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Analytical study on merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India

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Abstract: The Indian banking industry has experienced significant expansion, as demonstrated by the amalgamation of Punjab National Bank with Oriental Bank of Commerce and United Bank of India. Ratio analysis is a key technique used in this research, which explores the combined entity's financial performance. The research assesses liquidity, solvency, operational efficiency, and asset quality by looking at ratios three years before and after the merger. The results indicate significant improvements in the bank's asset base and market share following the merger. Ratio analysis is a powerful tool for evaluating the feasibility and effectiveness of mergers, offering valuable perspectives on how the consolidation has improved the bank's overall financial stability and operational effectiveness.
Keywords: ratio analysis, operational efficiency, financial stability

INTRODUCTION

The banking industry is the backbone of the Indian economy because it makes it easier to direct public excess funds into the most profitable ventures, encourages saving behavior, and quickens the rate of capital formation. The banking industry has seen significant transformation in recent years due to a wide range of factors, including new technology to compete in the global market, laws and regulations that have changed, and mergers and acquisitions that have significantly altered the size, structure, and activity of the industry. The Indian banking system has faced numerous challenges to its regular operation, including a sharp increase in net loss, a rise in non-performing assets (NPAs), a proliferation of operational expenses, a decline in net worth, and an unhealthy competitiveness between public and private sector banks. The Indian government implemented mergers and acquisitions to boost the banking sector's performance.

Acquiring a company through a merger or acquisition is seen to be a quicker and more effective approach to expand into new areas and increase market share. Before liberalization, mergers and acquisitions was subject to strict economic policies and regulations. However, with the implementation of LPG policies in 1991, the Indian government made several concessions to M&A through the revision of Acts like MRTP and FERA. Due to increased cash flow, return to shareholders, research and development, and limitless expansion prospects, mergers and acquisitions can accelerate an industry's economic growth. It may thus be drawn that bank mergers and acquisitions have a major impact on the GDP development of the nation. Through mergers, businesses may obtain new funds, increase shareholder value, boost productivity, and draw in better employees. They also assist in reducing expenses, achieving economies of scale and synergies, increasing market share, and overcoming obstacles from competitors. The Indian banking industry has undergone a number of changes and had several successful mergers and acquisitions that have contributed to its rapid development. Acquiring a company through a merger or acquisition is seen to be a quicker and more efficient approach to expand into new areas and increase market share.

The announcement of Punjab National Bank's merger with United Bank and Oriental Bank of Commerce is one of the biggest bank mergers to date. After the State Bank of India, the combined entity, to be known as Punjab National Bank, would rank as the country's second-biggest public sector bank. The merger resulted a stronger, bigger banking organization.

REVIEW OF LITERATURE

TR Bishnoi Sofia Devi (2015): This research article evaluates how banks perform following mergers. The authors' hypothesis-testing indicates that, in most cases, there was no apparent gain following mergers, while there are a few outliers. They asserted that the M&A approach of consolidating banks for efficiency reasons appears to be faulty. This practical reality and the extensive experience of the last 20 years must be included in future banking policy.

B Rajesh Kumar, K.M Suhas (2010): This research looks at how mergers affect operating performance and the development of wealth in the stock market. It uses financial ratios to examine how the combined institutions perform against a control group. The findings indicate that the acquiring banks derive profit from the news of mergers. Three models were used to deflate the cash flow in order to compare the operating performance of the acquiring banks before and after the merger. These models included income, book value, and market value of the assets.

Pradeep Kaur, Gian Kaur (2010): To assess the cost-effectiveness of Indian commercial banks, this study uses a non-parametric Data Envelopment Analysis (DEA) approach. It looks on how mergers affect the cost-effectiveness of banks that consolidated in the years after liberalization. The study looks at how mergers might improve cost efficiency in the Indian banking industry using unbalanced panel data from 1990–1991 to 2007–2008. According to the research, merger activities have improved cost efficiency in the Indian banking sector to some extent.

Kanchan Jatkar (2012): The paper looks at a number of important issues related to India's banking consolidation, with a focus on the views of two key parties: shareholders and management. An event study analysis of bank stock returns was used to ascertain the attitudes of the shareholders. The analysis revealed that neither the bidder nor the target bank's shareholders had benefited from forced mergers. Nonetheless, the bidder bank's stockholders have benefited more from voluntary mergers than the target banks have.

Abhi Dutt Sharma, Pradeep Kumar Garg (2022): The article examines the effects of the merger that took place between United Bank of India, Oriental Bank of Commerce, and Punjab National Bank. The research examines the benefits and drawbacks of bank mergers and evaluates how PNB Bank's post-merger performance has affected economic expansion. The findings show that bank mergers and capital infusions into the banking sector promote both economic development and stability in the banking industry.

RESEARCH METHODOLOGY

Data Collection: The annual reports of Punjab National Bank, Oriental Bank of Commerce, and United Bank of India were among the secondary sources from which the data was gathered. Additional data was obtained from a number of websites, Reserve Bank of India publications, and other publicly available sources.

Objectives: To evaluate the financial performance of Punjab National Bank, Oriental Bank of Commerce, and Union Bank of India before and after merger over three years, using a range of financial ratios to analyze and assess how the mergers would affect the operational and financial performance of each bank.

Statistical tools: Financial ratios were computed and compared between the pre-merger (2017–2019) and post-merger (2020–2013) periods in order to assess how the merger affected solvency, profitability, and liquidity.

Limitations: This research paper's excessive use of financial data may cause important non-financial factors that could affect the merger's success to be omitted. Errors may arise due to variations in the accuracy of financial data obtained from different sources. The three-year post-merger investigation might not adequately capture the long-term impacts since other crucial aspects of each bank's operations or strategy were not thoroughly examined.

DATA ANALYSIS AND INTERPRETATION

<u>OPERATIONAL EFECIENCY OF PUNJAB NATIONAL BANK</u>

CASH DEPOSIT RATIO (PRE MERGER)-Cash deposit ratio: The percentage of a bank's deposits maintained as cash reserves is known as the cash deposit ratio. This ratio is utilized to address liquidity demands.

$$cash\ deposit\ ratio = cash \div deposit * 100$$

Table 1: Cash deposit ratio (2017-2020)

	Year								
	2017-18			2018-2019			2019-2020		
Bank	Cash(In crores)	Deposit(In crores)	Ratio(In %)	Cash(In crores)	Deposit(In crores)	Ratio(In %)	Cash(In crores)	Deposit(In crores)	Ratio(In %)
PNB	25,210.00	6,21,704.02	4.05	28,789.03	6,42,226.19	4.48	32,129.13	6,76,030.14	4.75
OBC	10,813.09	2,19,339.39	4.93	12,254.84	2,07,346.06	5.91	11,193.88	2,32,645.38	4.81
UBI	6,634.46	1,26,939.25	5.23	6,212.14	1,29,326.38	4.80	6,168.88	1,34,983.32	4.57

Source: Annual report from PNB, OBC and UBI

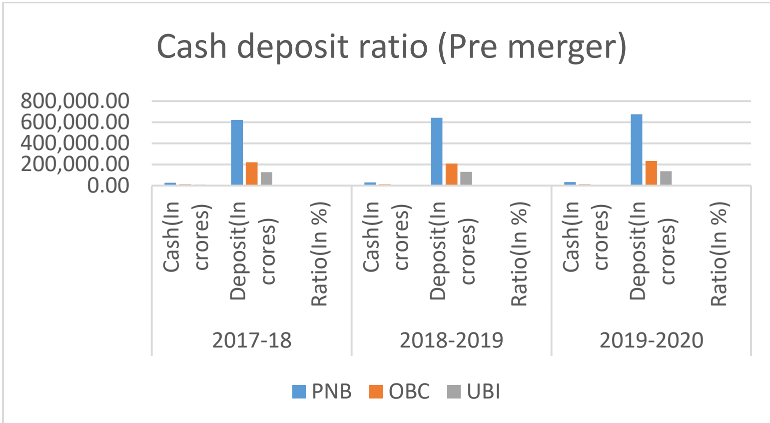

Figure 1

Interpretation: Table 1 implies that PNB's cash reserves climbed gradually throughout the three years between 2017–18 and 2019–2020, from 25,210 crores to 32,129.13 crores. This growth was accompanied by a rise in the cash-deposit ratio from 4.05% to 4.75%, which suggests a better liquidity position. Conversely, OBC saw variations in cash reserves and deposit ratios, but UBI sustained a rather steady cash-deposit ratio despite minor turns in cash reserves.

CASH DEPOSIT RATIO (POST MERGER)

Table 2: Cash deposit ratio (2020-2023)

	Cash (C)		Deposits (D)		
YEAR	Amount (Rs. in crores)	Growth rate (In %)	Amount (Rs. in crores)	Growth rate (In %)	Ratio (in %)
2020-21	44,267.27		1113716.86		3.97
2021-22	57,027.84	28.82	1154234.46	3.63	4.94
2022-23	78,213.52	37.15	12,90,347.07	11.79	6.06
SUM	1,79,508.63		3558298.4		14.97
AVERAGE	59836.21		1186099.463		4.99

Source: Annual report from PNB

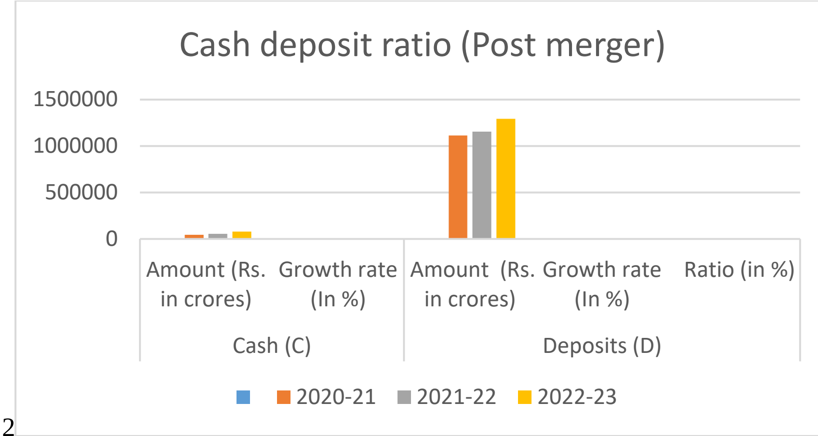

Figure 2

Interpretation: Table 2 indicates that cash reserves increased by 37.15% during the course of the three years, almost increasing by twofold, while deposits also saw a notable increase of 11.79%. During the time, there was consistent and favorable financial improvement demonstrated by the average growth rates of 4.99% and 6.06% for cash and deposits, correspondingly

CREDIT DEPOSIT RATIO (PRE MERGER)

The percentage of a bank's lending that goes towards its deposits is known as the credit deposit ratio. A greater ratio means the bank is lending more of its deposits, while a lower ratio signifies that it is lending less of its deposits overall.

Table 3: Credit deposit ratio (2017-2020)

		Year								
		2017-18			2018-2019			2019-2020		
Bank		Deposits(In crores)	Advances(In crores)	Ratio (In%)	Deposits (In crores)	Advances(In crores)	Ratio(In %)	Deposits(In crores)	Advances(In crores)	Ratio(In %)
PNB	Amount	6,21,704.02	2,86,466.58	217.02	6,42,226.19	2,88,760.58	222.41	6,76,030.14	2,96,932.15	227.67
OBC	Amount	2,19,339.39	1,57,706.00	139.08	2,07,346.06	1,36,367.87	152.05	2,32,645.38	1,59,284.81	146.06
UBI	Amount	1,26,939.25	66,139.30	191.93	1,29,326.38	62,490.20	206.95	1,34,983.32	66,955.10	201.60

Source: Annual report from PNB, OBC and UBI

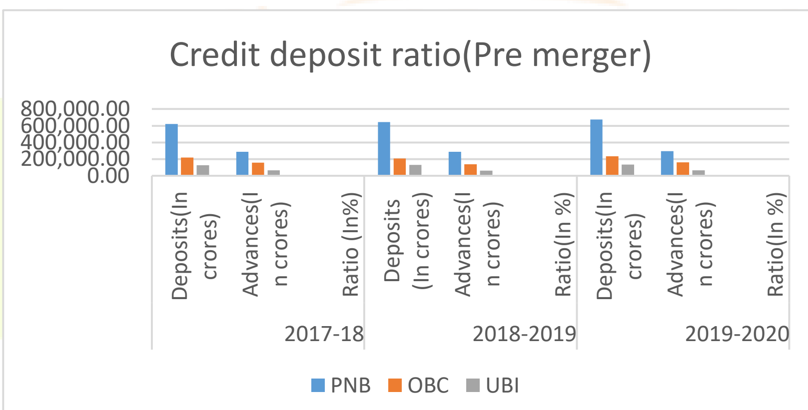

Figure 3

Interpretation: Table 3 indicates that PNB became more dependent on deposits for lending from 2017–18 to 2019–2020, as seen by the constantly increasing deposit–advance ratio. Throughout that time, Oriental Bank's lending policy changed, as seen by variations in advances and declining deposits as well as changes in the deposit-advance ratio. Even while deposits and advances were growing steadily, United Bank continuously relied more on deposits for lending, as seen by increasing deposit-advance ratio.

CREDIT DEPOSIT RATIO (POST MERGER)

Table 4: Credit deposit ratio (2020-2023)

	Deposits(D)		Advances (A)		
YEAR	Amount (Rs. in crores)	Growth rate (In %)	Amount (Rs. in crores)	Growth rate (In %)	Ratio (In%)
2020-21	11,063,324,728		6,742,300,802		164.09
2021-22	11,462,184,496	3.6	7,281,856,753	8	157.41
2022-23	1,281,163	-99.98	830,834	-99.98	154.20
SUM	22,526,790,387		14,024,988,389		475.70
AVERAGE	7,508,930,129		4,674,996,129.66		158.57

Source: Annual report from PNB

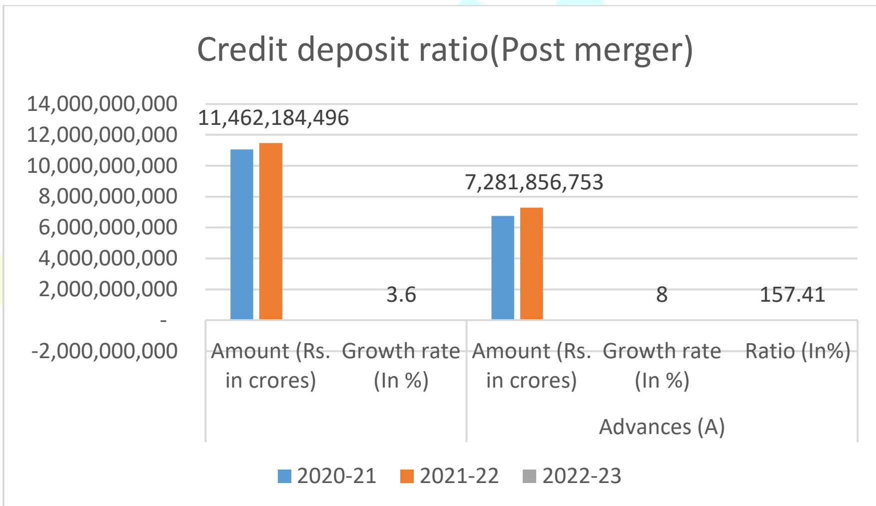

Figure 4

Interpretation: Table 4 implies that in 2020–21, the ratio was 164.09, which suggests that the bank gave more than its deposits. However, in 2021–22, the ratio dropped to 157.41, indicating a reduction in the bank's lending activities. In 2022–23, the ratio grew to 154.20, showing an increase in lending.

MARKET PERFORMANCE (EARNING ABILITY)

For banks to thrive in the fierce financial market, they must generate enough revenue to pay for all non-operating costs and keep a sufficient distribution by avoiding constraints. The following ratios can be used to calculate a bank's earning capacity:

1. Earnings per share
2. Return on assets
3. Return on equity

Profit per share is measured by EPS. ROA measures the effectiveness of assets. ROE evaluates profitability for shareholders. Better financial health and investor appeal are indicated by higher metrics. Diminished values can suggest difficulties with operations or a decline in investor trust. For banks to show solid financial performance and draw in investors, they must maintain or improve these measures.

EARNING ABILITY (PRE MERGER)

Table 5: PUNJAB NATIONAL BANK (2017-2020)

Year	EPS(In %)	ROA(In %)	ROE(In %)
2017-18	6.45	0.18	3.47
2018-19	-55.39	-1.6	-32.85
2019-20	-30.94	-1.28	-24.2

Source: Annual report from PNB

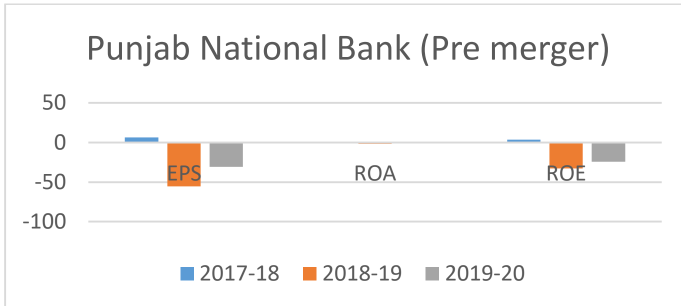

Figure 5 (In %)

Interpretation: Table 5 indicates that PNB's financial performance varied over the course of the three years, showing a drop in efficiency and profitability in 2018–19 and 2019–20, respectively, after positive EPS and returns in 2017–18.

Table 6: ORIENTAL BANK OF COMMERCE (2017-2020)

Year	EPS(In %)	ROA(In %)	ROE(In %)
2017-18	-31.82	-0.43	-8.63
2018-19	-168.09	-2.51	-56.55
2019-2020	0.77	0.02	0.31

Source: Annual report from OBC

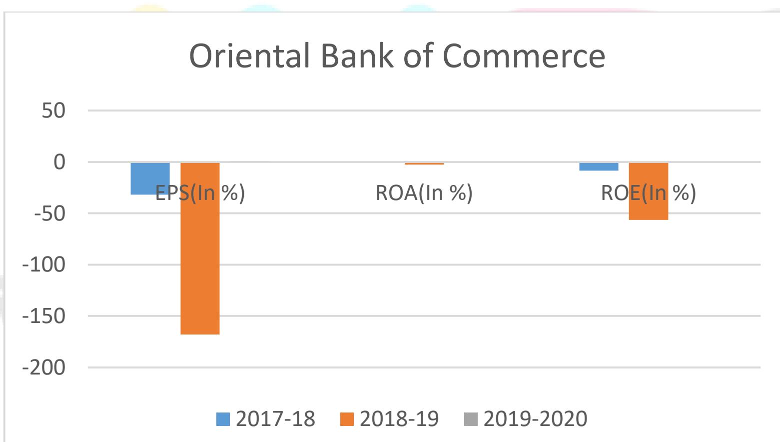

Figure 6

Interpretation: During the three years, OBC earnings per share, return on assets, and return on equity all saw notable variations. Negative values were recorded in 2017–18 and 2018–19, while positive trends were observed in 2019–2020, suggesting different levels of efficiency and profitability.

Table 7: UNITED BANK OF INDIA (2017-2020)

Year	EPS(In %)	ROA(In %)	ROE(In %)
2017-18	1.86	0.15	3.41
2018-19	-9.65	-1	-18.85
2019-2020	-7.04	-1.52	-21.89

Source: Annual report from UBI

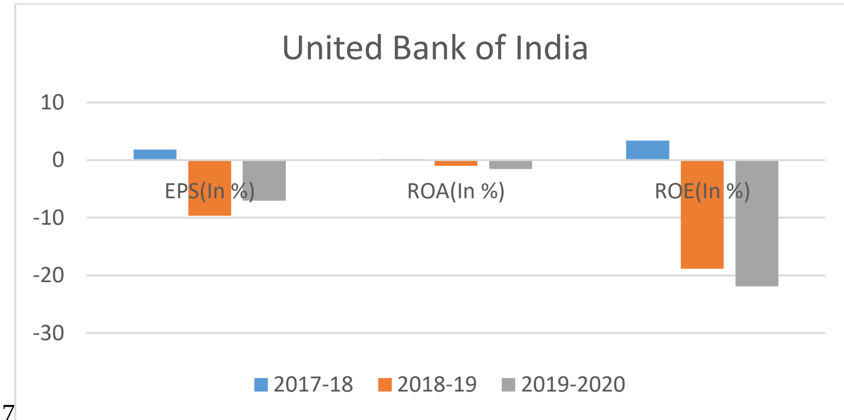

Figure 7

Interpretation: Table 7 indicates the three-year trend of UBI's earnings per share, return on assets, and return on equity was positive in 2017–18, but it turned negative in 2018–19 and 2019–2020, suggesting a decline in efficiency and profitability.

EARNING ABILITY (POST MERGER)

Table 8: PUNJAB NATIONAL BANK (2020-2023)

YEAR	EPS(In %)	ROA(In %)	ROE(In %)
2020-21	2.08	0.16	2.41
2021-22	3.16	0.26	3.9
2022-	2.28	0.17	2.74
Sum	5.24	5.31	10.04
Average	2.62	2.65	5.02

Source: Annual report from PNB

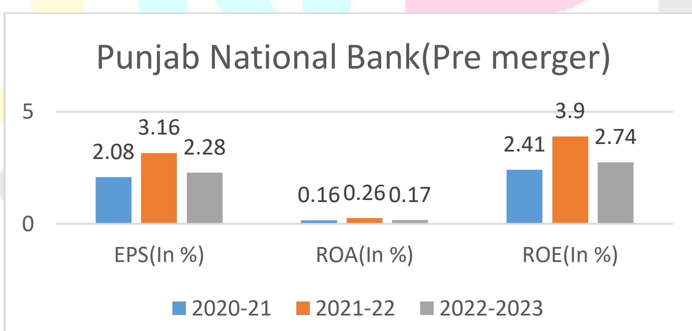

Figure 8

Interpretation: Table 8 indicates that the firm had moderate increase in its earnings per share, return on assets, and return on equity over the course of three years. The average values of these metrics suggested sustained profitability and efficiency. With EPS rising from 2.08% to 3.16% and ROE from 2.41% to 3.9% between 2020–21 and 2021–22, the firm continued to perform steadily, however the next year saw minor reductions.

ASSET QUALITY OF THE BANK

The financial stability and reliability of a bank's loan portfolio and other assets are referred to as its asset quality. It is easier for a bank to control risks and provide consistent returns for its investors when its assets are of good quality.

The quality of assets aids in determining the efficacy of banks' assets. Measured using the variables like

- Gross NPAs
- Net NPAs

Gross NPA refers to any loan that has not been repaid in accordance with its terms and conditions.
Gross NPA ratio=Total Gross NPA/Total Gross advances *100

Net NPA is the portion of non-performing assets that remains after subtracting the provisions for possible losses.
Net NPA ratio= Gross NPA-Provisions

Gross NPAs and Net NPA-PRE MERGER (2017-2020) Table 9

(In %)

	Year					
	2017-18		2018-19		2019-20	
Bank	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
PNB	13	7.81	18	11.24	16	6.56
OCB	14	9	18	10	13	6
UBI	15.53	10.02	24.1	16.49	16.48	16.49

Source: Annual report from PNB, OCB and UBI

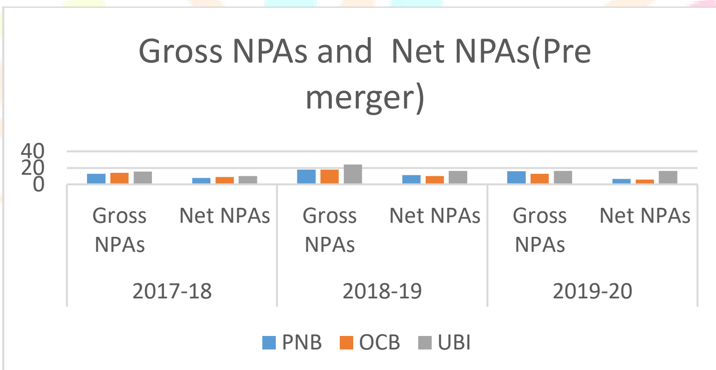

Figure 9

Interpretation: Table 9 indicates that during the last three years, there have been variations in the gross and net non-performing assets of PNB, OBC, and UBI, along with different proportions of non-performing loans to their overall loan portfolios. OBC and UBI's NPA ratios during the same time exhibited inconsistent patterns, whilst PNB's showed a minor increase in NPAs from 2017–18 to 2018–19 before a drop in 2019–20.

Gross NPAs and Net NPA-POST MERGER (2020-2023) Table10

YEAR	Gross NPAs	Net NPAs
2020-21	14.12	5.73
2021-22	11.78	4.8
2022-23	8.74	2.72
Sum	34.64	13.25
Average	11.55	4.42

Source: Annual report from PNB

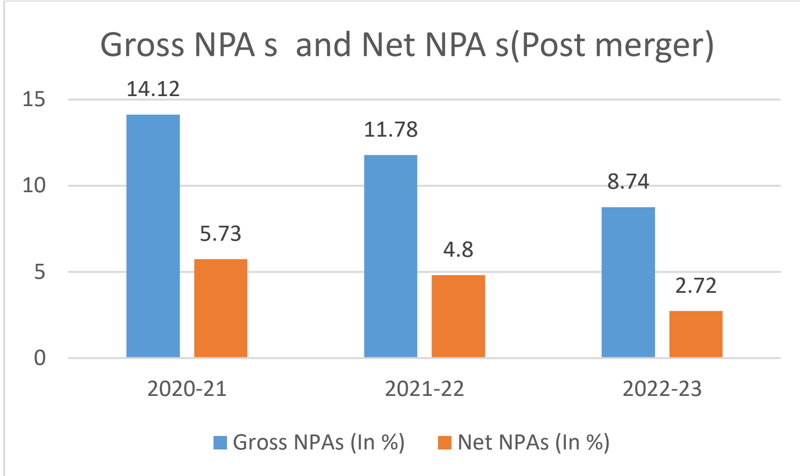

Figure 10

Interpretation: Table 10 implies that Gross NPA percentage declined from 14.12% in 2020–21 to 8.74% in 2022–23, indicating a drop in the share of overdue loans before to accounting for provisions. Comparably, within the same time period, the Net NPA percentage dropped from 5.73% to 2.72%, indicating a decline in bad loans even after accounting for possible losses.

SUMMARY OF FINDINGS

The data from 2017–18 and 2019–20 reveals that Punjab National Bank has gradually improved its operational efficiency. Specifically, its gross non-performing assets decreased from 13% to 16%. Net NPAs, on the other hand, varied somewhat during the same time period, going from 7.81% to 6.56% and then back to 11.24%, suggesting some volatility in the efficient management of bad loans. Analysis of market performance paints a conflicting image, with PNB struggling to maintain stability, perhaps due to changes in asset quality. In order to boost long-term performance and market confidence, PNB may need to reinforce its risk management measures even after taking steps to address asset quality problems, such as tightening lending policies.

CONCLUSION

PNB has the chance to reduce expenses and streamline operations by improving its internal procedures. While asset quality is stable, PNB may do better by managing non-performing assets more proactively by doing a better job of assessing risk and keeping an eye on credit. Stronger financial situation may be achieved by PNB by concentrating on dealing with bad loans more efficiently. PNB should place a high priority on increasing client happiness, growing its internet presence, and broadening its product offerings in order to improve market performance. Sustaining financial reporting openness will be essential to fostering confidence and guaranteeing PNB's continuous expansion.

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