

Pre-Merger and Post-Merger Analysis of Bank of Baroda

¹Khubalkar Rupesh and ²Karmore Rajvilas

¹Assistant Professor, Nutan Adarsh Arts & Commerce College, Umred, Dist. - Nagpur, Maharashtra (India)

²Principal, Vidya Vikas Arts & Commerce College, Samudrapur, Dist. - Wardha, Maharashtra (India)

ARTICLE DETAILS

Article History

Published Online: 15 September 2020

Keywords

Bank of Baroda, Vijaya Bank, Dena Bank, Pre-Merger, Post-Merger, NPA, Assets, Net Profit.

Corresponding Author

Email: [khubalkar.rupesh\[at\]gmail.com](mailto:khubalkar.rupesh[at]gmail.com)

ABSTRACT

Nowadays, merger and acquisition emerge as a reality. Bank mergers are one of the strategies for strengthening the Indian Economy by enhancing the banking sector. The Government of India is pursuing the policy of amalgamating public-sector bank. On 1 April 2019, the merger of Vijaya Bank and Dena Bank with the Bank of Baroda came into effect. After the merger, Bank of Baroda became the third largest bank and second largest public sector bank to serving banking and strengthening the Indian Economy. Now one year is lapse from the merger then it is a time to analyze whether this three-way merger has given expected result. The financial performance of Bank of Baroda at post-merger period expresses the positive result. At the end first year of merger, Bank of Baroda reported a net profit of Rs. Rs. 546.2 Crore This research paper is comparatively analyzing Operational and financial performance of Bank of Baroda through Pre and Post-Merger period. This comparative study includes data was collected from secondary sources such as websites, articles and annual reports and analysis has been shown with the help of charts.

1. Introduction

The Banking Sector is serving nation and strengthening the Indian Economy. The Indian banking system is now consists of 12 public sector banks, 22 private sector banks, 45 foreign banks, 56 regional rural banks, 53 scheduled urban cooperative banks and 31 scheduled state co-operative banks. The banking sector has seen ongoing mergers and amalgamation in recent years. In consultation with the Reserve Bank of India (RBI), the Central Government can create a scheme for the amalgamation of any nationalized bank with any other nationalized bank or banking institution in accordance with the Banking Companies Acts 1970 and 1980 (Acquisition and Transfer of Undertakings). Under this scheme, on 2 January 2019, the Government of India approved the merger of Bank of Baroda with Vijaya Bank and Dena Bank. Under the terms of the merger, for every 1,000 shares of Dena Bank and Vijaya Bank shareholders received 110 and 402 Bank of Baroda equity shares, respectively, of face value Rs. 2. Vijaya Bank and Dena Bank are now merged into Bank of Baroda from 1st April 2019. After the merger Bank of Baroda has become India's third-largest lender after State bank of India and HDFC Bank. The Government has agreed to grant some Rs. 5,042 Crore to Bank of Baroda to strengthen the merger's financial position. Merger of Bank of Baroda is also India's first-ever three-way consolidation of banks, with this merger Bank of Baroda is emerging as the second-largest public-sector bank. Due to the merger, Bank of Baroda ranks second in India in terms of number of branches.

The agenda of this merger was to reduce Non-performing assets (NPA). At the time of the merger proposal, the gross NPA ratios of Bank of Baroda, Vijaya Bank and Dena Bank were 12.4%, 6.9% and 22% respectively. As official of Bank of Baroda said before merger that the merged entity would 40% more deposits and 44% more loans, but it would also have 70% more distribution. So there would be more products and services available to customers after merger. Total business of Bank of Baroda is expected to be more than Rs.15 trillion after

merger. The signs of Merger is expressing through this Financial Analysis.

2. Objective of Study

The following are objectives for the study:-

- To study the implications of Merger on the Bank of Baroda's Operational Condition.
- To study the implications of Merger on the Bank of Baroda's Financial Condition.

3. Research Methodology

The data are collected from secondary sources like Annual Reports, Magazines, Newspapers and websites.

4. History of Bank of Baroda, Vijaya Bank and Dena Bank

On 20th July 1908, Bank of Baroda was established as a private bank by the Maharaja of Baroda, Maharaja Sayajirao Gaekwad III. Bank of Baroda has headquarter in Gujarat in Vadodara formerly known as Baroda. It has a corporate office in Maharashtra in Mumbai. In the year 1910, the Bank of Baroda opened their branch in the Ahmadabad city. On 19 July 1969, Bank of Baroda was nationalised by the Government of India, along with 13 other major commercial banks of India.

On 23 October 1931, Vijaya Bank was established by late Shri. A.B.Shetty and other entrepreneurial farmers of Mangaluru in Karnataka. It has corporate office in Karnataka in Bengaluru. The Bank became a scheduled bank in 1958. Vijaya Bank grew steadily into a large All India bank, merging with nine smaller banks during the 1963-68. On 15th April, 1980, the Vijaya bank was nationalized.

On May 26, 1938, Dena Bank was established by Devkaran Nanjee's family under the name Devkaran Nanjee Banking Company Ltd. On December, 1939, it adopted its new name, Dena (Devkaran Nanjee) Bank due to become a public company. In July 1969, Dena Bank Ltd. was nationalized along

with 13 other major banks and become a Public Sector Bank. Dena Bank had headquarter in Maharashtra in Mumbai.

In history of Bank of Baroda, this is not the first time when other banks are merged with Bank of Baroda. The timeline of merger are given below.

1961: New Citizen Bank of India merged in Bank of Baroda.

1963: Bank of Baroda acquired Surat Banking Corporation.

1969: The Government of India nationalised 14 top banks including Bank of Baroda.

1988: Bank of Baroda acquired Traders Bank, which had 34-branch network in Delhi.

2018: On 17th September, the Ministry of Finance of the Government of India proposed the merger of Bank of Baroda, Vijaya Bank and Dena Bank.

2019: On 2nd January 2019, the merger was approved by the Union Cabinet and the boards of the banks.

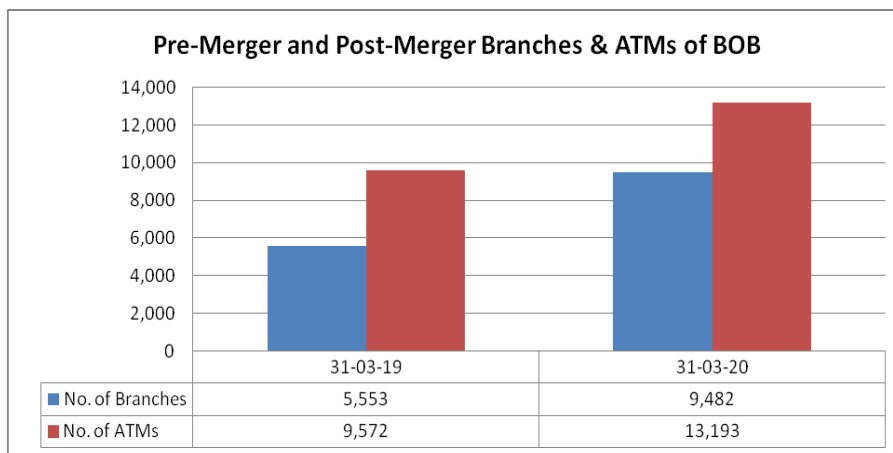
2019: On 1st April, the merger came into effect.

5. Effects of Mega-Merger on Bank of Baroda

Bank of Baroda had become the second largest public sector bank after merging with Vijaya Bank and Dena Bank. The consolidated Bank of Baroda has started its operation with a business mix of over Rs 15 lakh crore of balance sheets. As per the bank official said, the Bank of Baroda would have a 22 % market share in Gujarat and 8-10 % market share in Maharashtra, Karnataka, Rajasthan and Uttar Pradesh after the merger.

5.1. Operation Analysis of Merger

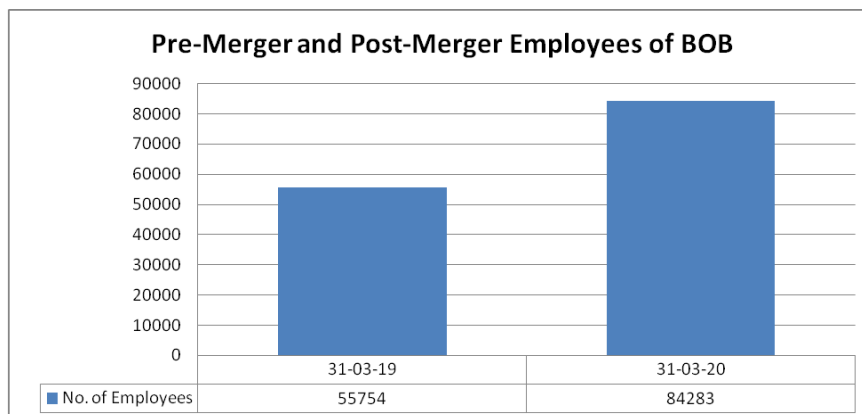
The operational performance of Bank of Baroda after the merger are analysed as follow:



Source: Bank of Baroda Annual Reports

The standalone branches of Bank of Baroda were 5,553 before merger i.e. on 31st March 2019. Vijaya Bank and Dena Bank had 2,119 branches and 1,775 branches respectively. Hence the number of branches of Bank of Baroda is reached to 9,447 after merger on 1st April 2019. After one year of Merger, the number of branches is increased to 9,482 at the end of 31st March 2020. The standalone ATMs of Bank of Baroda were 9,572 before merger i.e. on 31st March 2019. Vijaya Bank had

2,163 ATMs and Dena Bank had 1,513 ATMs. Hence the number of ATMs of Bank of Baroda is reached to 13,248 after merger on 1st April 2019. At the end of first year of Merger, ATMs are reached to 13,193. After the end of First year of Merger 3929 branches and 3621 ATMs of Bank of Baroda are increased i.e. 70.75% branches and 37.83 % ATMs respectively.



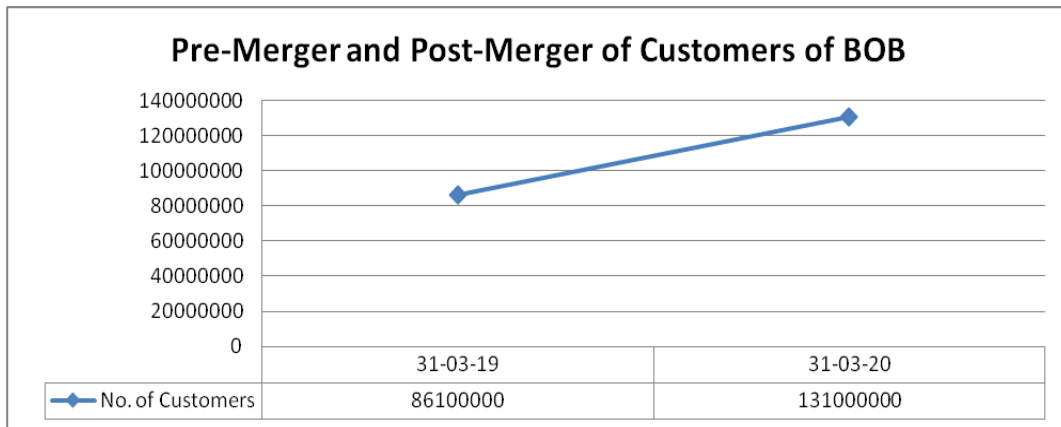
Source: Bank of Baroda Annual Reports

The numbers of employees of Bank of Baroda, Vijaya Bank, and Dena Bank as on March 31, 2019 were 55,754,

15,882 and 13,334 respectively. As on March 31, 2019, the total number of employees of all three banks was 84,970. But due to

retirement and VRS scheme the total numbers of employees on 31st March 2020 were 84,283 after merger. The total numbers of employees are increased by 28,529 in number and 51.17% in

percentage. Government officials said that there is no retrenchment due to merger.



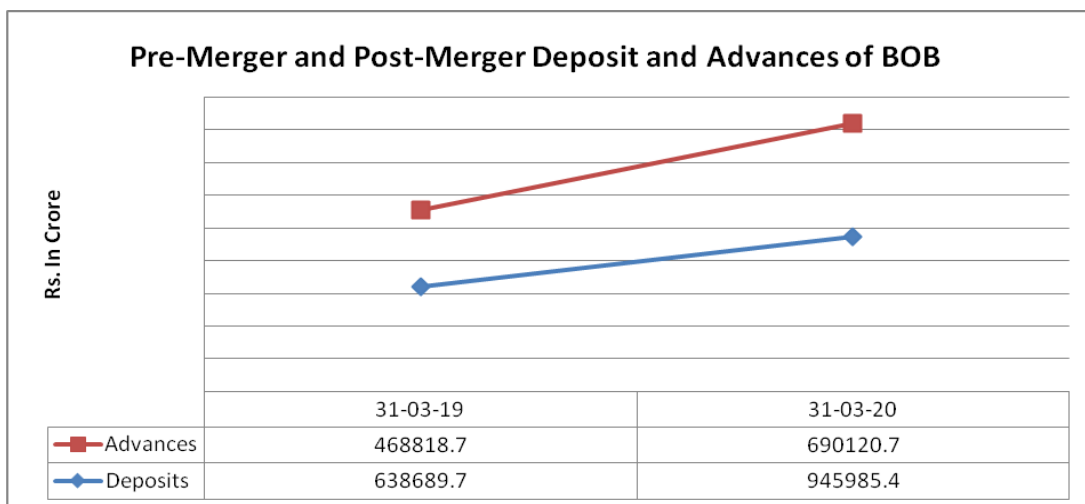
Source: Bank of Baroda Annual Reports

On March 31, 2019 the number of customers of Bank of Baroda, Vijaya Bank, Dena Bank as were 8.61 crore, 2.50 crore and 1.72 crore respectively. As on March 31, 2019, the total numbers of customers of all three banks were 12.83 crore. On 1st April 2019 after merger, the total number of customers banks was 12.53 crore because nearly 30 lakh customers had account in more than one bank. On 31st March 2020 the

number of customers are increased to 13.10 crore. The total numbers of customers are increased by 4.49 crore from 1st April to 31st March 2020 i.e. 52.15 % in percentage.

5.2 Financial Analysis of Merger

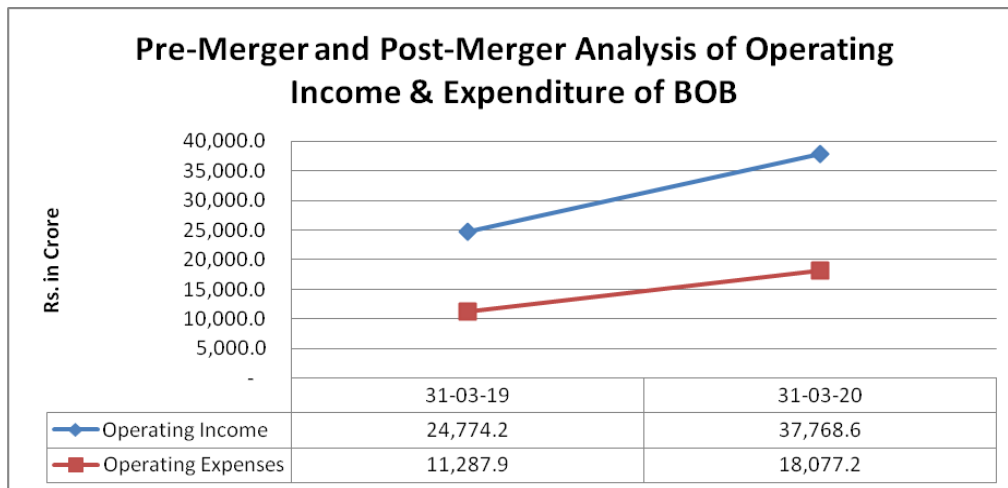
The pre-merger and post-merger financial performance and financial position of Bank of Baroda is analysed as follow:



Source: Bank of Baroda Annual Reports

On March 31, 2019 the Deposits of Bank of Baroda were Rs. 6,38,689.7 Crore, Deposits of Vijaya Bank were Rs. 1,75,817 crore and Deposits of Dena Bank were Rs. 100,652 Crore. In which the Bank of Baroda's share was 69.79%. On 1st April 2019 after merger, the total consolidated Deposits of Bank of Baroda was Rs.9,15,159 crore. But at the end of one year of Merger, Deposits are increased to Rs. 945985.4 Crore. If pre-merger and post-merger Deposits are compared then it is found that Deposits are increased by Rs. 307295.7crore i.e. by 48.11%.

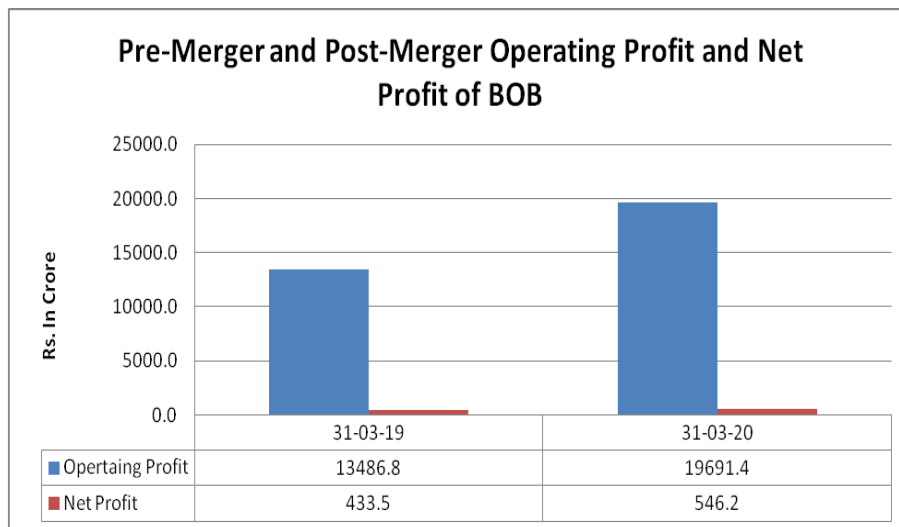
The Advances of Bank of Baroda were Rs. 4,68,818.7 Crore, Advances of Vijaya Bank were Rs. 1,30,606 Crore and Advances of Dena Bank were Rs. 51,959 Crore on March 31, 2019. In which the Bank of Baroda's share was 71.97%. On 1st April 2019 after merger, the total consolidated Advances of Bank of Baroda was Rs.6,51,384 Crore. On 31st March 2020, Advances are increased to Rs.6,33,181 Crore. If Advances are compared pre-merger and post-merger then it is found that Advances are increased by Rs. 2,21,302 Crore i.e. 47.20% only.



Source: Bank of Baroda Annual Reports

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

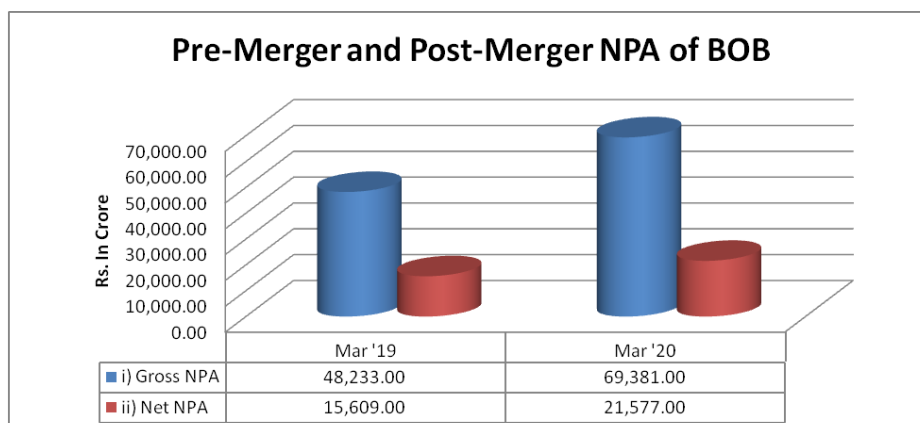
respectively. If post-merger performance is analysed then Operating Income is increased by Rs. 12,994.4 Crore i.e. 52.45% and Operating Expenses is increased by Rs 6,789.3 Crore i.e. 60.15%.



Source: Bank of Baroda Annual Reports

On 31st March, 2019, before merger the standalone operating profit was Rs. 13,486.8 Crore and after the merger of one year, the Operating Profit of Bank of Baroda was Rs. 19,691.4 Crore. Bank occurs the Pre-Merger Net Profit of Rs.

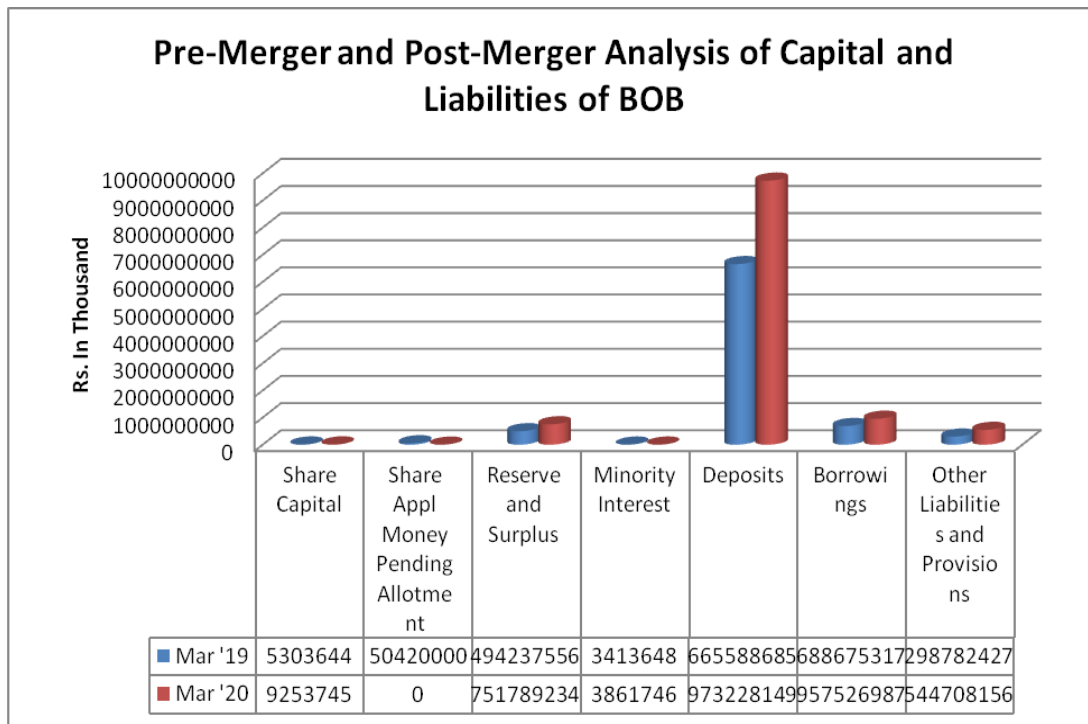
433.5 Crore. Post-Merger Net Profit of Bank is Rs. 546.2 Crore. If post-merger performance is analysed then Operating Profit is increased by Rs. 6,204.6 Crore i.e. 46% and Net Profit is increased by Rs. 112.70 Crore i.e. 26%.



Source: Bank of Baroda Annual Reports

Non-Performing Assets (NPA) of Bank of Baroda is increased after Post-Merger, it is found that Gross NPA is increased from Rs. 48,233 Crore to Rs. 69,381 Crore. Net NPA is increased from Rs. 15,609 Crore to Rs. 21,577 Crore at the

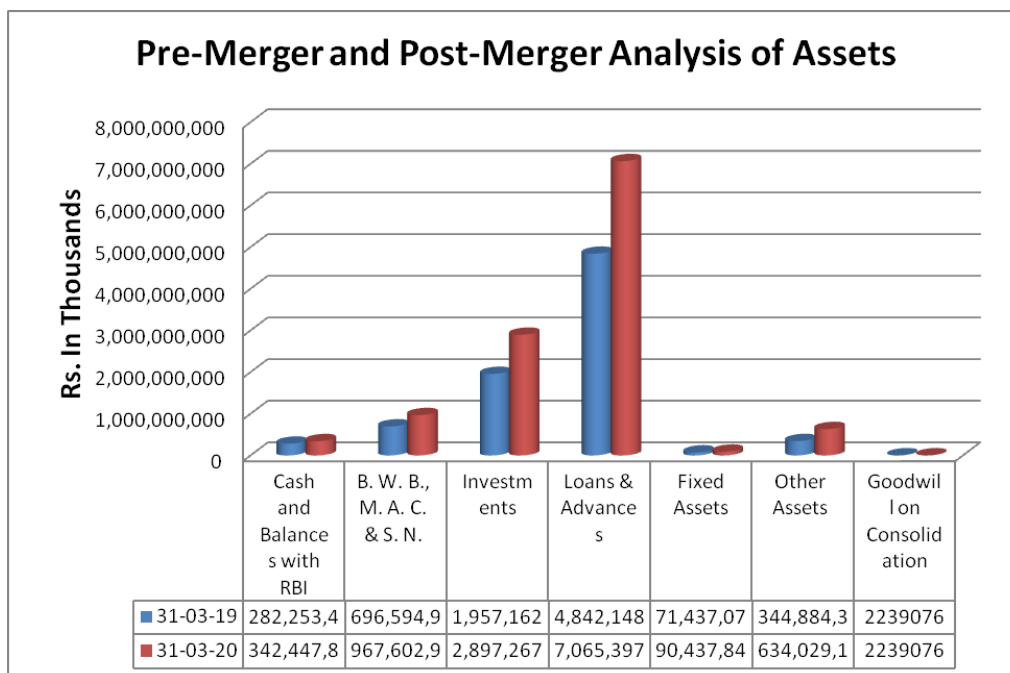
end of first year of Merger. Gross NPA and Net NPA are enhanced by Rs. 21,148 Crore and Rs. 5,968 Crore i.e. 43.85% and 38.23% respectively.



Source: Bank of Baroda Annual Reports

Share Capital of Bank of Baroda are increased by Rs. 3,950,101 Thousand from Pre-Merger to Post-Merger Period. Reserve and Surplus is increased by Rs. 257,551,678 Thousand i.e. 52.11%. Deposits are increased by Rs. 3,076,394,638 Thousand in Post-Merger Period. Borrowings and Other Liabilities and Provisions are increased by Rs.

268,851,670 Thousand and Rs. 245,925,729 Thousand after Pre-Merger Period. That is Share Capital, Reserve and Surplus, Deposits, Borrowings and Other Liabilities & Provisions are increased by 74.48%, 52.11%, 46.22%, 39.04% and 82.31% respectively. Ultimately, Total Capital and Liabilities are increased by Rs. 3,802,701,914 Thousand i.e. by 46.39%.



Where, B. W. B., M. A. C. & S. N. means 'Balance with other bank, Money at Call & Short Notice.'

Source: Bank of Baroda Annual Reports

Cash and Balances with Reserve Bank of India is increased by Rs. 60,194,356 Thousand in percentage 21.33% due to Merger. An investment is increased by Rs. 940,104,826 Thousand i.e. by 48.03%. Loans & Advances given is increased by value Rs. 2,223,249,179 Thousand and volume by 45.91%. Fixed Assets is increased by Rs. 19,000,771 Thousand i.e. by 26.60%. Other Assets is increased by Rs. 289,144,808 Thousand i.e. by 83.84%. But Balance with other bank, Money at Call & Short Notice is increased by Rs. 271,007,974 Thousand i.e. by 38.90%. Overall, Assets are enhanced by Rs. 3,802,701,914 i.e. 46.39%.

6. 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.

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 %. The numbers of Branches, regional and zonal offices, ATMs are increased. Bank of Baroda had either close or rationalise branches to increase operational efficiency and reduce duplication due post-merger. 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%.

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.

The signs of Merger is expressing through Financial Analysis. Overall, the mergers would help in better management of capital. Along with merger the focus should be on adequate reforms in governance and management of these banks. Finally the area of service is more widened due to merger. Bank of Baroda has experienced positive impact due to merger.

References

- 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.
- Liothia, .L. (2009), "Banking History, Law and Practice", Cyber Tech Publications, New Delhi.
- Meenakshisundaram, K.S & Kannan, A.S. (2020). Bank of Baroda Merger in India: Pre-Merger Scenario Analysis, *International Journal of Advanced Science and Technology*, 29(3), 3935 – 3944.
- Patel, R. (2017). Pre & Post-Merger Financial Performance: An Indian Perspective, *Journal of Central Banking Theory and Practice*, 2018, 3,181-200.
- Singh, G. & Gupta, S. (2015). An Impact of Mergers and Acquisitions on Productivity and Profitability of Consolidation Banking Sector in India, *Abhinav International Monthly Refereed Journal of Research in Management & Technology*, 4(9), 33-48.
- 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.
- https://economictimes.indiatimes.com/industry/banking/finance/banking/vijaya-bank-dena-bank-to-become-bob-from-apr-1/articleshow/68655446.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
- <https://economictimes.indiatimes.com/industry/banking/finance/banking/bank-of-baroda-becomes-second-largest-psu-bank-after-sbi/articleshow/68667323.cms?from=mdr>
- <https://edena.bankofbaroda.in/viewsection.jsp?id=0,1,10>
- <https://evijaya.bankofbaroda.in/About-Us/Inception>
- <https://latestbankupdate.blogspot.com/2016/01/list-of-co-operative-banks-in-india.html>
- <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1559124>, (Press Notes of PIB-08 Jan 2019 5:23pm)
- <https://scoop.eduncle.com/regional-rural-banks-in-india>
- https://www.Bank of Baroda_2019-20_Full-Annual-Report
- <https://www.bankofbaroda.in/history.htm>
- <https://www.bankofbaroda.in/writereaddata/Images/pdf/bob-analyst-presentation-Q2-fy-20-final-11-11-2019.pdf>
- <https://www.bankofbaroda.in/writereaddata/Images/pdf/bob-analyst-presentation-Q3-FY-20-final-27-01-2020.pdf>
- <https://www.bankofbaroda.in/writereaddata/Images/pdf/Full-Annual-Report-2018-19-06-06-2019.pdf>
- <https://www.bankofbaroda.in/writereaddata/Images/pdf/July-25-BOB-Analyst-Presentation-Q1-FY-20.pdf>
- <https://www.financialexpress.com/industry/banking-finance/nbfc-and-mfis-funding-gap-to-further-increase-to-rs-15k-25k-crore-acuite-ratings/1939180/>
- <https://www.jagranjosh.com/general-knowledge/list-of-all-public-and-private-sector-banks-in-india-1582542534-1>
- <https://www.livemint.com/companies/company-results/bank-of-baroda-swings-into-red-with-rs-1-407-cr-net-loss-in-q3-11579872459268.html>
- <https://www.livemint.com/industry/banking/merger-impact-bank-of-baroda-looks-to-rationalise-800-900-branches-1558259961723.html> Updated: 19 May 2019
- <https://www.mymoneymantra.com/blog/top-10-foreign-banks-india-2019/>
- <https://www.thehindubusinessline.com/money-and-banking/bank-of-baroda-becomes-second-largest-psu-bank-after-sbi/article26700229.ece>
- Newspaper
- Bank of Baroda, Vijaya Bank and Dena Bank to be merged, *The Economic Times*- 18 September 2018.
- Vijay Denanath Baroda Bank: Challenges of the urge to merge, *The Economic Times*-18 September 2018.