ANALYSIS ON BANK OF BARODA, VIJAYA BANK ANDDENA BANK MERGER

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Introdcution:

1. Bank of Baroda:

Bank of Baroda is an Indian State-owned international banking and financial services company headquartered in Vadodara earlier which is known as Baroda in Gujarat, India. The Founder of the Bank of Baroda is **Maharaj Sayajiro Gaekwad**on 20 July 1908. It was nationalized on 19th July 1969, by the Government of India along with 13 other major commercial banks in India. It has been designated as a profit-making public sector undertaking (PSU)[1].

2. Vijaya Bank:

Vijaya Bank was flagged off on 23rd October 1931. Late Shri A.B.Shetty, along with other enterprising farmers in Mangalore, Karnataka, founded the bank to inculcate banking habits in the farming community of Dakshina Kannada district in Karnataka State. In 1958, it was promoted and became a scheduled bank. From 1963 to 68, the Vijaya bank grew both in terms of size and stature - 9 small banks had merged with it, thus contributing to its growth and advancement. On April 15, 1980, the bank was nationalized. Vijaya Bank boasts of being one of the few banks which has undertaken the principal membership of VISA International and MasterCard International. Vijay Bank has been constantly focusing on technological up gradation. As on October 2005, all the 913 branches have been computerized, covering 97% of the bank's total business[2].

3. Dena Bank:

Dena Bank was founded on 26th May, 1938 by the family of Devkaran Nanjee under the name DevkaranNanjee Banking Company Ltd. It became a Public Ltd. Company in December 1939 and later the name was changed to Dena Bank Ltd. In July 1969 Dena Bank Ltd. along with 13 other major banks was nationalized and is now a Public Sector Bank constituted under the

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[1] Maharaja Sayajirao Gaekwad, Bank of Baroda, (18 Jan 2023,06:37pm).
[2] Shri A.B.Shetty,Vijaya Bank, https://modeindia.co.in/special_days/foundation-day-of-vijaya-bank,(18th Jan 2023, 06:45pm).

Banking Companies (Acquisition & Transfer of Undertakings) Act 1970. Under the provisions of the Banking Regulations Act 1949, in addition to the business of banking, the Bank can undertake other business as specified in Section 6 of the Banking Regulations Act, 1949[3].

Why did the Merger Took Place:

A committee headed by former RBI Governor M Narasimhan was appointed in 1991.It is more than 27 years since it had recommended a restructuring of Indian banks. The number of public sector banks are very high before 2014 the number of public sector banks are 27that is 19 banks which are exclusively owned by government of India that is nationalized banks. A part From that we have 1 State Bank of India, 5 associate banks of SBI,1 IDBI, and another entity was 1 Bharathiya Mahila bank. So put together there are 27 public sector banks. In whatever you look at it the number of public sector banks are very high. The requirement in terms of recapitalization for government of India is also increasing. In the year 2014 the government of India announced that they will provide a recapitalization of around 70,000 cr but in a span of 5 years that is through budgetary allocation. In the first two years they allocated 25,000 cr and in the next two years they allocated 10,000 cr . So basically government of India said they will provide recapitalization till 2019 further looking into the circumstances India has extended this particular idea of recapitalization from 70,000 cr to more than 2.1 lakh cr[4]. The Committee recommended having three or four large banks including State Bank of India that could be positioned as global banks. Besides, there can be eight to ten with a national footprint or presence. It has been recognised for long that having several banks that are majority-owned by the government was not a sensible strategy. It's because they virtually do the same business, and compete for the same set of customers and also meant a lower return on the capital employed by the government. Not Only these factors there are other factors such as changing face of banking marked by technological changes, Challenges to raising capital that the owner (the government) has to provide periodically and the need for consolidation in the sector and putting an end to fragmentation. To Regulate all these bodies the burden on RBI has became more and also RBI has to regulate regional rural banks, RBI has to regulate scheduled commercial banks which are

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[3]DevkaranNanjee, Dena Bank,https://bankinginindia.weebly.com/dena-bank.html ,18th Jan 2023, 07:01pm).
[4] Ujjwala, P. (2019). A Study on Bank of Baroda Merger withDenaBankandVijayaBank,InternationalJournalforResearchinAppliedScience&EngineeringTechnology,7(9),594-601

private sector banks as well as public sector banks. Since the number of banking units have kept on increasing the burden to regulate also has increased on the shoulders of RBI. If the number of banks under the public sector banks are reduced it automatically reduces the burden of RBI. To facilitate this, the government has put in place an Alternative Mechanism on bank mergers. By this, an inter-ministerial panel was to be set up to supervise merger proposals and approve them. The first such proposal is the recent Bank of Baroda (BoB), Dena Bank and Vijaya Bank consolidation.

What is the Scheme/ Structure of the Deal?

This Scheme may be called the Amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda Scheme, 2019. It shall come into force on the 1st day of April, 2019.Scheme of Amalgamation notified by Government of India, an Expert Committee that is Grievance Redressal Committee was constituted for considering written objections of minority shareholders on share exchange ratio and for providing recommendations for their redressal. The Committee has since submitted its report, which has been approved by Board of Directors. There is no change in Share Exchange Ratio notified vide our letter dated 02.01.2019 as above[5]. According to the share swap ratio, shareholders will receive 402 equity shares of Bank of Baroda for every 1,000 equity shares held of Vijaya Bank. For every 1,000 shares of Dena Bank held, investors will receive 110 equity shares of Bank of Baroda. On the basis of this share swap ratio, the government's shareholding in the merged entity will rise from 63.7% to 65.7%[6]. The government has already committed capital support for the merged entity, which is projected to have a net NPA ratio of 5.71 per cent. This would be much lower than that the average ratio of 12.13 per cent for public sector banks. Provision Coverage Ratio (PCR) would be better at 67.5 per cent against the average of 63.7 per cent. For the merged entity, the cost to income ratio would be 48.94 per cent whereas the average for public sector lenders is 53.92 per cent.Capital Adequacy Ratio (CAR) at 12.25 per cent would be significantly above the regulatory norm of 10.87 per

[5] Bank of Baroda, Amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda - Intimation of Record Date, https://www.bankofbaroda.in/writereaddata/Images/pdf/BOB-Amalgamation.pdf, (Jan 19th 2023, 06:37pm)
[6] Goyal, K.A. & Joshi, V. (2011). Mergers in Banking Industry of India: Some Emerging Issues, Asian Journal of Business and Management Sciences, 1(2), 157-165

cent[7] The Merger of Bank of Baroda, Dena Bank and Vijaya Bank is to reduce the amount of capital it needs to put into these banks and help to clean their balance sheets. These three Nationalised banks, Bank of Baroda NSE -0.12% Dena Bank and Vijaya Bank merged to form the second largest public sector bank in the country which will benefit customers and employees. This consolidation will help create a strong globally competitive bank with economies of scale and enable realisation of wide-ranging synergies. The amalgamation is that the first-ever three-way consolidation of banks within the country, with a combined business of Rs 14.82 trillion.

What are the benefits of the Merger:

The new merged Bank of Baroda has an advances and deposits market share of 6.9% and 7.4%, respectively, according to a Motilal Oswal report. The retail book of the merged entity will increase to about 20% of total loans due to a higher retail book of Vijaya Bank. The combined entity will have a CASA mix of 33.6%, with a CD ratio of 70.7%, according to the report[8].

The merger has also brought down the number of banks kept under the Prompt Corrective Action (PCA) framework by the Reserve Bank of India (RBI) to four. Dena Bank is among the five PSU banks kept under PCA watch over burgeoning losses and NPAs. To strengthen the balance sheet of the merged entity and meet its credit and contingency needs, the government has decided to infuse ₹5,042 crore into Bank of Baroda by way of preferential allotment of equity shares.

As Dena bank is a weak bank. The NPA's of Dena bank very recently reported were 22% of total loans given by bank and it was put in prompt corrective action and RBI has basically stated that Dena bank will not be allowed to lend in the market. So what they have done is take Dena bank merger it with the strong banks such as Vijaya bank and Bank of Baroda. As a result of this Dena bank will be pulled out of this particular problem of very high NPA's. The NPA's of Dena bank were the 5th largest in terms of the banking sector.

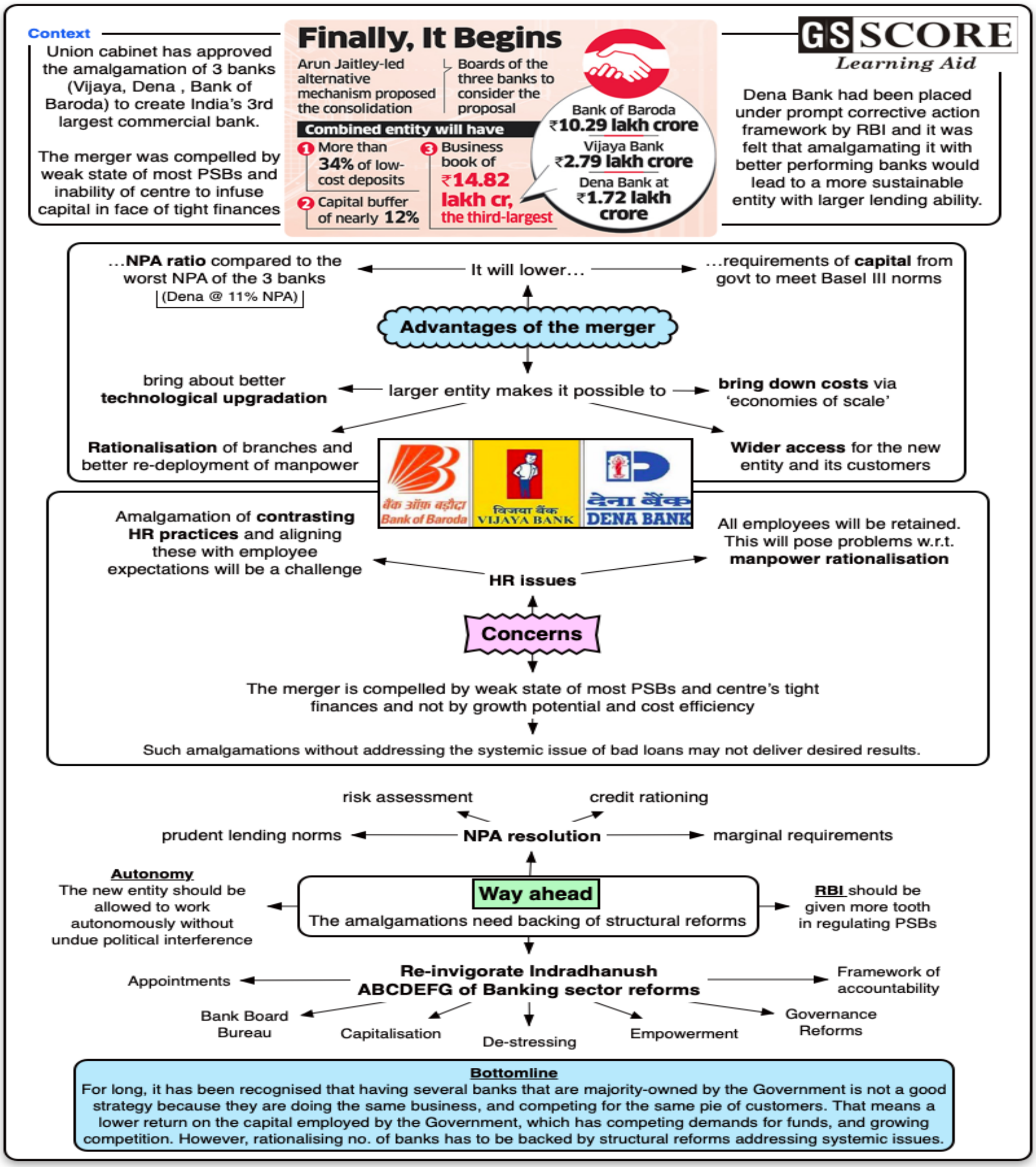
[7] Bank of Baroda, In First Ever 3-Way Deal, Cabinet Approves Merger of Dena And Vijaya Bank With Bank of Baroda, https://www.bankofbaroda.in/hi-in/media/news-coverage/in-first-ever-3-way-deal-cabinet-approves-merger-of-dena-and-vijaya-bank-with-bank-of-baroda, (20, Jan 2023, 05:03pm).
[8] Nikhilagarwal, Dena and Vijaya Bank merger, https://www.livemint.com/industry/banking/bank-of-baroda-merger-vijaya-dena-sbi-hdfc-icici-1554006701387.html, (18th Jan 2023, 09:20pm).

Theory and Type of Merger:

1. Two businesses can merge to form one company that is capable of producing more revenue than either could have been able to independently, or to create one company that is able to eliminate or streamline redundant processes, resulting in significant cost reduction. In simple words we can say that the synergy in M&A arises when the value of the acquirer and target as a single entity exceeds the summed value of the two firms operating individually. The Merger between the Bank of Baroda, Vijaya Bank and Dena bank will fall under the theory of **Synergy Gain Theory**. So here when compared to the Assets, Net Profits, Capital and liabilities of three banks were less when compared with the merger as a single entity. So the Value of the Bank Of Baroda after the merger of Dena and Vijaya Bank together as a single entity exceeds the summed value of the two firms operating individually.
2. Mergers occur because two firms have different strengths and weaknesses and different efficiency levels. This is known as **differential efficiency theory**. Differential efficiency theory is the basis for horizontal merger. So here the Vijaya Bank is more prominent in the southern states where as the Dena Bank and Bank of Baroda are having more branches in the western states of India. So this merger will helps the banks to get the different strengths in the places where they are not familiar.
3. **Diversification**: Expansion in terms of either geography or product range or both.It helps in increasing the corporate debt capacity and decrease the present value of future tax liabilityresults in stability of cash flow even if there is variability through mergers.Mergers are considered better route for diversification than internal growth because the timing and availability of requisite resources do not match through internal growth.It helps to increase overall efficiency of the banks. Here the merger of Bank of Baroda, Vijaya Bank and Dena bank merger has lead to increase of overall efficiency.
4. The Merger between the Bank of Baroda, Vijaya Bank and Dena bank is **Horizontal Merger** because in the Horizontal merger the acquiring company and the acquired company operate in the same line of business or as competitors. So here the Bank of

Baroda which is an acquiring company, the Vijaya Bank and Dena Bank are the acquired companies which work on the same line of business that is banking sectors.

AN OVER VIEW OF THE MERGER:



SOURCE:IAS SCORE[9]

[9]IAS Sore Initiative, The merger/amalgamation of Bank of Baroda, Vijaya Bank and Dena Bank, https://iasscore.in/current-affairs/mains/the-mergeramalgamation-of-bank-of-baroda-vijaya-bank-and-dena-bank, (21st Jan 2023, 05:58pm)

MERGER OF BANKING COMPANIES:

According to Section 44A of the Banking Regulation Act of 1949, no banking company may merge with another banking company unless a scheme outlining the terms of the merger has been presented in draft form to the shareholders of each of the relevant banking companies separately and approved by a resolution passed by a majority of the shareholders of each of the aforementioned companies present in person or by proxy at a meeting of shareholders. Section 2A introduced by the Banking Laws (Amendment) Act, 2011 provides for the non-applicability of the provisions of the Competition Act to any banking company.

Prior to the shareholders' approval, the boards of directors of the two banking companies must accept the draft scheme. The following factors should be taken into account while considering such approval:

1. The value of the proposed merged company's assets, liabilities, and reserves, and if the proposed incorporation will result in an increase in the asset value;
2. The type of compensation the merging banking company will provide to the shareholders of the merged company;
3. Whether the required amount of due diligence has been done with regard to the proposed merger;
4. Whether the swap ratio has been determined by independent valuers and whether such swap ratio is fair and appropriate.
5. The shareholding structure of the two banking companies and if, as a result of the merger and the swap ratio, any person's, entity's, or group's ownership of shares in the merged banking company will violate RBI's policies;
6. The planned modifications to the board of directors' composition and whether the resulting membership of the board would be in compliance with the RBI Guidelines; and

7. The impact on the viability and the capital adequacy ratio of the amalgamating banking company[10].

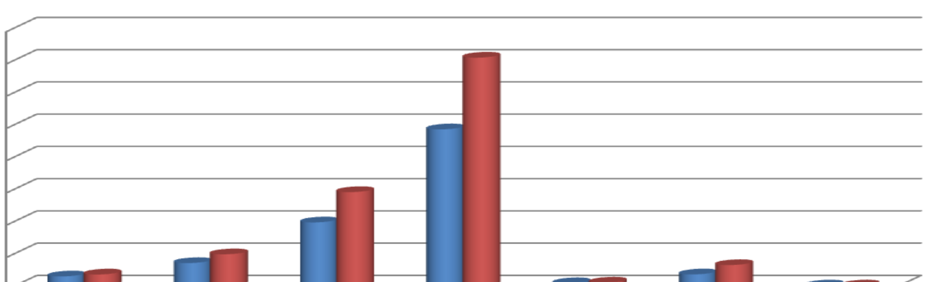
If such a scheme is adopted by the required number of shareholders, it must be presented to the RBI for approval, which if granted, will be binding on the relevant banking companies.

Reasons For M&A in Banks:

1. Merger of Weaker Banks.
2. Synergies and Economies of Scale.
3. Financial Liquidity and Economies of Scale.
4. Skill and Talent.
5. Technology Advancement.

Pre Merger and Post Merger Analysis:

<u>Assets:</u>



	Cash and Balances with RBI	B. W. B., M. A. C. & S. N.	Investments	Loans & Advances	Fixed Assets	Other Assets	Goodwill on Consolidation
31-03-19	282,253,4	696,594,9	1,957,162	4,842,148	71,437,07	344,884,3	2239076
31-03-20	342,447,8	967,602,9	2,897,267	7,065,397	90,437,84	634,029,1	2239076

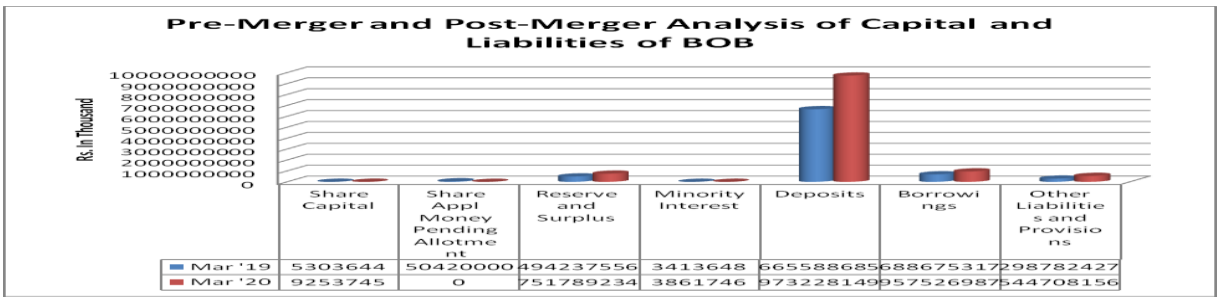
PIC.1[11]: Pre Merger and Postmerger analysis of assets

[10] Sumit Kochar and Shreya Walia, Merger and Acquisition In The Indian Banking Sector, Mondaq,https://www.mondaq.com/india/shareholders/1263072/mergers-and-acquisitions-in-the-indian-banking-sector#:~:text=According%20to%20Section%2044A%20of,a%20resolution%20passed%20by%20a , 2nd April 2023, 06:48pm.

[11]Patel, R. (2017). Pre & Post-Merger Financial Performance: An Indian Perspective, Journal of Central Banking Theory and Practice, 2018, 3,181-200.

Due to the merger, cash and balances with the Reserve Bank of India have increased by Rs. 60,194,356 Thousand and by a percentage of 21.33%. An investment has grown by Rs. 940,104,826Thousand, or 48.03%. The value of loans and advances given has increased by Rs. 2,223,249,179 Thousand and the volume by 45.91%. Fixed Assets are up by Rs. 19,000,771 Thousand, or 26.60%. Other Assets has grown by Rs. 289,144,808 Thousand, or 83.84%. However, the balance with the other bank, money at call, and money on short notice have increased by Rs. 271,007,974 Thousand, or 38.90%. Overall, assets have increased by Rs. 3,802,701,914, or 46.39%.

Capital and Liabilities:

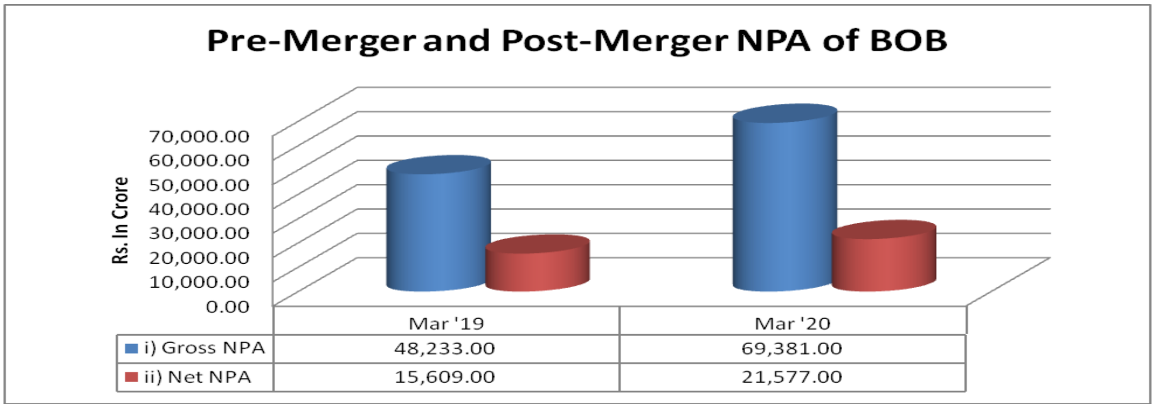


PIC.2[12]: Analysis of Capital and Liabilities of BOB

Bank of Baroda's share capital increased by Rs. 3,950,101 Thousand from the pre-merger to the post-merger period. The Reserve and Surplus have been increased by Rs. 257,551,678 Thousand, or 52.11%. In the post-merger period, deposits were increased by Rs. 3,076,394,638 Thousand. Borrowings, Other Liabilities, and Provisions are increased by Rs.268,851,670 Thousand and Rs. 245,925,729 Thousand, respectively, after the Pre-Merger Period. Share capital, reserve and surplus, deposits, borrowings, and other liabilities and provisions have all been increased by 74.48%, 52.11%, 46.22%, 39.04%, and 82.31%, respectively. Finally, Total Capital and Liabilities are increased by Rs. 3,802,701,914 Thousand, a 46.39% increase.

[12] Patel, R. (2017). Pre & Post-Merger Financial Performance: An Indian Perspective, Journal of Central Banking Theory and Practice, 2018, 3,181-200

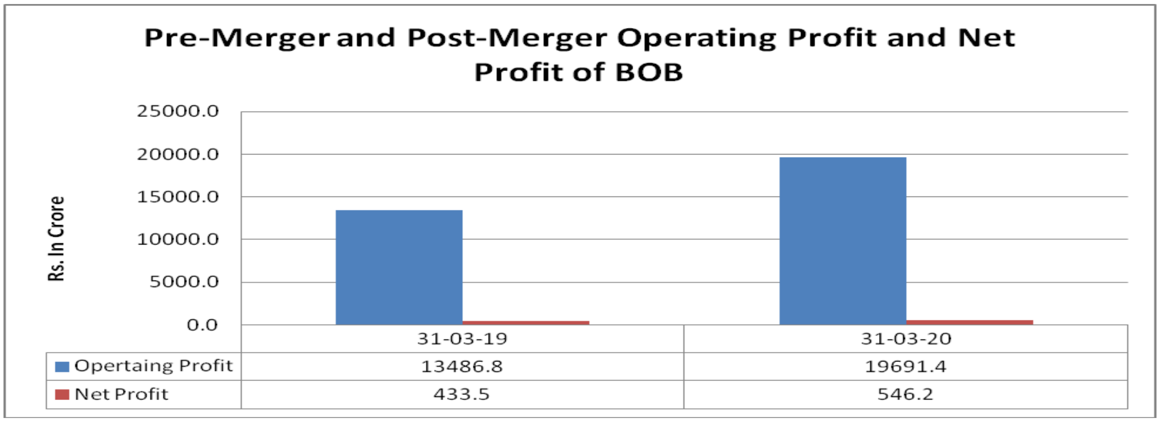
Non-Performing Assets:



PIC.3[13]: Non Performing Assets of Bank of Baroda

Non-Performing Assets (NPA) of Bank of Baroda have increased following the merger, with Gross NPA increasing from Rs. 48,233 Crore to Rs. 69,381 Crore. At the end of the first year of the merger, net NPA increased from Rs. 15,609 crore to Rs. 21,577 crore. Gross and net NPAs are increased by Rs. 21,148 crore and Rs. 5,968 crore, respectively, for a total of 43.85% and 38.23%.

Operating Profit and Net Profit:



PIC.4[14]: Profi t and Net Profit of BOB

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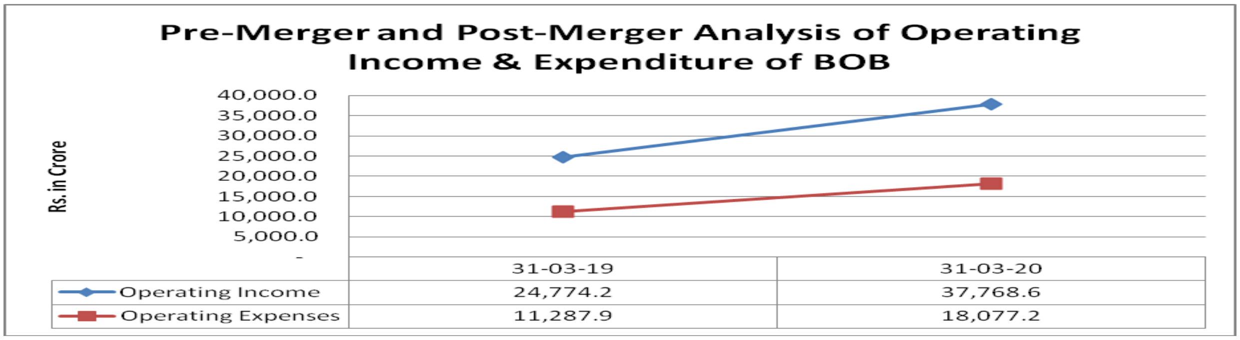
[13] Patel, R. (2017). Pre & Post-Merger Financial Performance: An Indian Perspective, Journal of Central Banking Theory and Practice, 2018, 3,181-200

[14] Patel, R. (2017). Pre & Post-Merger Financial Performance: An Indian Perspective, Journal of Central Banking Theory and Practice, 2018, 3,181-200

Before the merger, the standalone operating profit was Rs. 13,486.8 crore on March 31, 2019, and one year later, the operating profit of Bank of Baroda was Rs. 19,691.4 crore. The bank achieves a pre-merger net profit of Rs.433.5 crore. The bank's post-merger net profit is Rs. 546.2 crore. When post-merger performance is examined, Operating Profit increases by Rs. 6,204.6 crore, or 46%, and Net Profit increases by Rs. 112.70 crore, or 26%.

Income and Expenditure:



PIC.5[15]:Operating Income and Expenditure of BOB

On 31st March 2019, the consolidated Operating Income of Bank of Baroda was Rs. 24,774.2 Crore and Operating Expense was Rs. 11,287.9 Crore. After the end of one year of Merger, Operating Income and Operating Expenses are increased upto Rs. 37,768.6 Crore and Rs. 18,077.2 Crore respectively. If post-merger performance is analysed then Operating Income is increased by Rs. 12,994.4 Crore that is 52.45% and Operating Expenses is increased by Rs 6,789.3 Crore that is 60.15%.

CONCLUSION:

After this three-way Merger, Bank of Baroda is become third largest bank to serving at every part of nation and strengthening the Indian Economy. Now it is concluded on the basis of Annual Report whether merged entity is navigating towards predefined goal. The following conclusions are formed up on the analysis of Annual Report of Bank of Baroda for pre- merger and post-merger period:

[15]Ujjwala, P. (2019). A Study on Bank of Baroda Merger with Dena Bank and Vijaya Bank, International Journal for Research in Applied Science & Engineering Technology, 7(9), 594-601.

1. At the end of first year of the post-merger period, the market size and customer base of the Bank of Baroda are increased from 8.61 Crore to 13.10 Crore i.e. 52.15 %.
2. Liabilities and Assets are enhanced by 46.39% due to Merger. Deposits and Borrowings are increased by 46.22% and 39.04%. Investment and Loans & Advances are increased by 48.03% and 45.91%.
3. Operating Income is increased by 52.45% and Operating Expenses is increased by 60.15%. Then Operating Profit is increased by 46% and Net Profit is increased by Rs. 112.70 crore i.e. 26%. But The Gross NPA and Net NPA are also increased in Post-Merger period. This is a challenging job for Bank of Baroda to reduce NPA.

So by the overall analysis it is clear that the merger between Bank of Baroda, Vijaya Bank and Dena bank after the post merger will help in better management of capital, Along with the merger the focus should be on adequate reforms and should concentrate more on the NPA as there are more chances which affects the merger. We can conclude that the Bank of Baroda has experienced positive impact due to merger. Mergers are a useful tool for the expansion of Indian banking. It helps in the survival of weak banks to be a part of a better performing bank. It also helps in the economic stability as the banking sector is the backbone of the economy. 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. And the main reason for merger was the merged entity or the new entity the total business will be around 1,482,325 lakh and as the result of this merger this particular bank or the new entity which will be created will be the 3rd largest bank in India.