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Mergers and Acquisitions of Indian Banks: A Study of Punjab National Bank, United Bank of India and Oriental Bank of Commerce

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Abstract
The announcement of Mega Bank Merger has been made by Honourable Finance Minister Nirmala Sitharaman to increase the operating efficiency, reducing Non-Performing Assets and make the Banking sector a healthy competition. Present study highlights the Swap ratio, Financial Parameters and Pre-Merger and Post-Merger Financial Parameters of Punjab National Bank, United Bank of India and Oriental Bank of Commerce. The swap ratio between PNB and OBC is increasing over the year and PNB and UBI is also increasing. Value of Non-Performing Assets after the merger has been decreasing. Deposits after the merger has been increasing and no. Of branches after the merger has also been increasing. Return on Capital Employed, Earning per share, Net profit margin, Net interest margin and Return on equity have also been increasing after the merger in case of Punjab National Bank.

Keywords: Bank Merger, Non-Performing Assets, Punjab National Bank, Oriental Bank of Commerce, United Bank of India, Return on Capital Employed, Earning per Share

Introduction
Government of India through the department of Finance had merged 10 public sector Banks into 4 banks to overcome the barriers of operating efficiency, reducing the value of Non-Performing Assets and make the banking sector a wise healthy competition. The announcement of Mega Bank Merger had been made by Nirmala Sitharaman in 2019. Reserve bank of India though notified it in the late March through its financial circular on 1st April, 2020. The amalgamation of Public Sector Banks (PSBs) is based on bad loans intensity and regional factors. After the announcement of mega Bank Merger, Punjab National Bank becomes the second largest Public Sector banks after State Bank of India which acquires United Bank of India (UBI) and Oriental Bank of Commerce (OBC).

Objectives of the Study
1. To highlight the swap ratio of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks).
2. To show the Financial parameters of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks).
3. To Show the Pre-Merger and Post-Merger Financial Performance of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks).

Methodology
Secondary sources of data have been used for the study. Data have been collected from the websites of Punjab National Bank, Oriental Bank of Commerce and United Bank of India. Moreover, information have been collected from Reserve Bank of India bulletin, Ministry of Finance etc.

Hypothesis of the Study

Hypothesis of the study is as below;

H_0= Financial performance of the merged banks has not been improved after merger.

H_1= Financial performance of the merged banks has been improved after merger

Data Analysis, Presentation and Findings

1. **To highlight the swap ratio of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks).**

Table 1: Swap Ratio of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks)

Punjab National Bank	Oriental Bank of Commerce	United Bank of India
1150 equity shares	1000 equity shares	-
121 equity shares	-	1000 equity shares

The above table shows the Swap Ratio of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank (Amalgamating Bank). The swap ratio of Punjab National Bank and oriental Bank of Commerce is 1150 shares of Rs.2 each to 1000 shares of Rs.10 each and the swap ratio of Punjab National Bank and united Bank of India is 121 shares of Rs.2 each to 1000 shares of Rs.10 each. It seems that swap ratio between Punjab National Bank and Oriental Bank of Commerce is 0.87:1 which signifies that the pre-merger condition of Oriental Bank of Commerce is miserable. Investors are not willing to invest money in that bank. On the other hand, the Swap Ratio between Punjab National Bank and United Bank of India is 8.27:1 which shows that the pre-merger condition of United Bank is not so much bad.

2. **To show the Financial parameters of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks)**

Table 2: Financial Parameters of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks)

Particulars	PNB	OBC	United Bank of India	Amalgamated Bank
Total business(in crores ₹)	11,82,224	4,04,194	2,08,106	17,94,526
Gross advances(in crores ₹)	5,06,194	1,71,549	73,123	7,50,867
Deposits(in crores ₹)	6,76,030	2,32,645	1,34,983	10,43,659
CASA ratio	42.16%	29.40%	51.45%	40.52%
Domestic Branches	6992	2390	2055	11437
PCR	61.72%	56.53%	51.17%	59.59%
CET I ratio	6.21%	9.86%	10.14%	7.46%
CRAR ratio	9.73%	12.73%	13%	10.77%
Net NPA ratio	6.55%	5.93%	8.67%	6.61%
Employees	65,611	21,729	13,804	1,00,649
ATMS	8,358	2,625	2,017	13,000

Table 2 highlights the financial parameters of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks). Financial Parameters include total business, Gross Advance, Deposits, CASA ratio, Domestic branches, PCR, Common Equity Tier 1 (CET I) ratio, CRAR ratio, Net NPA ratio, Employees and No. Of ATMs. Before taking over the Oriental Bank of Commerce and United Bank of India, total business of both the Amalgamating Banks is not significant and after the merger, the value of total business increases to Rs. 1794526 crore. On the other hand, NPA ratio after the merger has been decreasing to 6.61% from the 8.67% in case of United Bank of India. After the merger deposits of Amalgamated Bank increases to Rs. 1043659 crore. No. Of ATMs also increases after the merger to 13000. CRAR ratio after the merger also decreases to 10.77% from the pre-merger scenario of 13% and 12.73% in case of United Bank of India and Oriental Bank of Commerce. PCR ratio after the merger also increases to 59.59% which signifies that provisioning coverage ratio increases.

3. **To Show the Pre-Merger and Post-Merger Financial Performance of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks)**

Table 3: Pre-Merger and Post-Merger Financial Performance of Punjab National Bank (Amalgamated Bank) and Oriental Bank of Commerce and United Bank of India (Amalgamating Banks)

Ratios	Punjab National Bank		United Bank of India	Oriental Bank of commerce
	Year 2021	Year 2020	Average from year 2015-2019	Average from year 2015-2019
Earnings per share (in ₹)	2.64	0.80	-2.918	-35.47
ROCE (%)	1.85	1.80	1.254	1.63
Net Profit Margin (%)	2.50	0.62	-8.50	-7.22
Net Interest Margin	2.41	2.09	1.50	2.07
Return on Equity / Net worth (%)	2.22	0.58	-7.63	-11.99

Earning per share of United Bank of India and Oriental Bank of Commerce before merger is -35.47 and -2.918 which shows very bad earnings to equity shareholders during the year 2015 to 2019. After taking over, the EPS of the merged bank is 0.80 in 2020 and 2.64 in 2021 which shows that more than 102% increase after the merger and more than 80% increase in 2020 after the merger. Similarly, ROCE has been increasing after the merger from 1.63% to 1.80% in 2020 and 1.85% in 2021. Net Profit Margin also inflates from -7.22 and -8.5 to 0.62 in 2020 and 2.50 in

2021. Net interest margin also increases after the merger. Return on Equity also increases from -11.99 % and -7.63% to 0.58% in 2020 and 2.22% in 2021. So, we can say that in order to empower the economic condition of the country, Bank merger is just need of an hour.

Result of Hypothesis

Financial performance of the merged bank has been improved after the merger. So, H_0 is rejected and H_1 is accepted.

Conclusion

It can stated from the analysis that Bank Merger is needed for reviving the Indian Economy. Reserve Bank of India through the Ministry of Finance had rightly take a call to reshuffle the Banking paradigm through mega Bank merger. No. Of branches of merged bank has been gradually increasing over the years. Value of Non-Performing assets have gone down significantly through Bank merger. Return on Capital Employed has also been increasing regarding the merged Banks. Punjab National Bank becomes second largest Public Sector Bank after State Bank of India immediately after absorbing Oriental Bank of Commerce and United Bank of India.

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