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A STUDY ON THE PROPOSED MERGER OF VIJAYA BANK AND DENA BANK WITH BANK OF BARODA

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ABSTRACT

The economic reforms in 1991 turned the Indian banking industry into an efficient tool to facilitate the development of the Indian economy. It has been more than 27 years since a committee headed by RBI governor M. Narasimham first made out a case for pruning the number of government or state owned banks. This committee which was appointed in 1991 by Manmohan Singh, who was then Finance Minister, had recommended a restructuring of Indian banks, with three or four banks including State Bank of India (SBI) that could be positioned as global banks, besides eight to ten banks with a national footprint or presence, rather than having over two dozen state owned banks. In 2018 the government has proposed the merger of Vijaya Bank and Dena Bank with Bank of Baroda. The merger of these banks will be the first ever three-way consolidation of banks in India. This merger will make Bank of Baroda the second largest public sector bank and the third largest lender. The scheme of merger is expected to come into force April 1st, 2019. This paper highlights the rationale behind the merger of these banks, scheme of merger and challenges before Bank of Baroda for the merger.

KEYWORDS

Bank of Baroda, Dena Bank, mergers and Vijaya Bank.

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INTRODUCTION

The economic reforms in 1991 turned the Indian banking industry into an efficient tool to facilitate the development of the Indian economy. In 1991, Dr. Manmohan Singh, who was then Finance Minister constituted a committee for bringing reforms in the banking sector. The committee was headed by the RBI governor M. Narasimham. The committee recommended for pruning of state owned banks and called for the restructuring of Indian banks, with three or four large banks including SBI that could be positioned as global banks, besides eight to ten banks with a national footprint or presence, rather than having over two dozen state owned banks.

Accordingly, in 2017, the 5 state owned banks namely State Bank of Travanacore, State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore and State Bank of Patiala and Bharatiya Mahila Bank merged with SBI making it the largest public sector bank in the country. In 2018 the government has proposed the merger of Vijaya Bank and Dena Bank with Bank of Baroda. The merger of these banks will be the first ever three-way consolidation of banks in India. This merger will make Bank of Baroda the second largest public sector bank and the third largest lender. The scheme of merger is expected to come into force April 1st, 2019.

LITERATURE REVIEW

There have been a number of studies on mergers and acquisitions of banks in India and abroad. The studies are conducted to validate the mergers and acquisitions. Some of the reviews of literature on mergers and acquisitions of banks are put forth as under:

Pilloff¹ (1996) has stated that the primary reason for mergers and acquisitions is synergy, i.e., performance improvement following merger and acquisitions. According to him performance can be improved by mergers and acquisitions which range from transfer of management skills, elimination of redundant facilities and personnel, to consolidation of technologies and combination of fragmented market shares separately held by each firm before the merger. Awdeh and E. Moussawi² (2011) are of the opinion that mergers and acquisitions enable a bank to achieve its growth in both size and value, revenues and profits through reduction of costs, enhanced market power, reduction of earnings volatility and economies of scale and scope. Anand Manoj and Singh Jagandeep³ (2008) studied the impact of merger on the shareholders of five banks and revealed that the announcement of merger of banks had positive and significant impact on shareholders wealth. Azeem Ahmed Khan⁴ (2011) explored various motivations of mergers and acquisitions in the Indian banking sector. The result of the study indicated that the merged banks could obtain efficiency and gains through mergers and acquisitions and could pass the benefits to the equity shareholders in the form of dividend.

OBJECTIVES

The objectives of the study are:

1. To understand the rationale behind the merger of banks.
2. To highlight the scheme of merger.
3. To examine the challenges before Bank of Baroda for the merger.

RESEARCH METHODOLOGY

The research design used to carry out this study is descriptive research. The data required for the study has been collected from secondary sources. The data collection includes:

- a. Various web sites connected with the topics of merger and acquisition of banks.
- b. News paper, Journals and magazines and
- c. Other relevant sources.

RATIONALE BEHIND MERGER

In India a vast majority of public sector banks are virtually doing the same business and competing for the same pie of customers since a long time. But this strategy could lower the return on the capital employed by the government. The government and RBI have also emphasized the changing face of banking marked by technological changes and are infusing capital periodically. The following table shows the recapitalization of public sector banks and Dena Bank, Vijaya Bank and Bank of Baroda in particular by the government:

TABLE 1: RECAPITALISATION OF PUBLIC SECTOR BANKS

Year	Rupees in crores	Funding
2016-17	135000	Through recapitalization bonds
	76000	Through Indradhanush plan and fund raising from markets.
Total	211000	
2017-18	80000	Through recapitalization bonds
	8139	Through budgetary allocation
	88139	

Source: Ministry of State for Finance

TABLE 2: RECAPITALISATION OF DENA BANK, VIJAYA BANK AND BANK OF BARODA (CAPITAL INFUSION FOR FINANCIAL YEAR 2018-19)

Bank	Rupees in crore
Dena bank	5375
Vijaya Bank	3045
Bank of Baroda	1277

Source: Ministry of State for Finance

The Finance Minister giving the context of the merger of Dena Bank and Vijaya Bank with the Bank of Baroda has stated that bank lending was becoming weak, hurting corporate sector investments and these banks are in fragile condition due to excessive lending and increasing NPAs. The following table shows the bank financials of these three banks:

TABLE 3: BANK FINANCIALS AS ON 30-06-2018 (Rs. Crore)

Particulars	Bank of Baroda	Dena Bank	Vijaya Bank	Total
Deposits	581484	103020	157326	841830
Advances	414517	69917	119666	604101
Total Assets	714402	116925	177646	1008974
Total Income	50306	10096	14190	74592
Net Profit	-2432	-1923	727	-3628
Gross NPAs	55875	15866	7579	79320
Net NPAs	22384	6704	4904	33992
Market capital	35741	3603	7799	47143
No. of employees	56361	13613	15874	85848
No. of branches	5573	1858	2129	9560
No. of ATMs	9615	1646	2171	13432
Gross NPAs in %	12.46	22.69	6.19	—
Capital Adequacy ratio (%) Basel III	12.13	10.60	13.91	—

Source: Ministry of State for Finance

All the above mentioned reasons have necessitated the merger of these banks putting an end to fragmentation. This merger will lead to economies of scale, huge customer base, 9489 branches, 87675 staff and to make Bank of Baroda a strong globally competitive bank.

SCHEME OF MERGER

In the process of merger, Dena Bank and Vijaya Bank will be the transferor banks and Bank of Baroda is the transferee bank. According to the scheme of merger, the fair equity share exchange ratio for the amalgamation is:

- For every 1000 equity shares of Rs. 10 each of Vijaya Bank, 402 equity shares of Rs.2 each of Bank of Baroda will be issued.
- For every 1000 equity shares of Rs. 10 each of Dena Bank, 110 equity shares of Rs.2 each of Bank of Baroda will be issued.

CHALLENGES BEFORE BANK OF BARODA

The merger of Dena Bank and Vijaya Bank will pose certain challenges to the Bank of Baroda. Some of the challenges the Bank of Baroda has to face are:

1. IT INTEGRATION

The financial implications of the merger would amount to several crores of rupees in terms of software upgradation as Vijaya Bank uses Finacle 10, while Bank of Baroda uses Finacle 7.

2. BUSINESS INTEGRATION

The Bank of Baroda has to undertake printing new stationery like cheque books, pass books, pay in slips, business cards and other establishment costs like new bill boards and advertisements and remodeling the branch interiors that match the Bank of Baroda schemes.

3. INCREASED COST OF BUSINESS OPERATIONS

The cost of business operations would increase as the bank has to switch over from the old IFSC to new IFSC codes. This requires additional man hours of work.

4. PROBLEM OF LAY OFF

The new Bank of Baroda entity cannot lay off the employees of Dena Bank and Vijaya Bank. This may result in the excess work force for similar jobs which would increase the operating costs.

5. CLOSURE OF BRANCHES

The merger may result in the closure of some branches. For instance, if the branches of Dena Bank and Vijaya Bank are located in the same territorial proximity, there would be overlap and therefore they may resort to closure of banks.

6. WORK CULTURE

The merger of Dena Bank and Vijaya Bank may cause difficulty for the employees of these banks to adjust to the work culture of Bank of Baroda.

CONCLUSION

The biggest question today is this that do we need expansion of banks or consolidation of banks. Whether it is expansion or consolidation of banks, it is very important to see that the public sector banks are kept away from political interference and bureaucratization at every level. The merger of five state owned banks in 2017 has not done any miracle in the banking sector. Now the proposed merger of Dena Bank and Vijaya Bank with the Bank of Baroda may make Bank of Baroda, a healthy bank a weak bank as it is being merged with a weaker bank i.e., Dena Bank. This is a merger of two healthy banks with one weak, capital starved and NPA ridden bank. To sum up, it is essential to see that we support a weak bank to regain rather than merging it with a strong bank and ending up making the strong bank a weak bank.

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