



e-ISSN: 2319-8753 | p-ISSN: 2347-6710

# IJRSET

International Journal of Innovative Research in  
**SCIENCE | ENGINEERING | TECHNOLOGY**

# INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

IN SCIENCE | ENGINEERING | TECHNOLOGY

Volume 10, Issue 11, November 2021

**ISSN** INTERNATIONAL  
STANDARD  
SERIAL  
NUMBER  
INDIA

Impact Factor: 7.569

9940 572 462

6381 907 438

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# A Study on Amalgamation of Canara Bank and Syndicate Bank: Effect of Financial Performance

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**ABSTRACT:** India's banking sector has made headlines for its multiple mergers and acquisitions. In recent years, there has been a lot of amalgamation. The focus of this article was on the merger of Syndicate Bank and Canara Bank. The primary goal of this research is to look at Canara Bank's financial performance before and after the merger. Data was gathered from a variety of sources. Canara Bank's annual reports from before and after the merger. According to analysis, Canara Bank Ltd has reaped no meaningful benefits as a result of the merger. The Return on Equity, Interest Coverage, Earnings Per Share, and Dividend Per Share of the firm have not improved, according to the analysis.

**KEYWORDS:** Financial Performance, Banking, Amalgamation

## I. INTRODUCTION

In a relatively short period of time, India's financial industry has made some outstanding milestones for the world's largest and most diverse democracy. The government's strategy plan to reposition and integrate the Indian banking sector into the global financial system includes a banking sector or industry reform process. The Indian banking sector has seen several transformations, as well as a wave of successful mergers and acquisitions, all of which have supported its growth. Mergers and acquisitions are the most popular way for companies to improve and maintain their market position. M&As are seen to be a quick and effective approach to enter new markets and adopt new technology.

Another aspect of bank mergers is the removal of bank competition. This enables for a large amount of money to be reallocated to the development banking business that was previously provided to stimulate competition. A bank with a significant bad debt portfolio and minimal income may combine with another bank in order to get assistance and stay afloat. In India, mergers between unviable banks should accelerate so that the weak institutions may be reformed, giving job security for the workforce, allowing for the operation of assets locked in unviable banks, and contributing to the nation's economy through enhanced money flow.

## II. OVERVIEW

Syndicate Bank is amalgamating with Canara Bank. The name of the amalgamated entity or Bank will be Canara Bank.

### About Canara Bank

Canara Bank is India's third largest nationalised bank. It is owned by the Ministry of Finance, Government of India. Its headquarters are in Bengaluru. Ammembal Subba Rao Pai founded the bank in Mangalore in 1906, and it now has offices in London, Hong Kong, Dubai, and New York. Canara Bank was founded on July 1, 1906, as Canara Hindu Permanent Fund Ltd. The name of the bank was changed from Canara Hindu Permanent Fund Ltd to Canara Bank Ltd in 1910. According to the most recent data as of June 2021, there are 9,877 branches and 11,819 ATMs. Canara Bank made its first acquisition in 1961, when it purchased Bank of Kerala. This company was founded in September 1944 and had three branches at the time of its acquisition on May 20, 1961. Canara Bank's second acquisition was Seasia Midland Bank (Alleppey), which was founded on July 26, 1930 and had seven branches at the time of the takeover.

Canara Bank was ordered by the Reserve Bank of India to acquire G. Raghunathmul Bank in Hyderabad in 1958. This bank was founded in 1870 and converted to a limited company in 1925. G. Raghunathmul Bank had five branches at the time of the acquisition. The merger went into effect in 1961. Canara Bank later acquired Trivandrum Permanent Bank in 1961. This company was founded on February 7, 1899, and had 14 locations at the time of the merger. Canara Bank's website address is [www.canarabank.in](http://www.canarabank.in). Canara Bank offers credit cards, consumer banking, corporate banking,



finance and insurance, investment banking, mortgage loans, private banking, wealth management, personal loans, and payment services.

### About Syndicate Bank

Syndicate Bank was one of India's oldest and largest commercial banks. Upendra Ananth Pai, T. M. A. Pai, and Vaman Srinivas Kudva founded it. Canara Industrial and Banking Syndicate Limited was the name of the bank when it was founded. It is Canara Bank's wholly owned subsidiary. On July 19, 1969, the Government of India nationalised the bank, along with 13 other major commercial banks in India. The bank's headquarters were in Manipal, India, a university town. The bank was merged into Canara Bank on April 1, 2020. Syndicate Bank collaborated with the United Nations Environment Programme (UNEP) in 2003 to provide loans for the purchase of solar lamps. In December 2003, Syndicate Bank announced sabbatical leave scheme with partial pay to reduce its employee overhead. It held its equity share offering in July 2005. 45 million shares with a face value of \$10 were offered at a price range of \$46-\$50. Karnataka Vikas Grameena Bank was formed in September 2005 by the merger of four rural banks in Karnataka sponsored by Syndicate Bank: Malaprabha Grameena Bank, Bijapur Grameena Bank (BGB), Varada Grameena Bank, and Netravati Grameena Bank. The Pigmy Deposit scheme was relaunched as Pigmy 2007 in March 2007. Pigmy 1928 was also a continuation of the older scheme. By March of 2015, the bank had 3552 branches.

### Why did Canara bank amalgamate with syndicate bank?

Canara Bank amalgamated with Syndicate Bank to become India's fourth largest bank in terms of business (15.2 lakh crores) and third largest in terms of branch network. In the current environment, the central government believes that merging banks will assist to recover and minimise problematic NPAs. The RBI will have an easier time monitoring a smaller number of banks. Another component of bank mergers is cost reduction. When it comes to Syndicate Bank and Canara Bank, the two banks were united with the banking software they both use, iflex.

The announcement of amalgamation by Honourable Finance Minister was made with the following objectives:

- Unlocking potential through consolidation - creation of Next Gen Banks
- Repositioning PSBs with scale for building of USD 5 Trillion Economy
- Big banks with Enhanced capacity to increase credit
- Creation of Banks with a strong national presence and international reach
- Operational efficiency gains to reduce cost of lending
- Enhanced risk appetite
- Wider offerings with enhanced customization
- Better ability to raise resources from market

### Why do mergers happen?

The Government of India approved the amalgamation of Syndicate Bank into Canara Bank to make it a globally competitive lender. With the amalgamation, the new bank will become the fourth largest bank after State Bank of India, PNB+OBC+United Bank of India & Bank of Baroda (as at Dec 2019). Any amalgamation of one or more banks provides a broader geographic footprint and helps to derive the benefit of size, scale, strength. Now, the combined entity has a network of close to 10,396 branches and approximately 13,408 ATMs across India. (Canara Bank – 8,837 ATMs & 6,333 Branches, Syndicate Bank – 4,571 ATMs & 4,063 branches).

### How the Canara Bank and Syndicate Bank amalgamation will impact the customer?

The customer will become a part of the larger organization or Bank, named Canara Bank. The new entity will have an increased market share, which will help improve economies of scale and become more profitable. The customers of each Bank will benefit by way of larger number of branch and ATM network, have access credit facilities and a wider array of products and services. The combined entity has a network close to 10,396 branches, approximately 13408 ATMs across India. Customers can also choose from a broader suite of products & services. The combined entity is now fourth largest Public Sector Bank in the country. Any merger or amalgamation of one or more banks provides a broader geographic footprint and helps to derive the benefit of size, scale and strength. Further this will result in:

- Wider suite of products and offerings with better pricing
- Greater accessibility due to wide network coverage
- Improved customer service due to more allocation of staff to front end customer facing roles.
- Opportunity of more wealth management/ add on services



## II. REVIEW OF LITERATURE

### **Ujjwala, P, A Study on Bank of Baroda merger with Dena Bank and Vijaya Bank, 2019, International Journal for Research in Applied Science & Engineering Technology:**

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. 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.

### **NITESH A JAIN, A Management Research project on Mergers and Acquisitions in Indian Banking Sector, 2017:**

The project aims to understand the various “mergers and acquisitions in Indian banking sector”. A large number of international and domestic banks all over the world are engaged in merger and acquisition activities. To study the pre and post-merger impact of bank. To understand the financial performance and differences, to understand the importance of merger in bank. To study the purpose of merger and acquisitions in the banking sector. To study the changes in the Indian banking scenario. Case study on the merger of ICICI bank and bank of Rajasthan. The major limitations of the project are the time frame. The post-merger analysis is just for 4 year and 4 year to less period to judge the effects of merger. Post-merger analysis of ICICI bank Ltd... Whole of the analysis is based on the balance sheet, profit & loss a/c and financial ratio which is secondary data. Hence it suffer from begin very reliable. The analysis is based on various ratios hence all the limitations of the ratio analysis become a part of the limitations of the study.

### **Ishwarya J, A Study on Mergers and Acquisition of Banks and a Case Study on SBI and its Associates, 2019, International Journal of Trend in Research and Development:**

This research paper looks at Mergers and Acquisitions (M&A's) that have happened in Indian banking sector to understand the resulting synergies and the long term implications of the merger. The paper also analyses emerging trends and recommends steps that banks should consider for future. The paper reviews the trends in M&A's in Indian banking and then impact of M&A's has been studied. The study covers the area of performance evaluation of M&A's in Indian banking sector during the period. The paper compares pre and post-merger financial performance of merged banks with the help of financial parameters. To study the reforms of Indian banking sector. 2. To study the performance of the banks in the pre and post M & A. To study the trends of M&A's in Indian banking sector. To study on merger of SBI and its associates. The empirical findings of this study suggest that trend of merger in Indian banking sector has so far been restricted to restructuring of weak and financially distressed banks. The Indian financial system requires very large banks to absorb various risks that have been emerged from operating in local and global market. The prime factors for future mergers in Indian banking industry included the challenges of free convertibility and requirement of large investment banks. Therefore, the Government and policy makers should be more cautious in promoting merger as a way to reap economies of scale and scope.

### **Dr. Sarbapriya Ray, Gopal Chandra Mondal, Dr Mihir Kumar Pal, Impact of Merger on Efficiency of Indian Commercial Banks: A Study on Merger of Oriental Bank of Commerce and Global Trust Bank, 2017, Journal of Poverty, Investment and Development:**

The study has been undertaken to empirically analyse and assess the impact of merger of Oriental Bank of Commerce and Global Trust Bank on the efficiency of said banks in terms of different financial parameters. Most of the financial indicators of Oriental Bank of Commerce and Global Trust Bank display noteworthy improvement in their operational performance during post-merger period

1. The study ignores the impact of possible differences in the accounting methods adopted by different companies. 2. The factors which effect the M & A performance may not be same for all companies. 3. The cost of acquisition for mergers is not considered in the methodology. 4. Analysis and Interpretation. In conclusion, we can conclude that government should not be seen merger as a means of bailing out of weak banks. The empirical findings further suggest that strong banks should not be merged with weak banks, as it will have unpleasant consequence upon the asset quality of the stronger banks. The utmost cry of the day is that the strong banks should be merged with strong banks to compete with foreign banks and to enter in the global financial market.



**Dr. Veena K.P, Prof. S.N. Pathi, Pre and Post-Merger Performance on Assets quality of banking sector: A Case Study of ING Vysya Bank and Kotak Mahindra Bank, 2017, IOSR Journal of Humanities and Social Science:**

This paper mainly aims to highlight the theoretical background of merger and acquisition and evaluation of assets quality in Indian banking sector and to examine the pre and post merger performance of net NPAs to net advances and gross NPAs to gross advances in ING Vysya and Kotak Mahindra bank. And also to assess the pre and post-merger performance of total investment to total assets and net NPAs to total assets of ING Vysya and Kotak Mahindra Bank. 1. To highlight the theoretical background of merger and acquisition and evaluation of assets quality in Indian banking sector; 2. To examine the pre and post-merger performance of net NPAs to net advances in ING Vysya and Kotak Mahindra bank; 3. To analysis the pre and post-merger performance of gross NPAs to gross advances in ING Vysya and Kotak Mahindra bank; 4. To assess the pre and post-merger performance of total investment to total assets in ING Vysya and Kotak Mahindra bank; 5. To study the pre and post-merger performance of net NPAs to total assets in ING Vysya and Kotak Mahindra bank; and 6. To offer findings and suggestions in the light of the study.

### III. RESEARCH METHODOLOGY

#### Methods of Data Collection

The study done is based on the secondary data collection. Secondary data was been collected from the annual report of banks and various other related sources. Research may be defined as search for knowledge through a research objective. The ratios taken by researcher in our research are analysed by using paired T- test to investigate any significant difference.

- Website
- Finance books
- Business Magazines

#### RESEARCH OBJECTIVE:

- To study the pre and post-merger impact of banks
- To understand the financial performance and differences.

#### Scope of the Study

The focus of this research paper is on amalgamation of Syndicate bank into Canara bank limited. Financial performance of Canara bank limited has been analysed by the comparison of Pre and Post amalgamation details provided in the annual report.

#### Research Methodology:

The study is analytical in nature and it is based on the secondary data. The information has been retrieved from annual report of Canara Bank Ltd

#### Research Hypothesis

- $H(0)$  = There is no significant progress in Key Performance Ratios of the Canara Bank Ltd.
- $H(0)$  = There is no significant progress in Valuation Ratios of the Canara Bank Ltd.
- $H(0)$  = There is no significant progress in Per Share Ratios of the Canara Bank Ltd.

### DATA COLLECTION, ANALYSIS & INTERPRETATION

#### Data Analysis

To test the hypotheses, financial ratios were produced before and after the merger and compared to determine whether there were any significant statistical changes in financial performance using a paired sample t-test with a confidence level of 0.05 or 95%. (2 tailed). The Canara Bank Ltd. results are listed in the table below.

Particulars	Ratio Value		Mean	Standard Deviation	t- value
	post	pre			
Net profit margin (%)	-4.56	0.74	-1.91	3.75	0.79
Operating profit margin (%)	-20.53	-13.3	-16.915	5.11	0.81
Return on assets (%)	-0.3	0.04	-0.13	0.24	0.78
Return on equity (%)	-5.68	1.16	-2.26	4.84	0.76
Earnings yield (x)	-0.24	0.02	-0.11	0.18	0.97
Price to sale(X)	-0.19	0.47	0.33	0.20	0.50
Cash EPS(Rs)	-21.7	10.14	-5.78	22.51	0.80
Book Value	38.14	480.845	430.845	69.93	0.47

### Testing of Hypotheses

#### Liquidity Ratios

All important performance ratios have fallen since the merger. These ratios are dropping, indicating the bank's weakening condition and inability to earn more income and reduce costs in the first quarter of 2020. The null hypothesis  $H(0)$  = There is no significant advancement in Canara Bank Ltd's Key Performance Ratios is accepted based on the findings of the t-test (95 percent significance level).

#### Valuation Ratios

- Earning Yield has been reduced to -0.24 following the merging. This means that the bank achieved a high return per share in relation to the amount invested.
- After the merger, the Price to Sale ratio was reduced to 0.19. It demonstrates that the bank's stock is undervalued. The null hypothesis  $H(0)$  = There is no significant advancement in Canara Bank Ltd's valuation ratios is accepted based on the findings of the t-test (95 percent significance level).

#### Per Share Ratios

The Per Share ratios have been reduced since the merger. It's due to a decline in net profit. In the first quarter of 2020, the bank made poor financial decisions and tactics, negatively impacting the book value and cash EPS. The null hypothesis  $H(0)$  = There is no significant advancement in Canara Bank Ltd's Per Share Ratios is accepted based on the findings of the t-test (95 percent significance level).

## IV. CONCLUSION

As a result of the above discussion, it can be concluded that mergers and acquisitions are considered corporate events that help an organisation create synergy and provide long-term competitive advantage; however, these types of corporate events also have the potential to cause severe personal trauma and stress, which can result in psychological, behavioural, health, performance, and survival issues for both individuals and companies, whether they are banks or non-banks. The integration process after a merger is a challenging and complex operation. It comes with a lengthy list of activities and chores that must be completed in a limited amount of time, as well as some missing information. The findings revealed that Canara Bank's different ratios had not improved much in the post-merger period. The study's null hypothesis, that there is no meaningful development or improvement in Canara Bank's financial status in the post-period, was not rejected. The combined corporation, Canara Bank, was unable to reap the benefits of synergy in the short term. Canara Bank's re-pricing of existing savings account deposits has a negative impact on profitability. However, Canara Bank will benefit in the long run. The combined company had a larger client base, distribution network, and product portfolio, which resulted in more cross-selling of Canara's products.

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