IMPACT OF BANK MERGER ON RETAIL CUSTOMER, SHAREHOLDERS AND EMPLOYEES: A STUDY OF MERGER OF DENA BANK AND VIJAYA BANK WITH BANK OF BARODA FROM A FUTURISTIC PERSPECTIVE

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Abstract

In every economy, banking sector plays a vital role and it is one of the fast growing sectors in India. In pursuit of gaining a competitive advantage, both private and public banks are making intense efforts to sustain and outperform each other. In the present scenario, banking sector is facing a lot of challenges such as changes in regulatory environment, evolution of online banking, significant financial consolidation etc. which in turn makes Indian financial industry to be highly competitive. In order to gain a competitive advantage and positive synergy, banks are adopting consolidation strategy to have an impact on the market. Mergers and acquisition not only give a synergy advantage but also open up various opportunities and, varied challenges, which may affect the efficiency of the banks, its employees and thereby its customers.

Key Words: Banking sector, Consolidation, Public and Private banks, Synergy, Efficiency.

I. INTRODUCTION

In the year 1991, Maidavolu Narasimham who was the governor of the RBI, suggested in a report on banking reforms, a consolidation of public banks to make them stronger. It has envisaged a three-tier banking structure with three large banks with international presence at the top, eight to ten national banks at tier two, and a large number of regional and local banks at the bottom. The main objective of the merger includes building scale and strengthening the risk taking ability. The Government is working on merger and acquisition plan for public sector banks, in order to create a multitier structure that will have approximately four global size banks and bring down the number of state-owned lenders to about 12 from 21. Consolidation of state
run banks with weaker state run banks shall be carried in order to enjoy synergies, yield good results and also stabilize the weaker banks.

Over a period of time, public sector banks have started losing their market share, which currently approximates 70% of the industry. The Government of India is in favor of consolidation of state owned banks and any such merger between two public sector banking entities takes place under an Act that stipulates that two banks can initiate merger talks, but the scheme of the merger must be finalized by the government in consultation with the Central Bank and it must be placed in Parliament, which reserves the right to modify or reject the scheme. The approval of Parliament is mandatory even if the merger is between private banks and public banks.

Post liberalization, banking industry in India experienced numerous mergers and acquisitions. The main objective behind many consolidations was to stabilize weaker banks by merging them with strong bank, increase competition, economies of scale, synergy, and advanced technology and its integration, new product and services. Some of the mergers and acquisition are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Acquirer</th>
<th>Target</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>State Bank of India</td>
<td>Kashinath Seth Bank</td>
<td>Merger</td>
</tr>
<tr>
<td>2000</td>
<td>HDFC Bank Ltd</td>
<td>Times Bank</td>
<td>Merger</td>
</tr>
<tr>
<td>2002</td>
<td>ICICI Bank</td>
<td>ICICI Limited</td>
<td>Merger</td>
</tr>
<tr>
<td>2004</td>
<td>Bank of Baroda</td>
<td>South Gujarat Local Area bank</td>
<td>Merger</td>
</tr>
<tr>
<td>2006</td>
<td>IDBI Bank</td>
<td>United western Bank</td>
<td>Merger</td>
</tr>
<tr>
<td>2010</td>
<td>State bank of India</td>
<td>State bank of Indore</td>
<td>Acquisition</td>
</tr>
<tr>
<td>2014</td>
<td>Kotak Mahindra Bank</td>
<td>ING Vysya bank</td>
<td>Merger</td>
</tr>
<tr>
<td>2017</td>
<td>SBI Bank</td>
<td>I. State bank of Bikaner and Jaipur</td>
<td>Merger</td>
</tr>
<tr>
<td></td>
<td></td>
<td>II. State bank of Hyderabad</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>III. State bank of Mysore</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>IV. State bank of Patiala</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>V. State bank of Travancore</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>VI. Bharatiya Mahila Bank</td>
<td></td>
</tr>
</tbody>
</table>
On September 2018, Government of India had put a proposal to Bank of Baroda’s management for the merger of Dena bank and Vijaya bank with them. The merged entity i.e. Bank of Baroda will be the third largest bank in India after ICICI Bank and State Bank of India. The reason behind the merger is to absorb Dena bank which has sunk under Non Performing Assets, by the healthier banks i.e. Bank of Baroda and Vijaya Bank so that the merged entity may enjoy increased lending ability and also to widen up the operations. Bank of Baroda and Vijaya bank have been in a better position in terms of earnings but Dena bank has been under the pile of Non-Performing Assets. The Reserve Bank of India has taken Dena bank under Prompt Corrective Action framework in view of high non-performing assets. Dena bank is restricted from any further funding and new hiring under PCA norms. Gross NPAs of the Dena bank mounted to 22.4% of the gross advances as on March 31, 2018, from 16.27% as on March 31, 2017. In terms of value, the gross NPAs rose to Rs 16,361.44 crore from Rs 12,618.73 crore. Net NPAs were also up at 11.95% from 10.66%. Currently there are 11 banks under Prompt Corrective Action framework out of 21 state owned banks.

The merger of BOB with Vijaya Bank and Dena Bank is quite singular for different reasons. In the history of Indian banking industry, the merger of BOB with Vijaya Bank and Dena Bank will be the first three public banks merger. Out of the three public banks, one bank is taken under Prompt Corrective Action framework and other two are healthier banks. This merger involves a revolutionary step to revive a bank which is being pull down by huge NPA, with two relatively stronger banks. Lastly this merger came into play where almost all public sector banks are facing negative profits.
Following are the financial parameters on the basis of which individual banks and merged entity are compared:

<table>
<thead>
<tr>
<th>Financial Parameters</th>
<th>Bank of Baroda</th>
<th>Vijaya Bank</th>
<th>Dena Bank</th>
<th>Merged Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Business (Cr)</td>
<td>10,29,810/-</td>
<td>2,79,575/-</td>
<td>1,72,940/-</td>
<td>14,82,325/-</td>
</tr>
<tr>
<td>Gross advances (Cr)</td>
<td>4,48,330/-</td>
<td>1,22,350/-</td>
<td>69920/-</td>
<td>6,40,600/-</td>
</tr>
<tr>
<td>Deposits (Cr)</td>
<td>5,81,485/-</td>
<td>1,57,325/-</td>
<td>1,03,020/-</td>
<td>8,41,830/-</td>
</tr>
<tr>
<td>Domestic Branches</td>
<td>5502</td>
<td>2130</td>
<td>1858</td>
<td>9490</td>
</tr>
<tr>
<td>Advance Branches</td>
<td>81</td>
<td>57</td>
<td>38</td>
<td>68</td>
</tr>
<tr>
<td>Deposit Branches</td>
<td>106</td>
<td>74</td>
<td>55</td>
<td>89</td>
</tr>
<tr>
<td>Employees</td>
<td>56360</td>
<td>15875</td>
<td>13440</td>
<td>85675</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>0.29%</td>
<td>0.32%</td>
<td>(2.43%)</td>
<td>(0.02%)</td>
</tr>
<tr>
<td>CRAR Capital Ratio</td>
<td>12.13%</td>
<td>13.91%</td>
<td>10%</td>
<td>12.25%</td>
</tr>
<tr>
<td>CET-I Capital Ratio</td>
<td>9.27%</td>
<td>10.35%</td>
<td>8.15%</td>
<td>9.32%</td>
</tr>
<tr>
<td>Net NPA</td>
<td>5.40%</td>
<td>4.10%</td>
<td>11.04%</td>
<td>5.71%</td>
</tr>
<tr>
<td>CASA Ratio</td>
<td>35.52%</td>
<td>24.91%</td>
<td>39.80%</td>
<td>34.06%</td>
</tr>
</tbody>
</table>

Source: Compiled from Report on Trend and Progress of Banking in India, RBI, various issues.

Following is the comparison between merged bank with SBI and ICICI bank:

<table>
<thead>
<tr>
<th>Particulars (Amount in Cr)</th>
<th>SBI</th>
<th>ICICI</th>
<th>Bank of Baroda (Merged entity)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>2,65,100/-</td>
<td>72,386/-</td>
<td>74,592/-</td>
</tr>
<tr>
<td>Net profit</td>
<td>(6,547/-)</td>
<td>6,777/-</td>
<td>(3,628/-)</td>
</tr>
<tr>
<td>Gross NPA</td>
<td>2,23,427/-</td>
<td>54,063/-</td>
<td>80,367/-</td>
</tr>
<tr>
<td>CRAR</td>
<td>12.6%</td>
<td>18.42%</td>
<td>12.25%</td>
</tr>
<tr>
<td>Total Advances</td>
<td>19,90,172/-</td>
<td>5,16,289/-</td>
<td>6,40,592/-</td>
</tr>
</tbody>
</table>

Source: Compiled from Report on Trend and Progress of Banking in India, RBI, various issues

II. RESEARCH METHODOLOGY
Objectives

- To study the purpose of merger of Vijaya Bank and Dena Bank with Bank of Baroda.
- To analyze the impact of merger on customers, employees and its shareholders.
- To know the challenges to be faced in merger and acquisition.
- To know about the benefits of mergers and acquisition.

Sample Selection

The study analyses three banks out of which two are profit making and one bank is piled under NPA. These are:
1. Bank of Baroda
2. Vijaya Bank
3. Dena Bank

Sources of data

Secondary data has been collected for the study. The required data for the study were collected and compiled from the websites of respective banks and their annual reports. In addition, other required data were collected from various journals, Government officials, newspapers and magazines.

III. REVIEW OF LITERATURE

Various aspects of Mergers and acquisition in the Indian banking system have been studied. Various research papers, articles and books have been examined. In this section, an attempt has been made to review some of the journals, articles and existing literature dealing with mergers and acquisition.

K. Subhashree and M. Kannappan (2018) in their paper, studied about the purpose and various procedures of mergers. It includes the study of various types of mergers like Horizontal combination, Circular combination and conglomerate combination. It examined different ways
of amalgamation such as purchase of shares in open market, purchase of shares by personal treaty, to make a takeover provide to the final body of shareholder etc.

A.N.Tamragundi and Devarajappa S (2016) in their paper, analyzed the impact of merger on physical performance, financial performance of merged banks and also its effects on share price.

Dr. Smita Meena and Dr. Pushpender Kumar (2014) in their paper have studied the trends of mergers and acquisition in the banking sector of India and also examined the performance before and after the consolidation. The consolidation was between ICICI bank, SBI and HDFC. It includes the impact of merger like growth and development, synergies, enhanced managerial skills, gaining new technology etc.

Suresh Kumar (2013) in his paper has given an overview of Indian banking system and various mergers and acquisition post liberalization. It incorporates the study of how the size of the bank affects mergers and acquisition. It also examined the efficiency and profitability parameters of the banks get affected by consolidation.

IV. IMPACT OF MERGERS

On Retail customer

➢ Account holders may get a new account number and customer ID. Their email ID and mobile number must be updated with the bank so that they can receive official intimations on allotment of new accounts instantly.

➢ The customers having accounts in more than one bank which are subjected to merger, they will be given a single customer identity document.

➢ It is also possible that the new entity will add another layer of security. While the customer ID will be common across multiple accounts with the same bank, a different user ID can be generated for the joint holder so that he can access only the relevant account.

➢ Account holders of the merged entity will have to update their new IFSC code or new account numbers with Income tax department, Insurance companies, mutual funds, among others.
The post-merger entity will have to honour all electronic clearing service (ECS) mandates and post-dated cheques. If required, fresh ECS mandates need to be issued and the same should be enquired with the bank.

Account holders need to be provided with new Systematic investment plan registration cum mandate forms where there is an automatic debit for SIP. The same procedure has to be followed for loan EMIs.

Account holders can use balance cheque leaves for the period of 6-12 months.

The most difficult task will be to handle the rationalization of branches for the employees as well as account holders. Customer’s existing home branch could shut down if the new acquiring entity has its own branch in the vicinity. The updated new IFSC and MICR code applicable to the branch and account must be followed as it will be required to quote it for funds transfer and other financial transactions. In case of merger of State Bank of India with its associates, only home branch was changed and new branch code was given. The account numbers remained same.

The fixed deposit rate applicable will be the rate offered by Bank of Baroda on the date of merger. This rate will not be applicable to the existing holder as they enjoy the same rate which was applicable to them earlier. Even the loan agreements will remain same as it was before the merger. In case of home loans, the earlier rate will be applicable until the revised rate offered by Bank of Baroda.

**On Shareholders**

Bank of Baroda has decided to issue 402 and 110 equity shares for every 1,000 shares held. After the announcement of swap ratio, the share price of Dena Bank fell by 20% while Vijaya Bank was down by 7.25%. There was no significant change in the share price of Bank of Baroda. As it can be seen the swap ratio proves to be fair for Dena bank in spite of facing many challenges. Vijaya bank gains nothing from the swap ratio. It favors the Bank of Baroda as their book value and adjusted book value increases by 8.2% and 2.2%. It is estimated that return on equity of 10% for the financial year 2020 and 12.5% for the financial year. The earnings per share dilutive will increase by 4% from financial year 2020 to financial year 2021.
After the merger, the consolidated number of shares of the merged entity will be 3,425 million and its net worth amounts to RS 55,600 crore. With these the book value of Bank of Baroda will be Rs 80/- per share. After the swap ratio, Bank of Baroda is valued at 1.5 times which is fairly valued. Dena Bank, Bank of Baroda and Vijaya Bank have lost a total of Rs 6,839 crore or nearly $1 billion in market valuation after the proposal of merger.

**On Employees**

The merged bank will have 85,675 employees after the merger. Employees may not lose their employment as guaranteed by the Government. The new work culture of Bank of Baroda has to be adopted by the employees of Dena bank and Vijaya bank. All the three banks have similar core banking system so that will help the employees to work without much difficulty. Many employees may get transferred due to rationalization of branches as there may be overlapping of branches in same vicinity. The merged bank will provide all the retirement facilities and all other such considerations as they were receiving from their existing banks.

**V. CHALLENGES IN MERGER**

- There may be many common cities where all the three banks have their branches. Therefore, in order to reduce overheads, rationalization of such branches needs to be carried out. While doing so, handling the employees and their transfer may be burdensome.
- Integration and rationalizing people will be major challenges in this three-way merger.
- The mixture of personnel with different cultures from Dena, Vijaya and Baroda could cause some friction.
- Taking into consideration the employees of the merged bank, all the three banks employees will continue its employment in the merger bank which accounts to 84,675 employees. The merged bank will have to go through a lot hardship in order to handle such a huge manpower. In case of private banks, laying off the excess work force for cost cutting is the option but public sector banks have no such option but to continue with the total employees.
- The main task of the merger will be its business growth prospects and rapid growth of credit.
Out of the three banks, Dena bank and Vijaya bank were corporate focused banks whereas Bank of Baroda was slowly shifting towards retail. The merger will be interesting to experience how these corporate-focused banks utilize their network and move in the direction of retail.

The convergence of numerous data centres which manages more than 100 lakhs customers of all the three banks will be a great challenge. The integration of different operating platforms of these banks appears to be easy to integrate but implementation of the same will prove to be burdensome.

Technology integration in theory is easy to achieve but in practice it will require a lot of hard work like just getting a new account code for all customers and communicating that will not be a simple thing.

The total number of branches of all the three banks accounts to nearly 9489 and out of it approximately 10% of these branches are overlapped. So branches in the same city will have to be reduced without discontinuing single employee.

The task of replacing cheque books will be difficult for the merged entity. It will require a lot more time integrate facilities like NEFT, net banking, RTGS etc.

**VII. BENEFITS OF MERGER**

All three banks are on same core banking system which makes it easier for the operations to be carried out without any difficulty. The employees will also be able to adapt the working culture

The merger will also give the merged entity room to provide credit facility to top companies in a simpler way.

The merged entity will be benefited with network sharing, deposits at low cost and subsidiaries. The ratio of current and saving account ratio will be 34.06% and 12.25% of capital adequacy.

The merged entity will also enjoy large customer base, widen market share, operational efficiency and inclusion of variety of products and services to customers.
The merger will help Bank of Baroda to widen its network as due to merger the customer base will increase and will be tilt towards retail front. These benefits will also be enjoyed by Dena bank and Vijaya bank’s clients.

After the merger, Bank of Baroda will be the second largest bank in terms of assets.

The merger will lead to cost, product and technology efficiencies and will also easy to manage.

The merged entity will be provided with additional cushion by the Government to the extent of 50-100 basis points above the existing regulatory capital requirement.

VIII. SUGGESTIONS

1. The Government should not merge a weak bank with a strong bank as it will hamper the valuation of shares of strong bank and also degrade the quality of its assets.
2. In order to make a good competition with foreign banks, strong bank should be merged with another strong bank.
3. The thrust should be improving the quality of products and services of public sector banks as compared to privately owned banks so that PSB will not lose its market share in banking industry.

IX. CONCLUSION

Mergers of Dena bank and Vijaya bank with Bank of Baroda is the first ever merger of three public sector banks in India. After the merger the net NPA will rise to 5.71% from 5.40%. The return on assets also shows a negative impact as it falls by 6.45%. The study highlights that merger of weak bank with the strong bank will not prove to be a good step of the Government. The burden of NPA of Dena Bank will have to be borne by Vijaya Bank and Bank of Baroda. Moreover the employees will also be reluctant to accept the employment if they are transferred to other branches at other cities. The Indian banking system may not be able to see any short term contribution from the Bank of Baroda. Therefore, Government should and the policy makers should not promote the merger of weak bank with that of strong bank as it will badly affect the strong bank’s momentum.
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