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An Analytical Study of Merger of Syndicate Bank with Canara Bank

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ABSTRACT: Most companies employ mergers and acquisitions to improve and retain their market standing. In the context of India, the banking sector is currently undergoing rapid expansion. Over the past few years, the Indian banking industry has witnessed a notable surge in the number of mergers and acquisitions. This study throws some lights on the recent merger in Indian banking industries and analyses how the merger between Canara Bank and a syndicate bank affected the acquiring Bank's wealth, profitability, and overall performance after the merger was completed. Mergers and acquisitions have been a relatively recent trend in the Indian banking industry. It paves the way for banks to become industry leaders and provide exceptional returns to their investors.

KEYWORDS: Indian Banks, Merger, Synergy, Stock Price, Shareholders

1. INTRODUCTION

Mergers and acquisitions are a strategic approach in Indian banking to compete worldwide since the sector quickly expands thanks to the digital innovation trend. The literature analysis shows that merged banks confront several problems and obstacles. One of the most rapidly expanding industries in countries like India is the banking industry. Researchers and academics have been interested in M&A since it is considered one of the most significant growth strategies (Gupta et al, 2021; Mittal, p., 2015). After liberalization, several sectors of the Indian economy, including banking, have seen rapid transformation. In the banking industry, mergers and acquisitions are an effective strategy for helping struggling banks survive by joining forces with more robust institutions. Our research shows that regional and community banks need help weathering the effects of the international economy.

To broaden their services, several private banks merged. India's rural marketplaces have untapped potential that the country's central banks have yet to tap. The consolidation of PSBs entails joining six underperforming PSBs with four strong anchor banks. Union Bank absorbed Andhra Bank and Corporation Bank, while Punjab National Bank amalgamated with the Oriental Bank of Commerce and United Bank. Canara Bank and Syndicate Bank amalgamated, while Allahabad Bank became a part of Indian Bank.

2. REVIEW OF LITERATURE

Post-merger and acquisition, Sonia Singh and Shubhankar Das (2018) said required strategies and policies that considered the organization's procedural, physical, and social-cultural contexts. Accounting eports, arket evaluations, and ey informant escriptions are all examples of post-M&A procedures with substantial qualitative consequences crucial to the Bank's and its subsidiaries performance. Ujjwala, P. (2019) investigates the consolidation of three major Indian financial institutions (Bank of Baroda, Dena Bank, and Vijaya Bank). The main reason for this change is the desire for strategic expansion in terms of size and clientele. Consolidating and strengthening public-sector banking and addressing mounting problems, including non-performing assets (NPAs) and default on loans, are at the heart of the government's decision to merge the three entities into one. Ishwarya J. (2019) examines M&As that have occurred in the banking industry of India to learn more about the synergies created and the effects on the industry. The article

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also analyzes future trends and suggestions for action that banks might take. To investigate the SBI affiliate merger, based on the data, it seems that bank mergers in India have only included reorganizing failing or troubled institutions. Policymakers and the government should proceed with caution when encouraging mergers to achieve economies of size and scope. The merger of SBI and its affiliates led to the establishment of a monopoly, and the company's inability to compete led to a sluggish growth rate, according to the research of Neelam Tandon et al. (2019). Notable numbers of combined customer accounts, branch overlaps, and different business cultures that must be harmonized are all addressed in the research as potential obstacles. Consolidation and Merger of PSBs in India: Issues and Challenges were researched by Prajeesh P. and Dr. Kavitha S. (2020). Over the years, the Indian economy has seen several shifts. There are a lot of public sector banks in India; therefore, merging them would be a good idea. Synergies in the branch network, low-cost deposits, and subsidiaries are just a few ways the merger will assist the banks in enhancing operating efficiency and customer service. Pre- and post-merger performance and non-performing assets (NPA) in the Indian banking sector are analyzed by Prabhavathi Kalshetty et al. (2020). Profitability and liquidity were two of the financial indicators used to assess success. The combined Bank's value would increase with an increase in GNPA, and how shareholders would be diluted even more due to the merger. The findings also demonstrate how a lead anchor bank experiencing pre-existing difficulty would add complexity to the merger. For more affluent borrowers, all banks' loan portfolios look the same. As a result, the merged entity's loan composition will not alter much. Abhay Kant (2020) opines that banks use the company's assets to boost operational efficiency. He also evaluates the benefits and drawbacks of mergers and acquisitions and suggests that banks utilize more effective methods and equipment to deal with NPAs. Kavana A. and Kavya E. (2021) examine Canara Bank's financial health. Numerous mergers and acquisitions in India's banking industry have garnered media attention. There have been several mergers in recent years. Syndicate Bank and Canara Bank, the subject of this article, recently merged. Multiple resources were mined for information. Annual reports from Canara Bank, both before and after the merger. According to research, Canara Bank Ltd has not benefited much from the merger. The report finds that the company has not progressed regarding its Return on Equity, Interest Coverage, Earnings Per Share, or Dividend Per Share. The empirical results of Jia Li et al. (2021) describe the story of mergers and acquisitions in China's banking sector during the last fifteen years. At first, several less efficient banks wanted to consolidate to become more effective. In the near term, mergers, and acquisitions (M&A) were successful, but they had varying effects on banks' revenue generation and cost-cutting strategies, as measured by efficiency metrics and the GMI. Despite the stability of the accumulation process, the Merger activities increased banks' total output and earning processes. An unexpected occurrence while acquiring knowledge accounts for the variation. In addition, analysis of GMI's components showed that M&A had different impacts on the productivity change characteristic across processes. Despite the warning signs, the EC rose as the experience points were earned. Pre- and post-merger financial analysis in the public banking industry was conducted by Jasmin Patel et al. (2021). Our mission is to assess the health of India's banking system, investigate the economic effects of mergers in the public sector, and evaluate the profitability, liquidity, and credit management of a subset of Indian banks. To accomplish these goals, we will collect financial ratio data and figures from money control and then create visual ratio graphs based on the calculated averages; we will also analyze their financial performance after the merger to determine whether it has been improved. Shraddha Thakur (2022) analyses the motivation behind the compulsory merger and acquisition declared by the Indian government in banking, and she conducts research on the effect that mergers and acquisitions have on the effectiveness of banks to identify the issues that will need to be resolved at the time when prospective M&A deals include banks. This research compares banks' pre- and post-M&A capital, business, advances, deposits, and net profit across five dimensions. Research shows that banks' productivity has increased because of mergers and acquisitions. According to Sasikala and B. Sudha (2022), mergers have had a lasting influence on the financial services sector. The research concluded that SBI's performance was OK after the merger. The Bank has earned a profit and is again in a good position, notwithstanding early losses caused by non-performing assets (NPAs) and the aggregated losses of partner banks. Because of this, other companies may model their mergers after SBI's post-merger success. Canara Bank's performance in India after a merger is the subject of study by Drs. R. Vennila and Pooja Kumari (2022). The banking business in India is growing at a rapid rate now. Indian banking sector has seen an increase in the number of mergers and acquisitions in the more recent years (Mittal et al, 2023; Jora et al., 2023). It paves the way for financial institutions to become industry leaders and provide exceptional returns to their investors. The effect of a merger on a company's stock is typically proportionate to the effect on the shareholder's equity share of capital. A bank's performance is usually better after a merger than before. Research shows that, at least partially, banks' mergers and acquisitions in India have been beneficial.

3. OBJECTIVE

The objective of this research study is.

i. To know about recent mergers of Indian Banks
ii. To strategically evaluate the impact of the Return of Market on the return of the Acquirer bank Canara Bank

4. METHODOLOGY

This study entirely relies on secondary sources. These secondary sources on Merger & Acquisition in the Indian Banking Industries are journals, publications, articles, reports & newspapers, and academic literature. The study's goals need a descriptive method of research.

5. RECENT MERGER OF INDIAN BANKS

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The Finance Minister of India announced the consolidation of ten Public Sector Banks into four entities in August 2019. This merger is intended to enhance the global competitiveness of Indian institutions. The number of Public Sector Banks in India has decreased from 27 to 12.

a. **Punjab National Bank, Oriental Bank of Commerce & United Bank of India:** Following the completion of this merger, the assets of the Oriental Bank of Commerce (OBC) and the United Bank of India (UBI) have been transferred to the Punjab National Bank (PNB). Following the merger, PNB's branch network would be the second biggest among India's public sector banks, after the State Bank of India. The PNB will have 11,437 branches, and its overall business will be worth Rs. 17,95 lakh crores.
b. **Canara Bank & Syndicate Bank:** - Canara Bank has acquired Syndicate Bank. Because of the merger, Among India's public sector banks, Canara Bank is presently the fourth largest Canara will have 10,342 branches and a total annual revenue of Rs. 15.20 lakh crore. Due to network layoffs, this merger will help to save operating expenses. The shared values between these two financial institutions make for an easy move.
c. **Andhra Bank, Corporation Bank & Union Bank of India: -** Union Bank of India has acquired Andhra Bank and Corporation Bank. This combination will make Union Bank of India the fifth-largest Public Sector Bank in India. The combined Bank's customer base has the potential to grow by 2-4.5 times because of this merger. After the merger, Union Bank of India will have a combined total of Rs. 14.59 lakh crore and 9,609 branches.
d. **Allahabad Bank & Indian Bank: -** Allahabad Bank combined for the fourth phase. The merger would rank Allahabad Bank its sixth largest Public Sector Bank in India. The merged Allahabad Bank will have 6,104 locations and a total annual revenue of Rs. 8.08 lakh crore. The merged business would be twice as large, making it more formidable worldwide. The following table provides a rating of all Public Sector Banks based on their size after the merger.

Public Sector Bank Ranking (As Per Size)	**Name of the Bank**
1(Largest Bank)	State Bank of India (SBI)
2nd Largest	Punjab National Bank (PNB)
3rd Largest	Bank of Baroda (BOB)
4th Largest	Canara Bank
5th Largest	Union Bank of India (UBI)
6th Largest	Bank of India (BOI)
7th Largest	Indian Bank
8th Largest	Central Bank of India (CBI)
9th Largest	Indian Overseas Bank (IOB)
10th Largest	UCO Bank
11th Largest	Bank of Maharashtra
12th Largest	Punjab & Sind Bank

6. EFFECT OF THE MERGER OF SYNDICATE BANK WITH CANARA BANK

The Canara Bank and Syndicate Bank merger changed the face of banking in India forever. On April 1, 2020, the two banks combined to become India's fourth-largest financial institution. The Bank wanted to strengthen its competitiveness and increase its operational efficiency, so it merged with another. In the early 20th century, two central banks, Canara Bank and Syndicate Bank, were founded. Both Canara Bank (1906) and Syndicate Bank (1925) began operations. Both institutions were large public banks with several locations across India. Both banks had experienced difficulties in the years running up to the merger. High levels of non-performing assets (NPAs) plagued Canara Bank, while new private sector rivals challenged Syndicate Bank. The consolidation of the two banks was anticipated to help them better face these difficulties. It took a long time and much work to accomplish the merger. The two banks' IT systems, branch networks, and human resources must be combined. The combination also needed RBI clearance, which was a regulatory hurdle. The RBI authorized the merger in December 2019, and on April 1, 2020, the two banks amalgamated into a single institution. The new Bank's name is Canara Bank, with headquarters in Bengaluru.

7. ANALYSIS OF THE STUDY

The data analysed in this research has been collected from a reliable source, i.e., from the National Stock Exchange (NSE) website. The sample consists of

Name of the Acquirer Bank	Targeted Bank	Dt of Acquisition	Effective date
CANARA BANK	SYNDICATE BANK	13-09-2019	01-04-2020

The model is expressed functionally as:

Actual return of bank = f(Expected change in Market return)

The econometric model is expressed as follows:

$$R_{it} = \beta_0 + \beta_1 R_{mt}$$

Where:

R_{it} = Actual return of bank 'i' at the time 't'

R_{mt} = Market return portfolio 'm' at time 't'

β_0 = Constant

β_1 = Coefficient of the parameter estimate.

This equation explains the linear relationship between the security's expected return and the market portfolio.

Results of Regression tool:

Objective 2: To strategically evaluate the impact of the Return of Market on the return of the Acquirer bank Canara Bank

Hypothesis:

H_{01}: There is no significant impact of changes in the Return of the Market on the return of the Merging bank.

H_{11}: There is a significant impact of changes in the Return of the Market on the return of the Merging bank.

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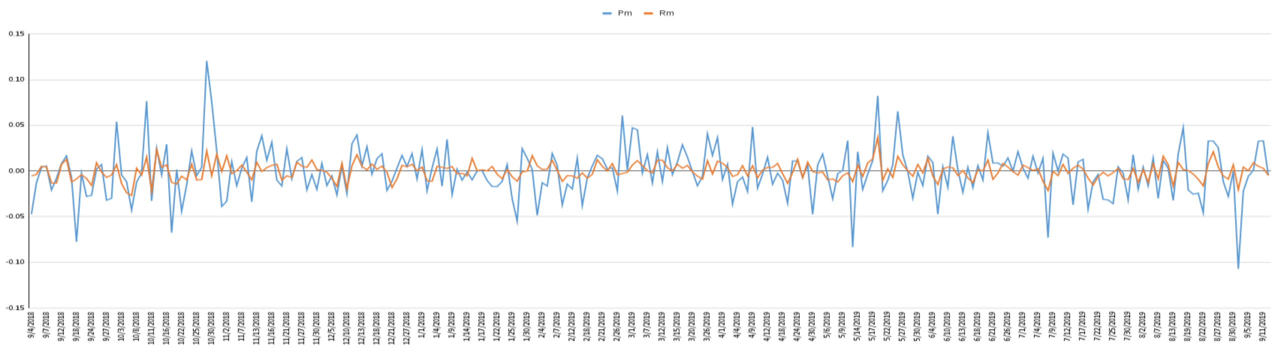

Chart 1: Return of Market on the return of the Acquirer bank Canara Bank

Table 1: Estimation of regression results of return of Market on the return of the Acquirer bank Canara Bank

R	R Square	Adjusted R Square	Sig.
.596	0.356	0.353	.000
Model		Unstandardized Coefficients	
1	(Constant)	-0.001	
	Rm	1.800	

The value of R is equal to 0.596, showing a relation between the two variables, i.e., the Return of the Bank and the Return of the Market. Further, the value R2 is calculated as 0.356, which explains that 35.60% of the variance in the Return of the Bank can be explained by the changes in the Return of the market during the Estimation window of the Event. Again the sig. Value = 0.000, which is less than 5%, indicating a significant impact of the independent variable on the dependent variable and that the null hypothesis shall be rejected and the alternative hypothesis should be accepted.

The econometric model of the Event of the Canara Bank merger during the estimation window is as follows:

Rit = (-0.001) + (1.800) Rmt

Return on Bank = (-0.001) + (1.800) Return on market

The regression equation summarizes that a variation of Re.1 in the return on the market shall result in an increase of Re.1.800 in the return on the Bank. There is a positive relation between the two variables. An analysis of chart 1 exhibits the impact of both the returns, ie. Return on Bank and Return on Market are positively related and move in the same direction. A change in the Return of the Market shows an intense variation in the positive direction in the Return of the Bank. This further can be interpreted that the change in the market index of NSE results in the correlated positive difference in the Bank's Share prices.

Table 2: Estimation of regression results of return of Market on the return of the Acquirer bank Syndicate Bank

R	R Square	Adjusted R Square	Sig.
.056	0.003	-0.004	.516
Model		Unstandardized Coefficients	
1	(Constant)	-0.006	
	Rm	-0.095	

The value of R is equal to 0.056, showing a relation between the two variables, i.e., Return of the Bank and Return of the Market. Further, the value R2 is calculated as 0.003, which explains that the changes in the market's return during the Event window can explain .30% of the variance in the Return of the Bank. Again, the sig value = 0.516, greater than 5%, indicates an insignificant impact of the independent variable on the dependent variable and that the null hypothesis shall be accepted, and the alternative hypothesis should be rejected.

The econometric model of the Event of Canara Bank merger during the Event window is as follows:

Rit = (-0.006) + (-0.095) Rmt

Return on Bank = (-0.006) + (-0.095) Return on market

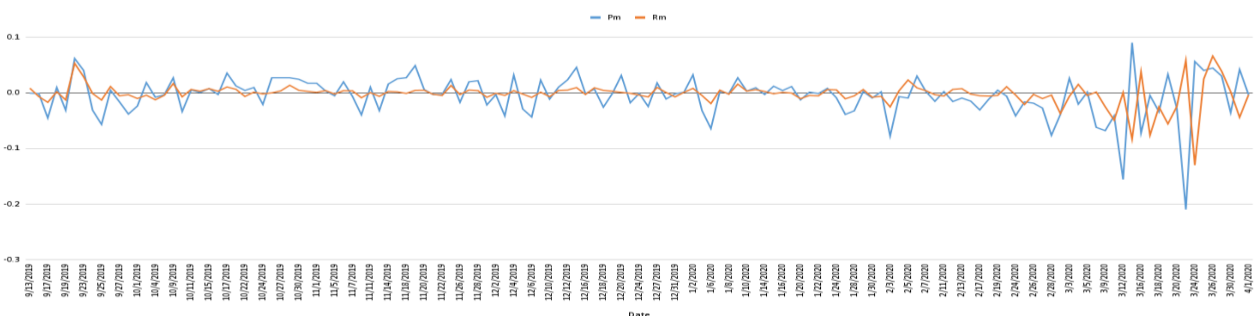

Chart 2: Market returns and the return on bank

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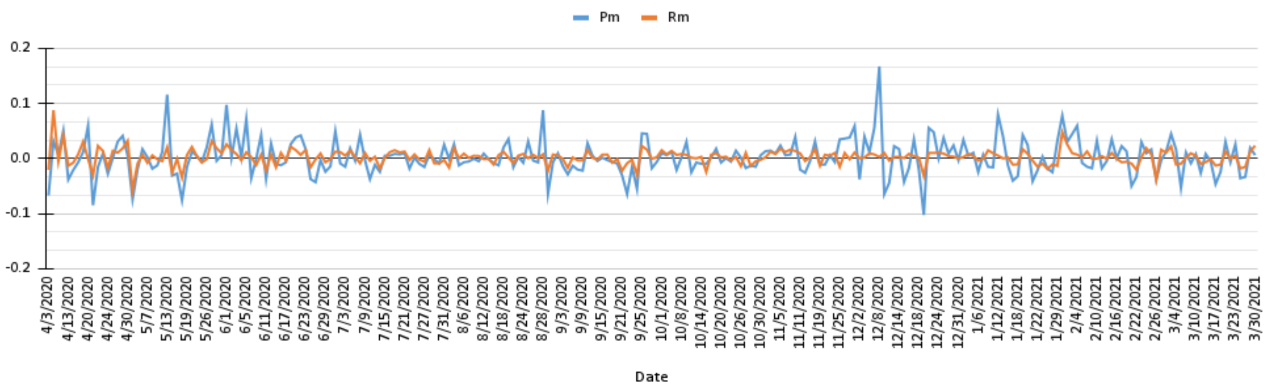

Chart 3: Pm and Rm

The regression equation summarizes that a variation of Re.1 in return on the market shall decrease Re.0.095 in return on the Bank. There is a negative but insignificant relation between the two variables.

An analysis of chart 2 exhibits the impact of both the returns, ie. Return on Bank and Return on Market are negatively but insignificantly related and do not move in the same direction. A change in the Return of the Market does not relate to the Return of the Bank. This further can be interpreted that the change in the market index of NSE does not result in any co-related change in the Bank's Share prices.

Table 3: Estimation results Post Event window

R	R Square	Adjusted R Square	Sig.
.563	0.317	0.314	.000
Model		Unstandardized Coefficients	
1	(Constant)	-0.001	
	Rm	1.310	

The value of R is equal to 0.563, showing a relation between the two variables, i.e., the Return of the Bank and the Return of the Market. Further, the value R^2 is calculated as 0.317, which explains that 31.70% of the variance in the Return of the Bank can be explained by the changes in the market's return during the Post event window of the Event. Again, the sig value = 0.000, which is less than 5%, indicating that there is a significant impact of the independent variable on the dependent variable and that the null hypothesis shall be rejected, and the alternative hypothesis should be accepted

The econometric model of the Event of the Canara bank merger during the post-event window is as follows:

$R_{it} = (-0.001) + (1.310)\ R_{mt}$

Return on Bank = (-0.001) + (1.310) Return on market

The regression equation summarizes that a variation of Re.1 in the return on the market shall result in an increase of Re.1.310 in the return on the Bank. There is a positive relation between the two variables.

An analysis of chart 1.6 exhibits the impact of both the returns, ie. Return on Bank and Return on Market are positively related and move in the same direction. A change in the Return of the Market shows an intense variation in the positive direction in the Return of the Bank. This further can be interpreted that the change in the market index of NSE results in the correlated positive change in the Bank's Share prices.

8. CONCLUSION

Based on our analysis of the acquired data from pre- and post-merger, we can conclude.

Pre-Merger Period: It is evident that 35.60% of the variance in the Return of the Bank can be explained by the changes in the market's return during the Estimation window of the Event. The regression equation summarizes that a variation of Re.1 in the return on the market shall result in an increase of Re.1.800 in the return on the Bank. There is a positive relation between the two variables.

Analysis exhibits the impact of both the returns, ie. Return on Bank and Return on Market are positively related and move in the same direction. A change in the Return of the Market shows an intense variation in the positive direction in the Return of the Bank. This further can be interpreted that the change in the market index of NSE results in the correlated positive change in the Bank's Share prices.

During the Merger Period: It is evident that .30% of the variance in the Return of the Bank can be explained by the changes in the market's return during the Event window. The regression equation summarizes that a variation of Re.1 in return on the market shall decrease Re.0.095 in return on the Bank. There is a negative but insignificant relation between the two variables.

Analysis exhibits the impact of both the returns, ie. Return on Bank and Return on Market are negatively but insignificantly related and do not move in the same direction. A change in the Return of the Market does not relate to the Return of the Bank. This further can be interpreted that the change in the market index of NSE does not result in any co-related change in the Bank's Share prices.

Post Merger Period: It is evident that 31.70% of the variance in the Return of the Bank can be explained by the changes in the market's return during the Post event window of the Event. The regression equation summarizes that a variation of Re.1 in the return on the market shall result in

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an increase of Re.1.310 in the return on the Bank. There is a positive relation between the two variables.

There was a good correlation between the Bank's and the market's profitability in the years before the merger. A negative but statistically insignificant correlation existed between bank and market profitability throughout the merger era. There was a favorable correlation between the Bank's profitability and the market's profitability in the years after the merger.

Based on the results, it has been advised that the Bank should keep a close eye on the relationship between its rate of return and the rate of return experienced by the market. Because of this, the Bank will better understand how shifts in the market might affect the price of the Bank's shares**.**

The results of this research point to the possibility that the correlation between the return of the Bank and the return of the market might shift over time. During the time before the merger, there existed a positive correlation between the two different factors. On the other hand, throughout the merger, this connection deteriorated, but it recovered and became positive again after the merger. This gives rise to the possibility that the merger had some effect on the link that exists between the two variables.

Overall, the findings of this study suggest that the Bank should continue to monitor the relationship between the Bank's return and the market's return. This will help the bank to understand how market changes can impact the Bank's share price

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