant growth of revenue except Oriental Bank of Commerce. The mean growth rate regarding revenue income clearly indicates the fact that the State Bank of India achieved high growth rate among the sample merged banks 94.75 followed by Union Bank of India 90.10, Punjab National Bank 68.49 and Bank of Baroda 39.32 but whereas negative growth was shown in Oriental Bank of Commerce as 36.06

Changes in Growth of Investments of Sample Banks

Investments refer to the investment of funds in the securities of another company. They are long term assets invested outside the business of firm. The main purpose of such investments is either to earn a return or and to control another company. It is usual that investments are shown in the assets side of Balance sheet. The investments are shown at market value. The investments are made in government securities, approved securities, assisted companies, subsidiaries, associates, mutual funds and others. nTable-6 depicts changes in average growth of investments and its variability of sample merged banks. It is significant to note that all the merged banks taken for study have shown a tremendous growth in investments during post-merger period compared to the investments made during pre-merger period. The standard deviation brings out the fact that there is a higher variation in the growth of investment of all merged banks after merger. The't' test brought out the fact that all merged banks have achieved significant growth of investments. It is also clearly understood from table that the mean growth rate of investments that Oriental Bank of Commerce bank got high rate 255.86 among all sample banks followed by State Bank of India, Bank of Baroda, Union Bank of India and Punjab National Bank with 113.76, 108.91, 102.95, and 102.75 growth rates respectively.

Changes in Growth of Deposits of Sample Banks

The important element of conventional banking business is to accept deposits from the customers. Now-a-days manufacturing companies also started accepting deposits for short period from their members, directors, and the general public. The mode of raising funds is popular on account of the fact that the bank credit becomes quite costlier. Deposit refers to deposits from public deposits, savings, bank deposits, demand deposits and miscellaneous deposits and deposits outside India. Table 7 exhibits the changes in average growth of deposits and its variability of sample merged banks. It is clear that all merged banks have shown a significant growth of deposits during post-merger period than the average deposits received during pre- merger period. It is true that the merger has led to the growth of deposits. The application of standard deviation proves that the variations in the growth of deposits of all sample banks during post-merged period are higher than that of pre-merged period. The application of 't' test showed that all merged banks have shown significant change in the average deposits after merger. The mean growth rate of deposits clearly shows the fact that Oriental Bank of Commerce achieved the highest rate among the sample banks 207.44 followed by Punjab National Bank 108.30, state Bank of India 99.72, union Bank of India 97.16, and Bank of Baroda 66.28.

Improvement of performance

The't' value of different variables is given in Table-8. It is clearly understood that the mean differences in Profits and Revenues of Union Bank of India and Oriental Bank of Commerce before and after merger period are insignificant respectively. All other't' values for testing the equality of mean values with respect of Total Assets, Profits, Revenues, Investments and Deposits before and after merger period are significant at 5 per cent level. In other words the average of each variable has increased overwhelmingly after the merger. This indicates that the performance of sample banks is amplified in the post merger period over the pre merger period.

Conclusions

There is no denying that the big banks have some obvious advantages over small ones. They can raise money cheap and therefore, offer competitive lending rates. Their assets are more diversified, sector-wise and in terms of geographic coverage, and, therefore, less risky. They are able to offer a broader range of services for which fees can be charged. This reduces their dependence on the net interest income. Over reliance on the net interest income has been identified as one of the causative factors for banking crisis. The real benefits of consolidation are derived from developments in technology, the need to maintain economic capital in relation to the risks a bank is exposed to, and the imperative of conforming to best international practices and standards in risk management. Given the size of their operations, and the financial and human resource at their command, bigger banks have a natural advantage in these areas. However carefully a bank merger might have been planned, the consolidated entity faces certain risks. A major risk is that in its eagerness to create internal synergy and support, the new organization's external focus may be lost, making it ripe for poachers; competitors woo customers and key employees. Disruptions involving IT, harmonization of practices and rationalization of branches are particularly sensitive areas. Bank merger does not end up merging two balance-sheets. Integrating two banks following a merger is far too complex and a highly sophisticated exercise to be left to chartered accountants. Banks are highly people oriented organizations and managing employee and customer relationships in the post merger is the biggest challenge.

By keeping the above points if the banks go for the option of mergers, they certainly improve their performance and may become the leaders of this sector to sustain their position in the global competitive world.

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