PDUAMT Business Review, Volume V, 2023, pp. 26-31

Operational Performance of Punjab National Bank Post Mega Merger 2019: A Descriptive Study

Meghna Dey[1] and Dr. Subit Dutta[2]

Abstract

Merger refers to the mechanism of combining two or more corporation to continue future operation as a single entity. Like Merger & Acquisition in other sector, banking sector also has list of mergers that took place in PSBs, Private banks, Foreign banks as well as Regional Rural Banks. Since Independence till date India has listed number of bank mergers which were mostly done to improve operating efficiency, governance, accountability, creating strong & globally competitive banks as well as to check on NPA of banks. On 30th August 2019, present Finance Minister Nirmala Sitharaman announced the mega merger plan of merging 10 PSBs into 4 PSBs with a motive of creating fewer but stronger globally competitive lender to boost economic growth. This paper attempts to study the present status of the merger decision by primarily focusing on operational performance of PNB, one of the anchored banks post merger. The operational performance of PNB has been examined with selective accounting ratios to trace the status of the merger plan. Based on the analysis, this paper concludes that the mergers of banks are successful and beneficial for selected anchored bank and resulted in significant improvement in operational aspect of bank.

Keywords: *Merger and Acquisition, Corporate restructure, PSBs, PNB, Operational Performance*

JEL Classification: G34

[1]Assistant Professor, Department of Accountancy, PDUAM, Tulungia, [2]Assistant Professor and Head i/c, Department of Commerce, Assam University, Diphu Campus

Introduction

The banking sector of a country is considered as an integral part of country's financial system. It is said that a country's economy revolves around its banking system. It is said that stronger the banking system stronger the backbone of the country which leads to economic growth and development at a higher rate. The financial and technological environment of India is too dynamic to understand. With all these challenges Indian banks have proven to be resilient to all local and global economic downturns. As the level of globalization increases, business risk, uncertainty and changes has forced firms to consider the adoption of sustainable development strategies to survive competitively. Merger and Acquisition is regarded as one of such strategies to penetrate new markets and gain the existing customer base of target bank along with greater technological capabilities. Mergers and Acquisitions have become a major way of corporate restructuring throughout the globe. For accelerating the performance of banking industries and reducing the NPA stress, merger of banks has become popular growth strategy.

Though merger and acquisition in Indian Banking system has gained focus in recent years but the first merger in Indian Banking system happened during pre-independence period in the year 1921 when three Presidency banks namely Bank of Bengal, Bank of Bombay and Bank of Madras merged together and formed Imperial Bank of India which is later named as the State Bank of India. Post independence period the banking sector of India witnessed several mergers and acquisitions that took place among Public Sector Banks, Private sector banks, Foreign Banks. Most of those merger and acquisition happened either to consolidate loss making banks with profit making banks or to gain greater market share in terms of customer base and total business. The act of merger and acquisition in PSBs has constantly reduced in the number of PSBs in operation to improve their operational efficiency. Among the history of merger and acquisition in Indian Banking, the most recent and mega merger was announced on 30th August 2019 by Finance Minister of India Nirmala Sitharaman which resulted in reduction of 10 PSBs into 4 PSBs. Mega Merger plan of 2019 includes Canara Bank, Syndicate Bank, Indian Bank, Allahabad Bank, Punjab National Bank, Oriental Bank of Commerce, United Bank of India, Union Bank of India, Andhra Bank, Corporation Bank with the primary objective of "strong national presence and global reach"-as stated by Finance Minister. These 10 banks were merged into 4 banks with effect from 1st April 2020 as given below:

Table 1: Anchor Banks and Amalgamating Banks

Sl No	Anchor Banks	Amalgamating Banks
1	Canara Bank	Syndicate Bank
2	Indian Bank	Allahabad Bank
3	Punjab National Bank	Oriental Bank of Commerce and United Bank of India
4	Union Bank of India	Andhra Bank and Corporation Bank

Source: Authors Compilation

With this mega merger total numbers of PSBs in India come down from 27 in 2017 to 12 effectives from 1st April 2020. Though at individual level all the amalgamating banks have their own reason behind merger but common objectives as stated by the RBI behind this mega merger is to revamp India's banking system by creating global, robust and well-funded banks. The reasons which have forced the mega merger of banks can be listed as below:

a) Controlling the weight of mounting bad loans over the years as acquisition will merge the assets and liabilities of all the banks in merger which ultimately help to nullify NPA of small PSBs.
b) Boosting the national presence of banks along with global reach and making them globally competitive is another reason behind unveiling the mega merger plan
c) Merger of these PSBs ultimately enhance the capacity of increasing credit and lowering lending cost
d) Mega merger drive is expected in creation of NextGen banks with more technological upgradation and improved ability to raise market resources.

Profile of Punjab National Bank

Punjab National Bank (PNB) is India's first Swadeshi Bank commenced its operations on April 12, 1895 in Lahore. The bank was established by the spirit of nationalism and purely managed by Indians with Indian Capital. The first branch outside Lahore was opened in Rawalpindi in 1900. The period from 1926-36 was turbulent and loss ridden for the entire banking industry across globe due to Great Economic Depression 1929. Years from 1941 to 1946 were ones of unprecedented growth for PNB, from a modest base of 71 the number of branches increased to 278. On 31st March 1947, the bank officials decided to leave Lahore and transfer the registered office of the Bank to Delhi and permission from such transfer was receive from Lahore High Court on June 20,1947.

The bank's Mission is to offer quality financial services by leveraging technology to create value for customers and other stakeholders, opportunities for employees and thus, contributing to the economic growth of nation. The bank Vision to be a globally trusted banking partner through customer centric innovations, empowering employees and enriching lives of all stakeholders.

PNB has established itself firmly as one of the premier banking institutions in the country with a long tradition of sound and prudent banking. During the long history of the Bank, 9 banks have been merged/amalgamated with PNB. Till the end of September 2023, the bank has total 51,519 delivery channels with a network of 10,092 domestic branches, 2 International branches, 12,645 ATMs & 28,782 business correspondents. During 128+ long journey of the Bank it has acquired Bhagwan Dass Bank Ltd. in 1939, amalgamated Indo-Commercial Bank in 1960 in a rescue, acquired Hindustan Commercial Bank Ltd. in a rescue in 1988 and in 1993 it has acquired New Bank of India which was nationalised in 1980 and took over the oldest private sector bank in Kerela Nedungadi Bank in 2003. With all these it has expanded both nationally and globally the bank's business. After the recent mega merger of Punjab National Bank with Oriental Bank of Commerce and United Bank of India, PNB has become the second largest Public Sector Bank in the country with Global gross business at ₹22,51,631 Crore.

Literature Review

Several academics studies relating to bank mergers attempted to examine mostly two issues: first, the impact of bank mergers on operating performance and efficiency of banks and second, impact of such consolidations on market value of equity. Improvement of operational and distribution efficiency of commercial banks has always been an issue which seeks attention of the regulatory authorities.

Dilshad (2012) in his study examines the efficiency of market with respect to announcements of mergers and acquisitions using an event study methodology. Evidence of excess returns after the merger announcement was also observed along with the leakage of information that resulted in the rise of stock prices few days before the announcement of merger or acquisition. Meena and Kumar (2014) in their research have concluded that overall result of merger led to higher level of cost efficiencies for the merging banks. The forced merger among these banks helps in protecting the interest of depositors of weak banks but didn't yield any gain for stakeholders of the banks. They have suggested government and policymakers to take precautions before considering and promoting merger as a way to reap economies of scale. Sharma and Sidana (2017) in their paper expressed the impact of SBI merger on financial condition of SBI. The SBI will get visibility at global level in the network increase of SBI & it is also able to provide cheaper funds more easily. The gross & net NPA of SBI it will come down after merger with their associate. The efficiency & effectiveness of the business it will increase because of single management. Nanda and Goswami (2020) in their study stated that the track record of merger and acquisition in Indian banking have been fruitful so far for the economy but at individual level it has not been that good. Many have stated various arguments in favors and against the merger drive. Literature so far review conclude such of those arguments which were in favor as (1) Large capital base of merged banks will help in disbursing larger number of loans of higher magnitude; (2) Cost reduction through operational efficiency; (3) Reduction in the need for recapitalization from the Government and (4) More scope for better adoption of Technology. And arguments against bank merger were listed as (1) Difficulties of management of human resources, (2) Few large interlinked banks expose the broader economy to enhanced financial risks and (3) Local identity of small banks will be lost. The evidence of previous bank mergers failings to secure the expected benefits have been cited by critics of the present merger of banks by the Government. Thus, the present study has been conducted with the primary objective of ascertaining operational performance of Punjab National Bank post-merger period of 2020-21 to 2022-23.

Database and Methodology

This is basically a descriptive study constructed by using secondary data such as annual reports of selected anchored bank post-merger, research articles, journals, newspaper article etc. This study basically considered the operational performance of PNB post-merger.

Operational Performance of Punjab National Bank Post Merger

To determine the operational performance of Punjab National Bank post-merger the annual reports of PNB post merged period have been used to collect the necessary information. Starting from Chairman's message to all other consecutive reports has implied a positive impact of the merger. According to the reports, the mega merger proved to be beneficial for all the stakeholders. With greater customer base and market share, mega merger of Punjab National Bank with Oriental Bank of Commerce and United Bank of India, has made the anchored bank (PNB) the 2nd largest Public Sector Bank in India. The banking industry, as a whole, posted healthy financials during FY 2022-23 that reflect the resilience and depth of the Indian financial system backed by a robust regulatory framework and adoption of prudent best practices. Post merger period till date Total business of the anchored bank has increased along with increased in total deposits and net advances of the bank. Current Account and Saving Account deposits (CASA) have also increased for the last three financial year which also indicate increasing customer base. During FY 2020- 21, CASA Deposits also remained second highest amongst PSBs with 45.5 per cent share in Domestic Deposits. PNB's low-cost franchise remained robust with the Domestic CASA share at 47.43% during FY 2021-22 with an improvement of 195 bps over last year. The global cost of deposit was contained at 3.99% in FY 2021-22. The PNB is undergoing digital transformation like pre-approved Personal Loan, e-One Time Settlement, e-Overdraft against Fixed Deposit, e-Mudra to serve it customer better and more conveniently. During the FY 2022-23, the PNB's Gross Global Business reached ₹21.66 lakh crore. The CASA share stood at 43% of domestic deposits.

Table 2: Operational Performance of the Post-Merger

Punjab National Bank	2020-21 (₹ in crore)	2021-22 (₹ in crore)	2022-23 (₹ in crore)
Total Business	18,45,739	19,31,322	21,65,844
Total Deposits	11,06,332	11,46,219	12,81,163
CASA	4,17,236	5,33,654	5,38,015
Net Advances	6,74,230	7,28,186	8,30,834
Operating Profit	22,159	20,762	22,529
Net Profit	2022	3457	2,507
Net Interest Income	30,477	28,694	34,492
NPA (Net)	38,576	34,909	22,585
Gross NPA (%)	14.12	11.78	8.74
Net NPA (%)	5.73	4.80	2.72
Net Interest Margin (%)	2.88	2.71	3.06
Cost of Deposits (%)	4.44	3.99	4.10
Cost to Income Ratio %)	47.82	49.38	51.69
RoA (%)	0.15	0.26	0.18
RoE (%)	3.88	5.96	3.94

Source: Compiled from Annual Reports of PNB

For the FY 2020-21, Bank's profitability parameters and ratios remained stable. Bank's Operating Profit was at Rs. 22,980 Crore along with a Net Profit of Rs. 2022 Crore. Return on Assets (RoA) and Return on equity (RoE) stood at 0.15 percent and 3.88 percent respectively during FY 2020-21 The key productivity parameter, Business per employee increased to Rs 1885 lakh in March'21. Similarly, as an indication of improved efficiency, domestic and global Net Interest Margin (NIM) improved to 2.99 percent and 2.88 percent respectively in FY 2020-21. For the FY 2021-22, Bank's profitability parameters and ratios remained stable. Net profit grew by 71%. Return on Assets and Return on Equity improved to 0.26 per cent and 5.96 per cent respectively during FY 2021-22.

The key productivity parameter, Business per employee increased to Rs. 1941 lakh in 31st March, 2022. Net Interest Income that is the difference between interest income and interest expense of bank. The credit cost of the said bank post-merger has also come down sequentially over the quarters. During the FY 2022-23, the bank recorded double digit growth in both deposit at 11.77% and advances at 12.68 per cent. The operating profit for FY 2022-23 improved by 8.5% in FY 2022-23 and Net Profit stood at ₹2,507 crore. The global Net Interest Margin improved to 3.06% in FY 2022-23. Net Interest Income in the FY 2022-23 stood at ₹34,492 crore compared to ₹28,694 crore during 2021-22 with a growth of 20.2% on a Y-o-Y basis. Return on Assets stand on 0.18% and Return on Equity at 3.94%. Compared to FY 2021-22 the bank has registered lower RoA and RoE in the FY 2022-23, but Operating Profit, Net Profit, Net Interest Margin RoA, RoE, Global Net interest Margin registered a steady Q-o-Q growth over five consecutive quarters. Due to the improved performance of the Bank in FY 2022-23, the Board of Directors has recommended a dividend of 0.65 per equity shares.

During the post amalgamation period the asset quality of PNB has exhibited a phenomenal improvement with both Gross NPA and Net NPA ratios on a declining trend since December 2021. Level of NPAs have seen sequential reduction. Compared to Gross NPA 14.12% in FY 2020-21, PNB records lowest Gross NPA 8.74% in FY 2022-23.Net NPA of the bank has also decreased from 5.73% from 2020-21 to 2.72% in 2022-23.Although PNB's asset quality has seen significant improvement, it remains weaker as compared to peer large PSBs and its return metrics remain subpar as compared to peer large PSBs on account of increase in the operating cost as well has higher credit cost incurred by the bank during FY23.The Provision Coverage Ratio has also increased over successive quarters from FY 2021-22 to FY 2022-23.

Conclusion

The Punjab National bank has over 128 years journey and that has been eventful and challenging, but with its strong founding values, it could overcome difficult times and come out unscathed. The bank which started its journey with pure swadeshi capital of ₹20,000, the Bank's business grew to more than ₹21.66 lakh crore till date. In its long history it has been merged or has acquired many banks to rescue those banks. Initially the news of mega merger of the bank with that of Oriental Bank of Commerce and United Bank of India was not considered as a valued decision by the stakeholders of the merging banks. The FY 2020-21 has been challenging across the globe and India was no exception to that. Despite the unprecedented situation the PNB endured on its growth trajectory with a strengthened organization structure & Balance Sheet, sustained profitability and stable capital position. The impact of COVID-19 has triggered a paradigm shift across globe with an increasing role of digitalization in banking business.

As the pandemic forced bank to re-examine their technology strategies and promoting branchless banking, the PNB has played well in promoting e-banking network for the customers of the PNB as well as merged banks. Along with increasing number of customers post-merger the responsibility of the bank has increased tremendously towards the stakeholders. Assets quality of bank has improved as bank focused on sustainable growth by targeting better rated borrowers with low risk profile. The declining trend of NPA so far is a remarkable achievement of the bank post-merger. Only in three completed fiscal year post merger the banks overall performance has shown improvement and as per the reports of the bank, the bank with its greater & stronger human resource coping up with all the necessary requirements of the RBI and Govt. and working exceptionally to enhance global network of the business which is clearly visible in the last three years report of global total business, global deposits and lending. Post merger operational performance of the bank has followed upward trend since its first amalgamated financial year.

References

Dilshad, M. (2012). Profitability Analysis of Merger and Acqusition: An Event Study Approach. *Macrothink Institute Business and Economics Research*.

Jayadev, M., & Sensarma, R. (n.d.). Mergers in Indian Banking: An Analysis.

Meena, D., & Kumar, D. (2014). Mergers and Acquisitions Prospects: Indian Banks Study. *International Journal of Recent Research in Commerce Economics and Management*, 10-17.

Nanda, D., & Goswami, D. (2020). Mega Merger policy of public banking sectors An Empirical analysis. *International Journal of Creative Research Thoughts*, 784-789.

Singh, S., & Das, S. (2018). Impact of post-merger and acquisition activities on the financial performance of banks: A study of Indian Private sector and Public sector banks. *Revista ESPACIOS*.

Kashyap, Dr. Chetan (December 8, 2021). Merger and Acquisition in Indian Banking Sector: A Case Study of Bank of Baroda retrieved from https://ssrn.com/abstract=3980653

https://www.pnbindia.in/annual-reports.html

https://www.jagranjosh.com/current-affairs/merger-of-banks-announced-by-nirmala-sitharaman-know-figures-impact-and-significance-1567164369-1

https://www.thehindubusinessline.com/opinion/editorial/mega-bank-mergers-a-re-think-is-needed/article29316079.ece

https://www.sciencedirect.com/science/article/abs/pii/S2214785321007689#preview-section-references

https://www.indiatoday.in/business/story/nirmala-sitharaman-psu-bank-merger-pnb-obc-canara-allahabad-syndicate-bank-1593544-2019-08-30

https://economictimes.indiatimes.com/topic/mega-merger

https://economictimes.indiatimes.com/industry/banking/finance/banking/nirmala-sitharaman-pnb-obc-united-bank-to-be-merged/articleshow/70909247.cms

https://economictimes.indiatimes.com/defaultinterstitial.cms

https://www.jagranjosh.com/current-affairs/merger-of-banks-announced-by-nirmala-sitharaman-know-figures-impact-and-significance-1567164369-1