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A Study on Bank of Baroda Merger with Dena Bank and Vijaya Bank

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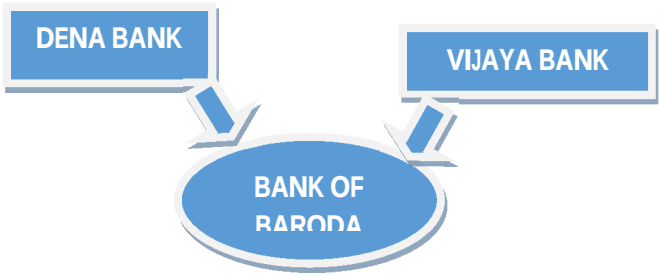
***Abstract:** This study examines the details of merger in between Bank of Baroda, Dena Bank & Vijaya Banks. The primary objective behind this move is to achieve growth at the strategic level in terms of size and client base. The study intended to determine the reasons for merger has been taken place in between the banks and also the benefits derived out of the merger. This study also includes analysis of banks performance with its different financial tools before its merger. This analysis has been shown with the help of line graphs. Data was collected from secondary sources such as websites, articles and merger reports. The study shows that merger of these banks has gained a lot of improvement in its efficiency, expansion, performance. It has also been found that after merger there is no data exposed under the name of Dena Bank and Vijaya Bank. The complete financial statements have been prepared under the name of Bank of Baroda.*

I. INTRODUCTION

Bank of Baroda is one among the foremost outstanding banks in Asian nation, having its total assets as Rs 1,43,146 Crores as on 31st March 2007.The bank was based by prince Sayajiro Gaekwad three (also known as Shrimant Gopalrao Gaekwad) , then prince of Baroda on 20th of July 1908 with a paid capital of RS ten lacs. From its introduction in an exceedingly little building of Baroda, the bank has return an extended thanks to accomplish its current position united of the foremost vital banks in Asian nation. On 19th of July 1969, Bank of Baroda was nationalized by the govt of Asian nation with 13 alternative industrial banks.

The bank offers a good array of tailored and specialized repaired to fulfill the various desires of its customers and these services have categorized into personal Banking, Business Banking, company Banking, International Banking, Treasury Banking and Rural Banking Services.



Bank of India merged with Dena Bank and Vijaya Bank

A. Definition

A Merger is an agreement that unites two existing companies into one new company. Mergers are commonly done to expand a company's reach, expand into new segments, or gain market share. All of these are done to please shareholders and create value.

B. Objectives

1) To know the reasons of BOB merger with Dena bank and Vijaya bank.
2) To study the financial performance of BOB, Dena and Vijaya before merger.
3) To study the benefits of BOB merger with Dena bank and Vijaya bank.

C. Scope Of The Study

The present study is based on the reasons for merging of BOB, Dena bank and Vijaya bank.

D. Need For The Study

The present study is an attempt to find out the reasons for the raise of merger deal between BOB, Dena bank and Vijaya bank and the reasons for merging.

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E. Methodology Of The Study

1) Data Collection: The study is based on secondary data and it is taken from different sources as follows.

a) Websites, Magazines, Books, Articles & Journals.

b) 10 years values of net profits and EPS have been used to measure the trend analysis of Bank of Baroda, Vijaya bank and Dena bank.

c) Data analysis was done with the help of graphical representation

2) Graphical Representation: To Represent the Processing Data, following graphs are used:

a) Column charts

b) Line charts

II. THE REASONS OF BOB MERGER WITH DENA BANK AND VIJAYA BANK

1) The number of public sector banks are very high: Before 2014 the number of public sector banks are 27.that is 19 banks which are exclusively owned by government of India that is nationalized banks. A part From that we have 1 State Bank of India, 5 associate banks of SBI,1 IDBI, and another entity was 1 Bharathiya Mahila bank. So put together there are 27 public sector banks. Whichever angle u look at it the number of public sector banks are very high.

2) Recapitalization need will come down: The requirement in terms of recapitalization for government of India is also increasing. In the year 2014 the government of India announced that they will provide a recapitalization of around 70,000 cr but in a span of 5 years that is through budgetary allocation. In the first two years they allocated 25,000 cr and in the next two years they allocated 10,000 cr . So basically government of India said they will provide recapitalization till 2019. But over a period of time the government of India is realised that this amount of 70,000 cr is not sufficient for the banking sector. As a result of this last year itself the government of India has extended this particular idea of recapitalization from 70,000 cr to more than 2.1 lakh cr.

3) Regulatory burden will come down: It is becoming burned for RBI to regulate all the participants in the banking sector. On one side RBI has to regulate differentiated banks, RBI has to regulate regional rural banks, RBI has to regulate scheduled commercial banks which are private sector banks as well as public sector banks. Since the number of banking units have kept on increasing the burden to regulate also has increased on the shoulders of RBI. So What if the number of banks under the public sector banks are reduced the burden on the shoulders of RBI will also come down. So regulatory burden on RBI also will come down.

4) The NPA's are very high: The most important concern for the banking sector presently is non-performing assets. The burden of non-performing assets are very high. The NPA's as already mentioned will continue to increase even in this particular financial year and when the NPA's increases the burden on RBI the burden on the government of India as well as the pressure on banks themselves will also increase. So basically, if the public sector banks are reduced by the concept of either privatisation or mergers. The banks can use economies of scale but essentially the banks will able to use economies of scale the assets will be pulled in NPA's to certain extent can be controlled.

III. THE BENEFITS OF BOB WITH DENA BANK AND VIJAYA BANK:

1) As the three nationalized banks, Bank of Baroda NSE -0.12% Dena Bank and Vijaya Bank merged to form the second largest public sector bank in the country, the unified management Monday said it would benefit customers, as well as employees in a big way.

2) Vijaya Bank was founded in Karnataka's Dakshina Kannada district in 1931 by A B Shetty.

3) Dena Bank, named after its founder Devkaran Nanjee, came into being in 1938 in Mumbai.

4) The consolidated bank, which went into effect from Monday, will be the second largest public sector bank in the country having wider geographical reach with 9,500 plus branches, the bank officials said.

5) It would have more than 13,400 Automated Teller Machines and above 85,000 employees to serve over 120 million customers, said the officials at a press conference here to share details about the merger.

6) "The 120+ million customers will experience superior banking services and benefit from wider product range including cash management solution, supply chain financing, financial planning, wealth management," said Birendra Kumar, general manager of Bank of Baroda zonal office here.

7) Kumar added that the employees will benefit from the diverse opportunities.

8) "The service conditions of the employees will not be impacted and the interests of employees will be fully protected.

9) The best of HR practices adopted by each of the banks will be examined for adoption," Kumar said.

10) Bank of Baroda was established in July 20, 1908 in erstwhile Baroda, now known as Vadodara in Gujarat.

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A. Dena Bank, Vijaya Bank and Bank of Baroda Merger

Continuing its merger plan for public sector banks, the government has finally completed the mega-merger of one weaker lender Dena Bank and anchor lender Vijaya Bank with a 111-year-old Bank of Baroda (BOB). All these banks are different from each other, have different business operations, hold different positions and have different experiences. This would be second biggest merger plan of centre, after largest lender State Bank of India (SBI) acquisition with its own six associated banks. Dena Bank and Vijaya Bank on their official website stated that the process of amalgamation promises to leverage the specific skills of each bank and imbibe their best practices. This mega entity has the ability to do more and reach further to fulfil customers with world-class offerings backed by robust processes.

While there won't be much material change in BOB considering it is the acquirer, the implementation of taking under Vijaya Bank and Dena Bank will be something to watch for. That said, even customers of Vijaya Bank and Dena Bank will see changes in their way of carrying a financial transaction.

1) *Number Of Public Sector Banks Will Come Down:* By 2014 there are 27 public sector banks and presently the number has been dragged down to 21 and with this particular merger this will further come down to 19. The problem with the present structure of the public sector banks is these public sector banks account for more than 90% of the total NPA's in the banking sector and this is the very huge disadvantage or huge burden on the public sector banks. As the NPA's keeps increasing the financials of the banking sector will be effected.
2) *Regulatory Pressure will come Down:* It is becoming burned for RBI to regulate all the participants in the banking sector. On one side RBI has to regulate differentiated banks, RBI has to regulate regional rural banks, RBI has to regulate scheduled commercial banks which are private sector banks as well as public sector banks. Since the number of banking units have kept on increasing the burden to regulate also has increased on the shoulders of RBI. So regulatory burden on RBI also will come down.
3) *Recapitalisation Burden will come Down:* The requirement in terms of recapitalisation for government of India is also increasing. In the year 2014 the government of India announced that they will provide a recapitalisation of around 70,000cr but in a span of 5 years that is through budgetary allocation. In the first two years they allocated 25,000 cr and in the next two years they allocated 10,000 cr.
4) *The Penetration/ Reach of These Banks will Increase:* The three banks Vijaya bank is more dominant or more present in southern India where as Dena bank and Bank of Baroda are more present in the western India. When merging these three entries the penetration of the new entity is going to increase across India. And more importantly Bank of Baroda is considered to be more dominant in terms of FOREX earnings as well as technology driven tools. These tools as well as the earnings in FOREX will benefit the new entity. So basically, this type of merger will promote penetration or reach of these particular banks.
5) *Dena Bank Will Be Pulled Out Of Problem:* As Dena bank is a weak bank. The NPA's of Dena bank very recently reported were 22% of total loans given by bank and it was put in prompt corrective action and RBI has basically stated that Dena bank will not be allowed to lend in the market. So what we have done is take Dena bank merger it with the strong banks such as Vijaya bank and Bank of Baroda. As a result of this Dena bank will be pulled out of this particular problem of very high NPA's. The NPA's of Dena bank were the 5th largest in terms of the banking sector.

IV. DATA ANALYSIS

To study the financial performance of BOB, Dena and Vijaya before merger:

A. Bank of Baroda

Table No: 1 Calculation of financial performance of BOB

	2018	2017	2016	2015	2014
Net profits	-2431.81	1383.14	-5395.54	3398.44	4541.08
EPS	-9.71	6	-23.89	15.83	107.38
Total assets/liabilities	719999.77	694875.41	671376.48	714988.55	659504.53

Source: BOB

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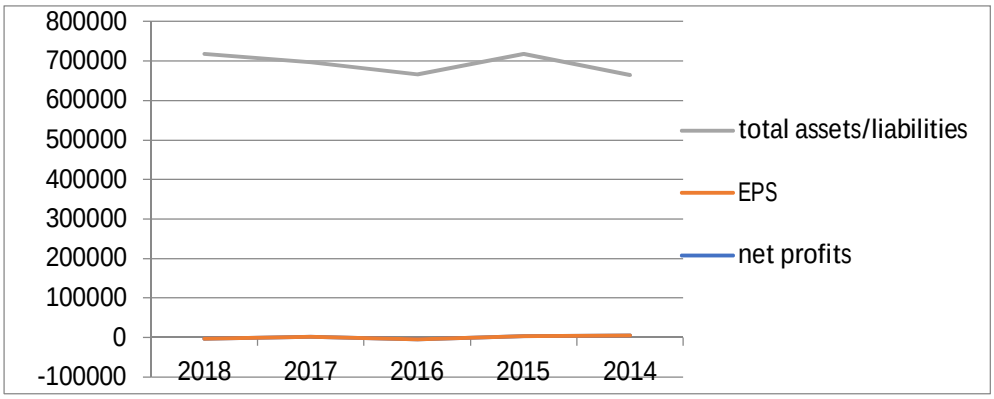
Interpretation

1) In the above table the net profit is high in 2014 later it increased to 3398.44 in 2015 later it is decreased to -5395.54 in 2106 again it slightly increased to 1383.14 in 2017 and then decreased to -2431.81 in 2018.
2) EPS is high in 2014 again it slightly increased to 15.83 in 2015 and again it slightly decreased to -23.89 in 2016 later it is increased to 6.00 in 2017 and later it is decreased to -9.71 in 2018.
3) Total assets or liabilities are low in 2014 it slowly increased in 2015 again it decreased in 2016 later it increased in 2017 and then increased in 2018 also.

Fig No: 1Graphical representation of financial performance of BOB.



Source: Computed

B. Dena Bank

Table No: 2 Calculation of financial performance of Dena bank:

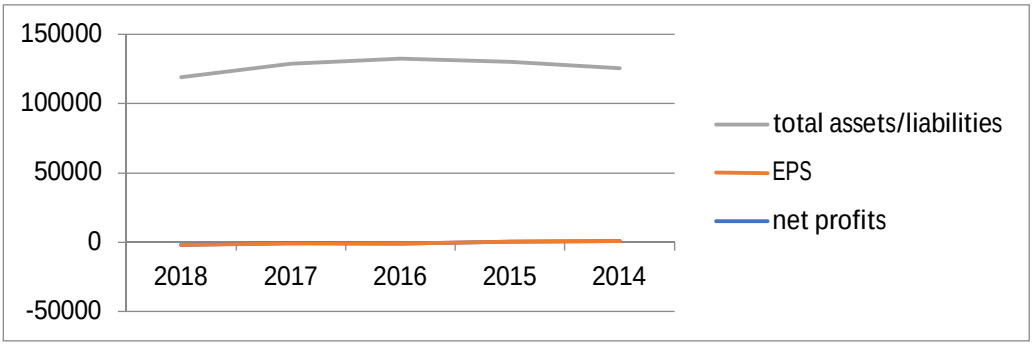
	2018	2017	2016	2015	2014
Net profits	-1923.15	-863.62	-935.32	265.48	551.66
EPS	-18.06	-11.89	-15.5	4.94	14.4
Total assets/liabilities	120859.79	129530.52	133441.64	129920.55	124863.49

Source: Dena Bank

Interpretation

1) In the above table the net profit is high in 2014 later it decreased to 265.48 in 2015 later it is decreased to -935.32 in 2106 again it slightly decreased to -863.62 in 2017 and then decreased to -1923.15 in 2018.
2) EPS is high in 2014 again it slightly decreased to 4.94 in 2015 and again it slightly decreased to -15.5 in 2016 later it is decreased to -11.89 in 2017 and later it is decreased to -18.06 in 2018.
3) Total assets or liabilities are low in 2014 it slowly increased in 2015 again it increased in 2016 later it decreased in 2017 and then decreased in 2018 also.

Fig No:2 Graphical representation of financial performance of Dena bank:



Source: Computed

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C. Vijaya Bank

Table No: 3 Calculation of financial performance of Vijaya bank:

	2018	2017	2016	2015	2014
Net Profits	727.02	750.49	381.8	439.41	415.91
EPS	6.83	7.57	4.44	5.11	7.64
Total assets/liabilities	1176841.54	154051.11	144534.88	142406.56	137109.62

Source: Vijaya Bank

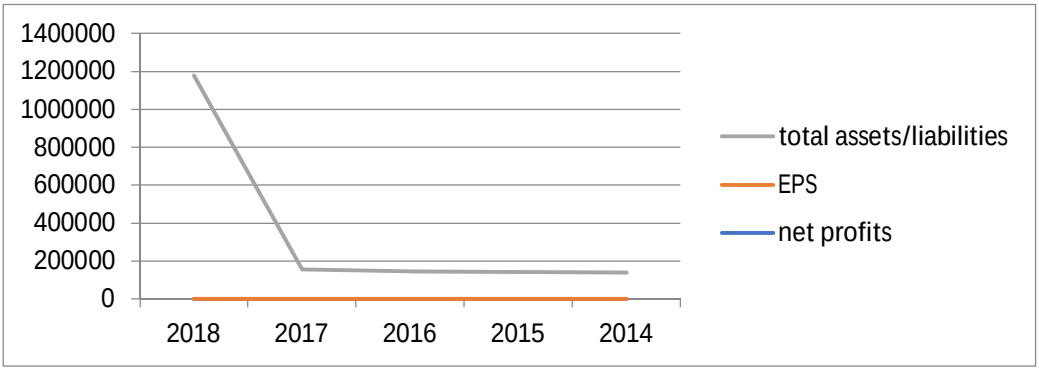
Interpretation

1) In the above table the net profit is high in 2014 later it increased to 439.41 in 2015 later it is decreased to 381.8 in 2106 again it slightly increased to 750.49 in 2017 and then decreased to 727.02 in 2018.

2) EPS is high in 2014 again it slightly decreased to 5.11 in 2015 and again it slightly decreased to 4.44 in 2016 later it is increased to 7.57 in 2017 and later it is decreased to 6.83 in 2018.

3) Total assets or liabilities are low in 2014 it slowly increased in 2015 again it increased in 2016 later it increased in 2017 and then decreased in 2018 also.

Fig No: 3Graphical representation of financial performance of Vijaya bank:



Source: Computed

D. Trend Analysis For 10 Years

Table No: 4 Calculation of Net Profits of BOB for 10 years

Trend Analysis	
Net Profits Of Bank Of Baroda	
Years	Net Profits
2008	1,548.00
2009	2,384.00
2010	3,179.00
2011	4,241.68
2012	5,006.96
2013	4,480.72
2014	4,541.08
2015	3,398.44
2016	-5,395.54
2017	1,383.14
2018	-2,431.81
2019	-793.76
2020	-1,264.48

Source: BOB

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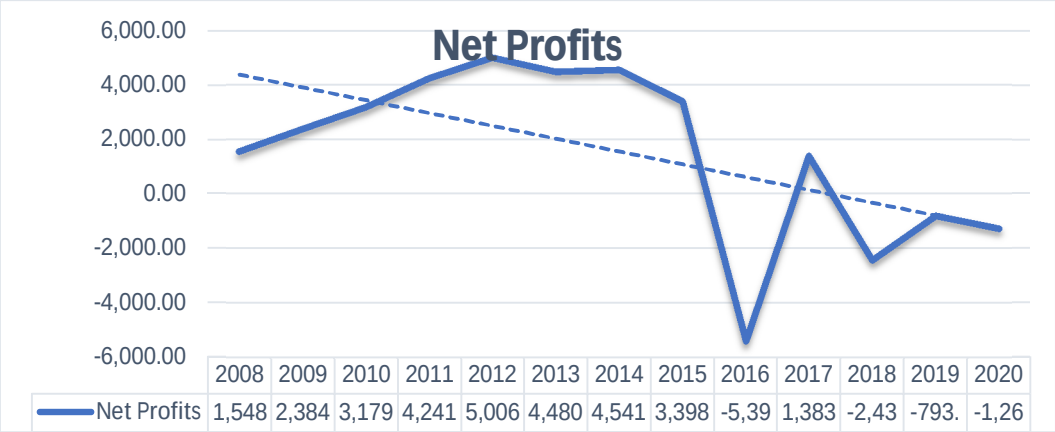
Fig No:4 Graphical representation of Net profits of BOB bank for 10 years



Source: Computed

Interpretation

1) In the above graph it represents the trend analysis of BOB bank for 10 years.
2) In the above graph X axis represents no of years and Y axis represents net profit values.
3) In the above graph dark line represents net profits and dotted line represent liner trend line.
4) In 2008 the net profits were 1,548.00 and in 2009 - 2012 it started increasing, slowly it started decreasing from 2013-2018.
5) In the above graph the net profits of 2019 and 2020 were forecasted values.

Table No: 5 Calculation of Net Profits of Dena Bank for 10 years:

Trend Analysis	
Net Profits of Dena Bank	
Years	Net Profits
2008	360.00
2009	423.66
2010	511.25
2011	612.63
2012	803.14
2013	810.38
2014	551.66
2015	265.48
2016	-935.32
2017	-864.62
2018	-1,923.15
2019	-1,136.14
2020	-1334.81

Source: Dena Bank

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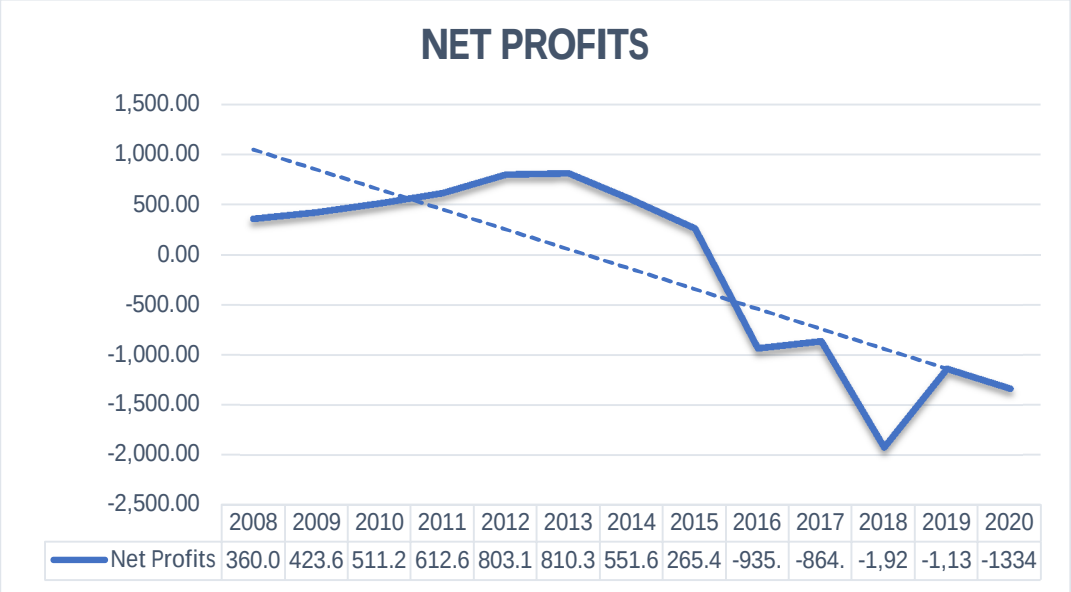
Fig No: 5 Graphical representation of Net Profits of Dena bank for 10 years:



Source: Computed

Interpretation

1) In the above graph it represents the trend analysis of Dena bank for 10 years.
2) In the above graph X axis represents no of years and Y axis represents net profit values.
3) In the above graph dark line represents net profits and dotted line represent liner trend line.
4) In 2008 the net profits were 360.00 and in 2009 - 2013 it started increasing, slowly it started fluctuating from 2014-2018.
5) In the above graph the net profits of 2019 and 2020 were forecasted values.

Table No: 6 Calculation of Net Profits of Vijaya Bank for 10 years:

Trend Analysis	
Net Profits Of Vijaya Bank	
Years	Net Profits
2008	361.00
2009	262.00
2010	507.00
2011	523.82
2012	581.00
2013	585.61
2014	415.91
2015	439.41
2016	381.80
2017	750.49
2018	727.02
2019	670.89
2020	698.84

Source: Vijaya Bank

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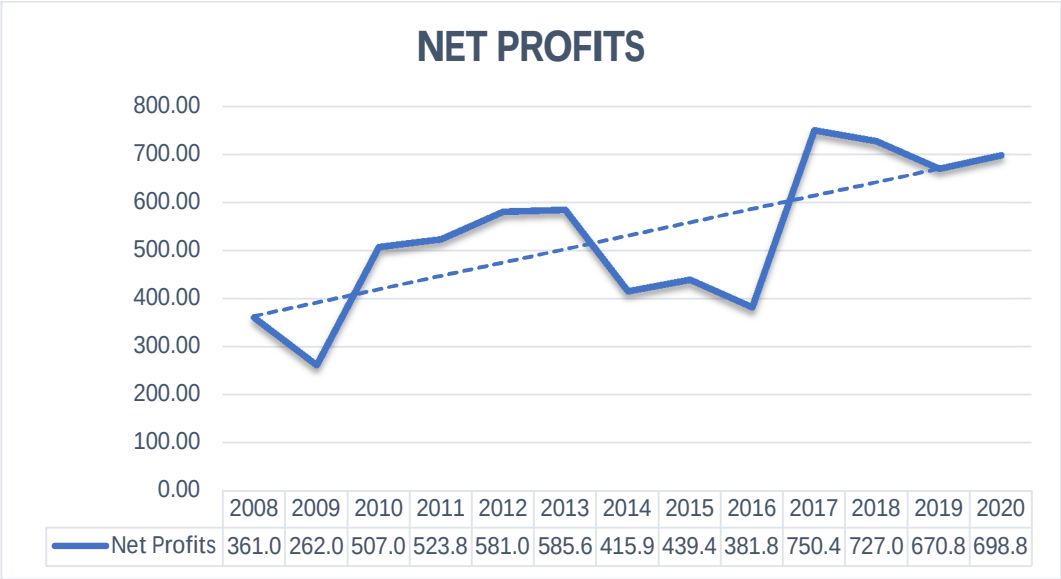
Fig No:6 Graphical representation of Net profits of Vijaya bank for 10 years



Source: Computed

Interpretation

1) In the above graph it represents the trend analysis of Vijaya bank for 10 years.
2) In the above graph X axis represents no of years and Y axis represents net profit values.
3) In the above graph dark line represents net profits and dotted line represent liner trend line.
4) In 2008 the net profits were 361.00 and in 2009 it decreased to 262.00 and from 2010 - 2013 it started increasing, slowly it started fluctuating from 2014-2018.
5) In the above graph the net profits of 2019 and 2020 were forecasted values.

V. CONCLUSION

The merger of Vijaya Bank and Dena Bank into Bank of Baroda is planned to be effective from April 1st, 2019. The uniting emphasises on consolidating and group action smaller banks with larger banks. The tripartite amalgamation reflects the government's focus towards consolidation and strengthening of public-sector banking and also to deal with the raising problematic issues like non-performing assets (NPAs) and default of loans. And the main reason for merger was the merged entity or the new entity the total business will be around 1,482,325 lakh cr and as the result of this merger this particular bank or the new entity which will be created will be the 3rd largest bank in India. The NPA's in banking sector are going to increase in the financial year 2019. As per this particular report in the financial year 2018 the NPA's is 11.6% and in the financial year 2019 they may increase to 12.2% of total loans issued by the banking sector. And the same report also mix one more concerning point that is if the situation goes beyond control rather than limiting to 12.2% the NPA's may actually increase to 13.3%.

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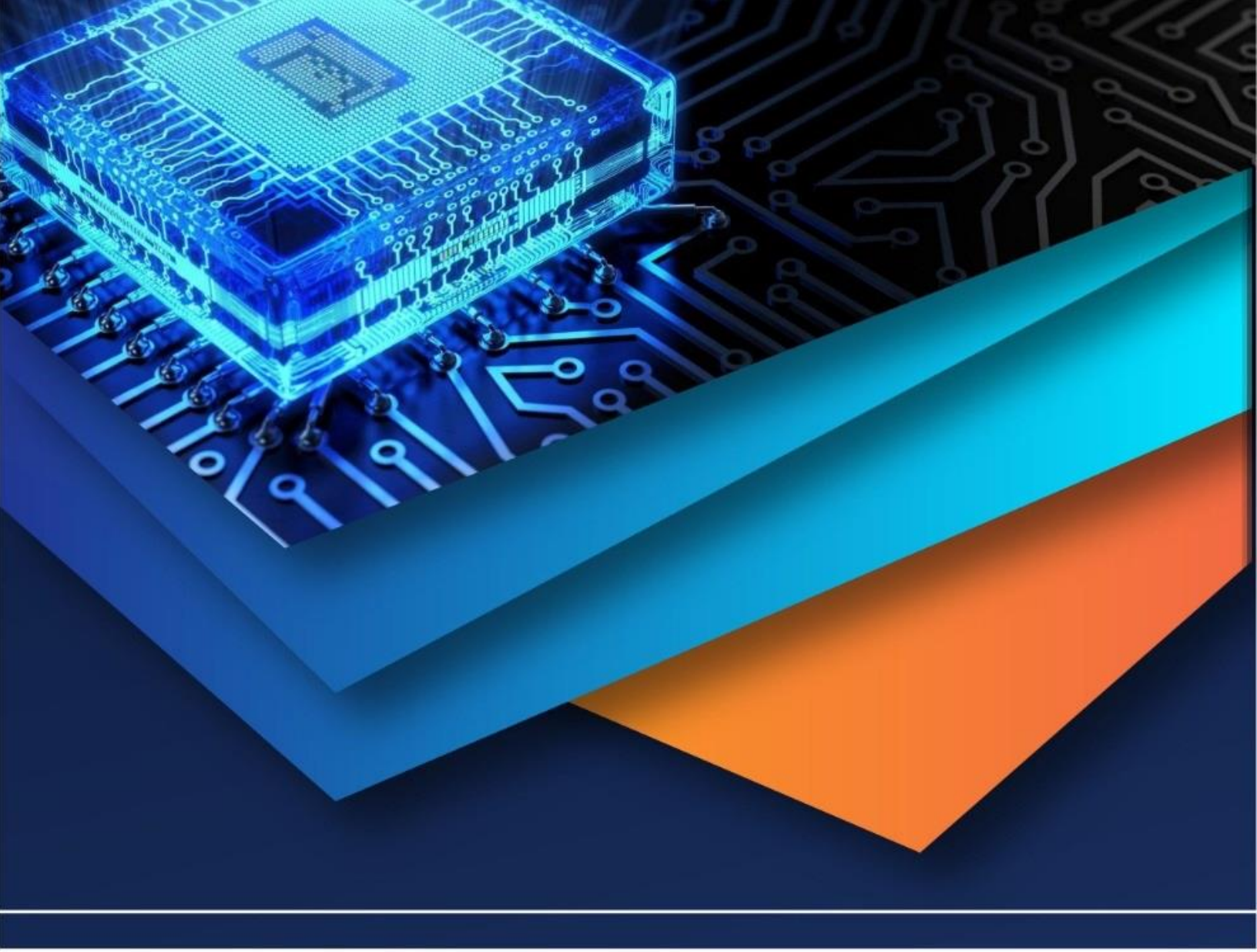

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