

A STUDY ON MERGERS AND ACQUISITION AT UNION BANK OF INDIA

V. LAKSHMI PRASANNA KUMARI

ASSISTANT PROFESSOR, DEPARTMENT OF MBA, St. MARTIN'S ENGINEERING COLLEGE,
DHLUPALLY, SECUNDERBAD

Vlprasanna527@gmail.com

DEVIKA SREE

DEPARTMENT OF MBA, St. MARTIN'S ENGINEERING COLLEGE, DHLUPALLY, SECUNDERBAD

devikasree1166@gmail.com

Abstract

Union Bank had merged with Andhra Bank and it came into effect from April, 2020. In this regard the financial performance of Union Bank and Andhra Bank had been compared between pre-merger and post-merger period. Three years pre-merger (2017 to 2019) and post-merger (2020 to 2022) financial years have been used for conducting this research work. Secondary data had been taken financial statement of Union Bank and Andhra Bank has been procured from respective websites and reliable sources. Both fundamental analysis and technical analysis have been conducted. The results from this study proved that merger had improved the overall performance of Union Bank.

Key words: *Mergers, acquisition, banking, fundamental analysis, financial performance.*

1. INTRODUCTION

Mergers and Acquisitions (M&A) have become important process for business reorganization all over the world. The developments of mergers and acquisitions removed physical limitations and lead to cross-border mergers & acquisitions, with transnational corporations, have understood a noteworthy fraction. In India business environment marketplace motivated M&A are fundamentally an occurrence from late 1990s. Earlier mergers and acquisitions in India are encouraged with platform by third party organizations or through government platforms. Since the business environment had experienced lot of competition from large sized global organizations the national companies have been thinking mergers or acquisitions had been most viable solution for sustaining gin the business. In recent time the mergers occurred in banking sector had taken the attention of researchers in financial management area. In this study the mergers with regard to Union Bank with Andhra Bank had been empirically investigated.

Indian businesses were enforced to strict rules before liberalization era i.e., before 1990s. Such stringent rules have disorganized the development of corporate organizations before 1990s. But the Government had realized the need for liberalization of business including banking section and involved the policies for mergers and acquisitions from 1991 onwards. Business expansion had become important aspect and it should be rapid to compete with global organization and it had given huge scope for mergers and acquisitions as popular phenomenon. Organizations have attained the benefits such as sharing knowledge, sharing technology, market expansions and sharing financial resources with mergers and acquisitions. However, mergers and acquisitions are long term plans and takes at least one year time for successful completion of the process. Organizations sometimes depend on third party organization to make both the parties to become a single organization with clear goals and objectives.

Mergers and Acquisitions in India

Mergers and acquisitions (M & A) have taken a significant role in the conversion of the manufacturing sector of India after the completion of Second World War. The social, political and economic conditions at the period of Second World War and post- Second World War had accelerated the growth of mergers and acquisitions to implement mergers & acquisitions (M & A). The declined in world economy growth due to inflation, recessions

and downturns had given an opportunity for innovative business models for making the world a better place and it had been implemented through mergers and acquisitions.

2. REVIEW OF THE LITERATURE

A review of the existing literature on mergers and acquisitions had described the impact of outcomes with mergers and acquisitions in various outcomes. Some researchers have compared benefits between mergers and acquisitions, some researchers have explained that complexity of measuring the outcome from strategic decision related to mergers and acquisitions. The perception of employee for accepting change with mergers and acquisitions had been explained by some researchers in the area of financial management. Mergers are considerable corporate strategy activities to facilitate, in the midst of additional things, support the organization in exterior growth and give it aggressive advantage. M&A research area has occupied vast quantity of literature in the previous five decades, more specifically in developed economies across the globe.

Patel (2018) had described the methodology to evaluate the performance by using financial statements in post-merger period. Vertical Merger is a type of strategy of non-competing firms where one's outcome product is essential component of another firm. Hence such combination (merger) can be implemented when two units or firms perform their business in different sector. For example, AIRTEL in telecom industry had merged with INFRATEL Company which provides network infrastructure. Another type of merger is Horizontal merger where two units or entities belong to the same industry and it happened between Union Bank and Andhra bank where the same business activity of each firm at the individual level. Third type of merger known as 'Accretive Merger' takes place when a business with price-to-earnings ratio buys another business with low price-to-earnings ratio. A conglomerate merger takes place when there is no commercial outcome is expected with the merger.

Ishwarya (2019) had opined to a little amount M&As has been triumphant in Indian financial and banking sector. Government and Policy development agencies cannot promote merger between physically powerful and troubled banks because it will have adverse impact on the powerful banks. They need to share the capital with weaker banks and it causes trouble to the existing shareholders. After liberalization from 1991 onwards twenty-five mergers have taken place in Indian banking sector. Further these mergers have provide the profitability in banking system.

Aggarwal and Garg (2022) had used secondary data from sixty-eight mergers during the year from 2007 to 2012 financial years to study the impact of mergers on profitability. The tools such as accounting-based numbers are under three categories for solvency; profitability and liquidity with seven variables have been used in analysis. It is evidence by using five-year accounting-based performance data compared with five years data in post-merger. Such equivalent assessment is completed for three years between post-merger and pre-merger. It is found from the analysis that merger has notably influenced liquidity and profitability of the acquiring firm. Next in service firms the improvement is high in post-merger period compared with manufacturing firms.

Reddy et al (2019) had found that ideally, M&A declarations do not generate worth for the organizations in either Indian or Chinese business economies. The researchers have created a mean model for Chinese firms and Indian firms to study the impact of merger announcement on firm market value in the economy. The authors have used confidence levels 90 percent, 95 percent and 99 percent to know the confidence interval for the mean value of the market of firms in respective economies.

Krishnaveni and Teja (2019) have made empirical investigation on mergers and found that M& A in financial services and banking have presented optimistic influence on the investors of both ING VYSYA BANK (target bank) and KOTAK Mahindra bank (bidder bank), Secondly, they have reviewed the perception towards merger between TOORENT PHARMA (bidder) and UNICHEM LABS LTD (target). In the third case they have reviewed between merger in oil and gas industry and steel sector. It is evident from their examination there could be mixed reaction among the investors with regard to mergers and acquisitions.

3. RESULTS AND DISCUSSION

4.1. Fundamental Analysis using ratios

Table I: Comparison of financial performance

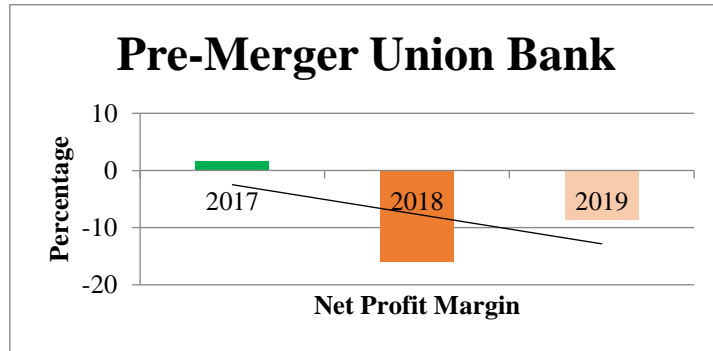
		Pre-Merger			Post Merger		
		2017	2018	2019	2020	2021	2022
NPM%							
	Union Bank	1.69	-16.02	-8.65			
	Andhra Bank	0.96	-18.98	-14.71			
Post Merger	Union Bank				-7.78	4.22	7.70
EPS (INR)							
	Union Bank	8.08	-69.45	-25.08			
	Andhra Bank	2.56	-42.12	-21.66			
Post Merger	Union Bank				-12.49	4.54	7.73
CASA%							
	Union Bank	34.43	34.08	36.09			
	Andhra Bank	29.32	31.04	31.38			
Post Merger	Union Bank				35.58	36.32	34.12

(Source: Calculated from financial statements)

Interpretation

The net profit margin of Union Bank is negative before merger and it had become positive in post-merger period. The net profit in post-merger is positive in last two years. The earnings per share (EPS) is negative and it had improved in post-merger period. The current account to savings account (CASA) percent is high at Union Bank and low at Andhra Bank in pre-merger period and in post-merger period the CASA had increased.

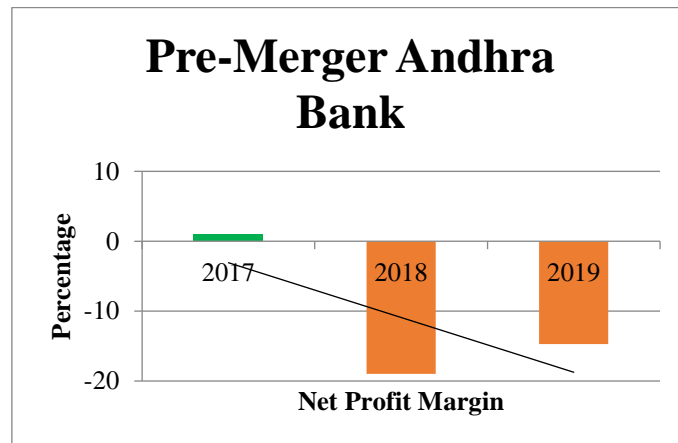
Figure VII: NPM of Union Bank before Merger



Interpretation

Bar chart had been developed using NPM% at Union Bank and shown above. The bar chart visually communicated the net profit margin had steeply declined in pre-merger period. It is further observed that in 2019 the net profit margin is very much negative in pre-merger period at Union Bank.

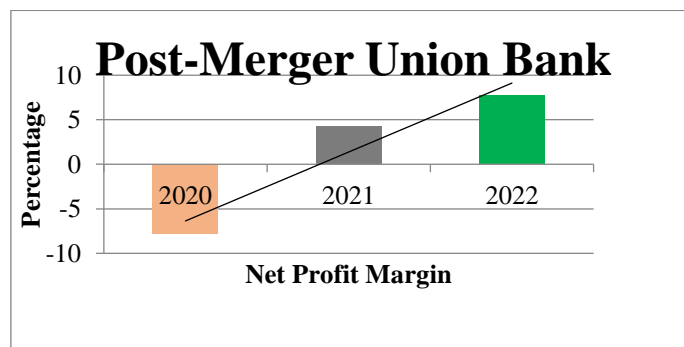
Figure VIII: NPM of Andhra Bank before Merger



Interpretation

A bar chart had been developed using MS-Excel for visually presenting the net profit margin (NPM) declined at Andhra Bank. The trend line shows rapid decline in net profit margin in the pre-merger period at Andhra Bank. Only in 2017 both Union Bank and Andhra Bank have experienced declined in huge negative in the year 20

Figure II: NPM after Merger



Interpretation

A bar chart had been created with MS-Excel about the net profit margin in post-merger period. From 2020 the post merger performance with net profit margin (NPM) had increased. The trend line shows that very positive trend of net profit margin. In the financial year 2022, Union bank net profit margin had increased. Hence merger between Union Bank and Andhra Bank had become successful from the perspective of net profit margin.

Table II: Comparison of NPM%

Average of Selected Ratios

Ratios	Pre-Merger		Post Merger	
	2017-2019		2020-2022	
				Result
NPM%				
Union Bank	-7.66			
Andhra Bank	-10.91			
Union Bank			1.38	Positive
EPS (INR)				
Union Bank	-28.82			
Andhra Bank	-20.41			
Union Bank			-0.07	Moderate
CASA%				
Union Bank	34.87			
Andhra Bank	30.58			
Union Bank			35.34	Positive

(Source: Calculate using MS-Excel)

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
PER SHARE RATIOS						
Basic EPS (Rs.)	8.08	-69.45	-25.08	-12.49	4.54	7.73
Diluted EPS (Rs.)	8.08	-69.45	-25.08	-12.49	4.54	7.73
Cash EPS (Rs.)	11.51	-41.80	-14.63	-7.26	5.93	8.74
Dividend/Share (Rs.)	0	0.00	0.00	0.00	0.00	1.90
Operating Revenue / Share (Rs.)	475.09	280.24	193.23	108.77	107.33	99.41
Net Profit/Share (Rs.)	8.08	-44.90	-16.72	-8.47	4.54	7.66
KEY PERFORMANCE RATIOS						
ROCE (%)	1.67	1.57	1.54	1.70	1.85	1.89
CASA (%)	34.43	34.08	36.09	35.58	36.32	36.53
Net Profit Margin (%)	1.69	-16.02	-8.65	-7.78	4.22	7.70
Operating Profit Margin (%)	-13.5	-31.26	-21.78	-21.91	-12.26	-10.73
Return on Assets (%)	0.12	-1.07	-0.59	-0.52	0.27	0.44
Return on Equity / Net worth (%)	2.36	-20.90	-12.15	-9.46	4.87	7.94
Net Interest Margin (X)	1.96	1.90	2.06	2.07	2.30	2.33
Cost to Income (%)	35.38	51.78	45.76	46.11	41.34	43.59
Interest Income/Total Assets (%)	7.21	6.71	6.89	6.76	6.41	5.72
Non-Interest Income/Total Assets (%)	1.09	1.02	0.90	0.95	1.05	1.05
Operating Profit/Total Assets (%)	-0.97	-2.10	-1.50	-1.48	-0.78	-0.61
Operating Expenses/Total Assets (%)	1.42	1.38	1.45	1.36	1.56	1.55
Interest Expenses/Total Assets (%)	5.24	4.80	4.82	4.68	4.11	3.38
VALUATION RATIOS						
EV Per Net Sales (X)	12.67	13.56	13.35	13.24	13.95	15.66
Price To Book Value (X)	0.46	0.44	0.69	0.32	0.37	0.40
Price To Sales (X)	0.33	0.34	0.49	0.26	0.32	0.39
Retention Ratios (%)	100	100.00	100.00	100.00	100.00	75.18
Earnings Yield (X)	0.05	-0.48	-0.18	-0.29	0.13	0.20

Interpretation

The average net profit margin (NPM), earnings per share (EPS), and current assets to savings account (CASA) in pre-merger period (2017 to 2019) have been compared with averages of post-merger period (2020 to 2022). The net profit margin (1.38) is positive, EPS (-0.07) is moderate and CASA (35.34) is positive.

Table III: Ratios of Union Bank

(Source: Secondary data from company website and money control)

Interpretation

The last six years historical data of selected ratios have been presented in above table. The ratios used in this research work from 2017 to 2022 have been calculated from financial statements. However some ratios are taken from reputed and reliable secondary sources such as bank websites and money control. The ratios have been used to compare the financial performance of the Union Bank. In these ratios table, the historical ratios of Andhra Bank have not been taken. Since presently the Andhra Bank had been merged with Union Bank. The performance of Union Bank before merger and after merger had been important objective of this study.

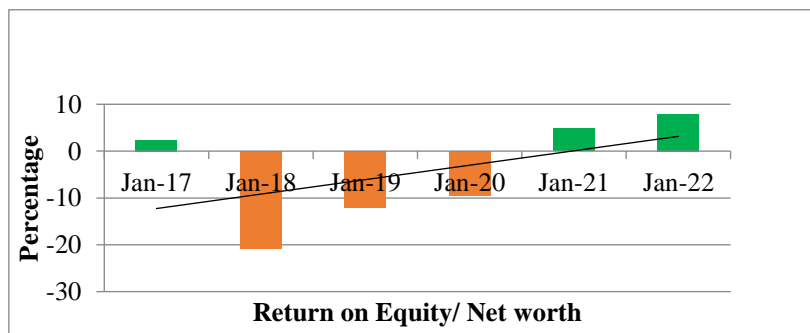
Table IV: Comparison of Ratios of Union Bank

Ratio	Pre-merger	Post-merger
	2017 to 2019	2020 - 2022
Net Profit/Share (Rs.)	-17.85	1.24
ROCE%	1.59	1.81
ROA%	-0.51	0.06
Net Interest Margin (X)	1.97	2.23

Interpretation

The net profit per share (M = -17.85) in pre-merger period is negative and it had become positive (M = 1.24) in post-merger period. Return on capital employed (M = 1.59) is low in pre-merger period in comparison with post-merger period (M = 1.81). Return on assets (ROA) is negative (M = -0.51) is low or negative compared with ROA in post-merger period (M = 0.06). Hence performance of Union Bank had increased after merging with Andhra Bank

Figure X: Union Bank Return on Equity Trend



Interpretation

A bar chart had been developed with return on equity (ROE) for the study period of six years had been presented with above diagram. The regression line shows positive trend which moves from lower end to upper right end. Hence after merging with Andhra Bank the return on equity had increased as per above bar chart visual representation.

CONCLUSION

Merger between Union Bank and Andhra Bank had proved to be success. The profitability of newly formed Union Bank had constantly increased in post merger period. The impact of pandemic had not been observed in the performance of Union Bank. The demand for banking services had increased due to increase in online transaction and digital payments. However the bank performance had been consistent from the viewpoint of profitability. The banking sector plays a vital role in the economy for supporting other sectors.

Union Bank and Andhra Bank merging is best strategic decision in the recent years. Union Bank scope and reach had increased after implementing merging decision. The goal of merger had been attained by Union Bank. Now the bank is more concerned about improving customer service after completing the merger process. The market capitalization of Union Bank had increased and given its competitive advantage. In future some more banks need to merger for entering into global financial services sector.

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