A Study on the Pre and Post Merger Financial Performance of Punjab National Bank

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ABSTRACT

-This study looks at Punjab National Bank's (PNB) financial performance both before and after it merged with United Bank of India and Oriental Bank of Commerce (OBC). The pre-merger study concentrates on the independent financial statements of Punjab National Bank. Statements, whereas the combined entity's independent financial statements are examined in the post-merger study. To determine the impact of the merger, financial parameters including growth, market tests, profitability, and liquidity have been evaluated. This study uses empirical analysis to find patterns and insights that provide insight into the efficiency and productivity of the combination. The research's conclusions give stakeholders, legislators, and business professionals important information about whether this merger benefited Punjab National Bank. According to this analysis, Punjab National Bank's performance has greatly improved since the merger.

Key Words – Merger, Financial Performance, Punjab National Bank.

INTRODUCTION- Banks have a crucial role in the financial infrastructure, acting as institutions that enable the movement of money, deliver financial services and improve economic activities. As organizations that facilitate the flow of money, provide financial services, and enhance economic activity, banks play a vital role in the financial infrastructure. Acquisitions and mergers are calculated business decisions meant to improve overall performance, make the most of pooled resources, and handle the changing demands of the business environment. Punjab National Bank's (PNB) amalgamation with Oriental Bank of Commerce (OBC) and United Bank of India falls under the category of "Merger of Equals" or "Three-way Merger." In this case, all of the participating banks—including PNB, OBC, and United Bank—combine to become Punjab National Bank, a bigger and more all-encompassing financial organization. Smt. Nirmala Sitharaman, India's finance minister, launched this massive public sector undertaking bank merger to establish the country's second-largest government bank in an attempt to fulfil the $5 trillion economic dream of Hon. Prime Minister Narendra Modi. These "Nextgen PSBs" (Next Generation Public Sector Banks) are the name given to the combined companies. This study aims to investigate the different ramifications and possible results of this merger, as well as how it affects clients, staff, and other stakeholders. This article attempts to provide a thorough analysis of the merger of PNB, OBC, and United Bank of India by looking at the reasons for the merger, the difficulties encountered, and the tactics used. Overall, it hopes to contribute to a more profound understanding of the dynamics of mergers in the banking industry. One of India's oldest and second-biggest public sector banks, Punjab National Bank (PNB), was founded in 1984 and has its main office in New Delhi. Retail and business banking are just two of the many banking and financial services that PNB offers. The bank has been a major contributor to India's efforts for financial inclusion and economic progress.

The government's goal of having a few sizable, fiercely competitive banks that could more effectively compete on the world scene was aligned with this merger. The public sector bank OBC has its main office in New Delhi, India. It was a nationalized bank with a history that began in 1943. Retail banking, corporate banking, and treasury operations were among the banking and financial services offered by OBC. It operated a nationwide network of branches and automated teller machines. India's United Bank was a public Kolkata, West Bengal, India, is home to the sector bank's headquarters. In 1950, it was founded. Retail and corporate banking, treasury operations, and financial inclusion programs were among the banking services and products provided by United Bank of India. Punjab National Bank amalgamated with United Bank of India and Oriental Bank of Commerce in August 2019.

The merger became operative on April 1, 2020. With an estimated revenue of Rs. 18 lakh crores, 11,000 branches, and more than 1 lakh employees, the combined bank is predicted to rank as the nation's second-largest public sector bank. For every 1,000 equity shares of OBC, 1,150 PNB equity shares must be traded, and for every 1,000 equity shares of United Bank of India, 121 PNB equity shares must be exchanged. The amalgamation plan has set March 25, 2020, as the record date for identifying OBC and UBI owners in order to allocate equity shares of PNB. A merger would create a bigger, more expansive organization, which would allow PNB to function more effectively. PNB's branch network is anticipated to grow as a result of the consolidation, giving it access to new markets and a wider geographic reach. Gaining market share and catering to a varied clientele are made easier with this expanded reach. With a larger asset base and a more diversified portfolio, the merged company should have a stronger financial position.

LITERATURE REVIEW

Sharma and Garg (2022) studied on “ A Study on pre and post merger impact of Punjab National Bank”. Research on the merger of Punjab National Bank, Oriental Bank of Commerce, and United Bank is prompted by the swift expansion of the Indian banking industry. The study investigates the causes of the consolidation and evaluates the effects before and after the merger. It highlights the benefits and drawbacks of bank mergers and examines Punjab National Bank's (PNB) post-merger performance and economic growth contribution. The results confirm that capital infusion and bank mergers improve economic growth and stability in the banking sector, highlighting the critical role that these tactics play in maintaining the strong growth of India's banking sector. The findings also suggest that while mergers can lead to increased efficiency and resource allocation, they may also pose challenges such as reduced competition and potential job losses. Ultimately, the study underscores the need for careful regulatory oversight to ensure that the positive impacts of bank consolidation are maximized while mitigating any adverse effects on the broader economy.

Paul and Infanta (2021) Conducted a study on “Pre and Post Financial performance analysis of Bank of Rajasthan and ICICI Bank after its Merger”. The banking industry in India is greatly influenced by mergers and acquisitions (M&A), which improve financial performance both before and after the merger. This study examines the theoretical effects of the ICICI Bank and Bank of Rajasthan merger, which was forced by SEBI and RBI banks. It evaluates financial metrics like debt-to-equity, quick ratio, liquidity, and profitability using secondary data. The study uses a paired t-test and finds that performance significantly improved after the merger. Recognizing the impact of regulations, it highlights the importance of taking into account both advantages and disadvantages when making M&A decisions. It also highlights how crucial these strategic moves are to accomplishing banks' goals.

Singhal (2017) carried out “Consolidation or Mergers and Acquisitions of Banking Sector for profitability and efficiency” With the advent of the merger and acquisition (M&A) idea after 1988, India's banking system—which is essential to any economy—saw a radical change. After being initially impeded by legal restrictions such as the MRTP Act, M&A emerged as a commercial strategy that offered synergistic benefits. This study examines how bank mergers affect performance both before and after the merger. Remarkably, the results indicate that M&A did not substantially improve financial performance or efficiency, while most bank mergers were followed by an increase in overhead efficiency ratios. This calls into question the traditional belief that such transactions will result in instant financial gains.

Khan and Javed (2017) examined the study on “Accounting of Post Merger Financial Performance of Punjab National Bank (PNB) and Nedungadi Bank” In today's corporate environment, mergers have become essential for achieving the best possible growth by enabling organizations to come together and simplify their processes. This study sheds light on how mergers and acquisitions (M&As) create synergies in the Indian banking industry. M&As are frequently used to increase efficiency, increase market share, and improve competitiveness. The report highlights enhancements in operating efficiency, solvency, enterprise value, and business success as key determinants of post-merger bank performance. Interestingly, the study reveals a complex effect on profitability. The report highlights notable shifts in Punjab National Bank's financial performance, namely in total income, total expense, and net profit following the merger, using a comparative static analysis.

Kumar (2013) accomplished their research work on “Impact of Bank Mergers on the Efficiency of Banks: A Study of Merger of Bharat Overseas Bank with Indian Overseas Bank” India's banking industry has seen significant changes since the 1992 reform, moving from a highly controlled setting to one that is now competitive. The impact of consolidation is examined in this study, specifically in relation to the merger of Indian Overseas Bank and Bharat Overseas Bank. The study compares pre-merger and post-merger performance and assesses several efficiency metrics. Results show general improvements following the merger, confirming the beneficial impact of consolidation. This is in line with more general industry trends, highlighting how mergers and acquisitions improve resource utilization, lower costs, and promote economies of scale—all of which are essential for overcoming the changing obstacles facing the banking industry.

OBJECTIVES

- To examine the Profitability ratios on the Pre and Post merger financial performance of Punjab National Bank.
- To analyse the Liquidity ratios of the entity before and after the merger.
- To analyse the Growth ratios of Punjab National Bank pre and post the merger.

RESEARCH METHODOLOGY

The general plan or strategy used to choose and collect data or information that may be analysed on a study or topic is known as research methodology. The research approach used in this study allows readers to evaluate the reliability and validity of the findings. Researcher used secondary data.

SOURCE OF DATA

The current study has completely utilized secondary data. This includes, Financial ratios from the Annual Reports of Punjab National Bank pre and post the merger [3 years apart] were considered. This time frame is utilized to determine the premerger [2017 – 2019] and post-merger [2021 – 2023]. The merger year [2020] was not included in this study.

TOOLS AND TECHNIQUES

The tools and techniques used in this study for analysis include, Ratios:

- Profitability Ratios
- Liquidity Ratios
- Growth Ratios

SCOPE OF THE STUDY

The main goal is to evaluate the combined bank's financial performance by comparing profitability ratios before and after the merger, which will provide insight into the effects on Punjab National Bank. To comprehend the entity's changing financial structure, the study also explores growth and leverage ratios. For stakeholders, investors, and legislators looking to understand how the merger would impact the combined banking entity's financial standing and market performance, this study is essential.

LIMITATIONS TO THE STUDY

- Although the analysis concentrates on ratios of profitability, growth, and leverage, it may overlook other significant financial indicators that could help better comprehend the financial performance of the combined entities.
- Choosing and evaluating financial ratios in ratio analysis requires some subjectivity. Diverse judgments regarding the combined entity's financial health may result from different readings of the ratios.
- Due to time limits, the study is unable to fully examine every facet of the prior and post-merger periods because the merger was completed only three years ago, which may limit the breadth of investigation in some areas.

ANALYSIS AND INTERPRETATION

Table 1.1: Profitability Ratios of Punjab National Bank for three Financial Years before the Merger and three Financial Years after the Merger (In Percentages)

PROFITABILITY RATIOS		PRE-MERGER			POST-MERGER		
		Mar' 17	Mar' 18	Mar' 19	Mar'21	Mar'22	Mar'23
1	Net Profit Margin	1.87	-25.82	-19.22	2.62	4.82	3.53
2	Operating Profit	-17.20	-44.05	-33.35	-13.40	-11.04	-10.55
3	Return on Assets	0.16	-1.55	-1.21	0.20	0.28	0.22
4	Return on Net Worth	3.01	-31.26	-22.51	3.00	4.26	3.54

Source-Computed from annual report of PNB

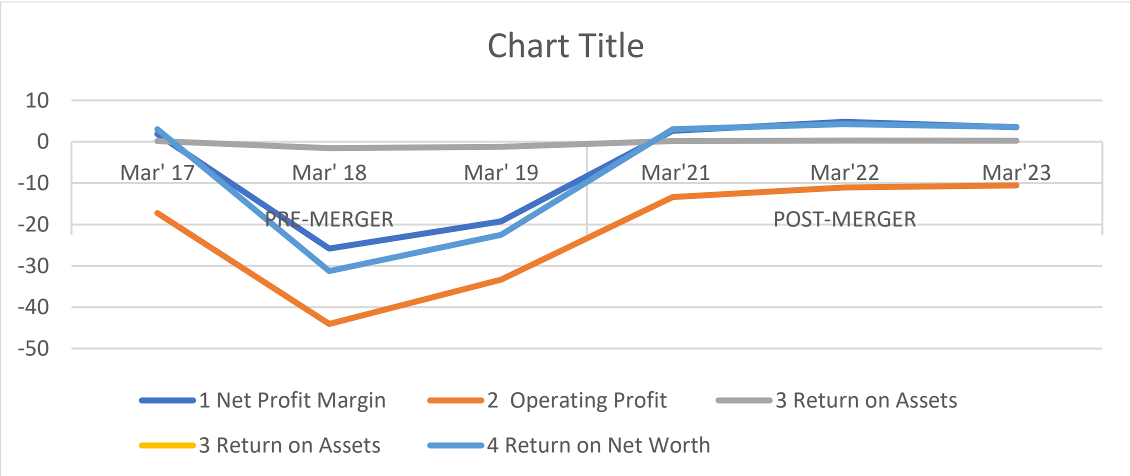


Table 1.2: Line Chart showing change in the value of Profitability Ratios of Punjab National Bank three Financial Years before the Merger and three Financial Years after the Merger (In Percentages)

Tables 1.1 and 1.2 provide the details of the Profitability ratios of Punjab National Bank. The Net Profit Margin and Return on Assets have gone positive after the merger from being negative for the past two years before the merger. The Operating Profit has increased tremendously after the merger but still has a negative value. It shows that the Return on Net worth has gradually increased after the merger.

Table 2.1: Liquidity Ratios of Punjab National Bank for three Financial Years before the Merger and three Financial Years after the Merger (In Percentages)

LIQUIDITY RATIOS		PRE-MERGER			POST-MERGER		
		Mar' 17	Mar' 18	Mar' 19	Mar'21	Mar' 22	Mar' 23
1	Quick Ratio	31.22	33.09	30.25	38.46	31.22	38.46
2	Current Ratio	2.59	2.30	1.86	3.46	2.59	2.47

Source – Computed from annual report of PNB

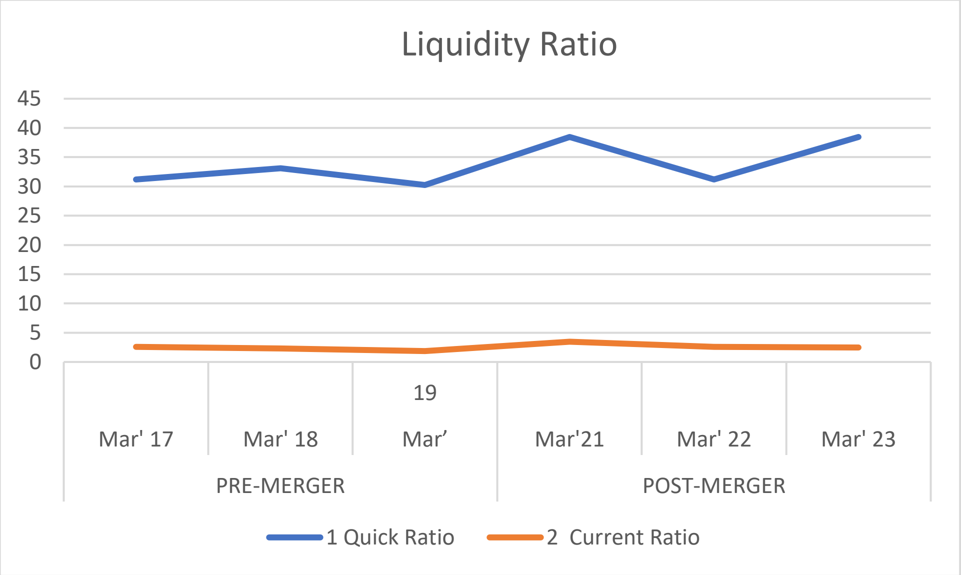


Table 2.2: Line Chart showing the Liquidity Ratios of Punjab National Bank for three Financial Years before the Merger and three Financial Years after the Merger (In Percentages)

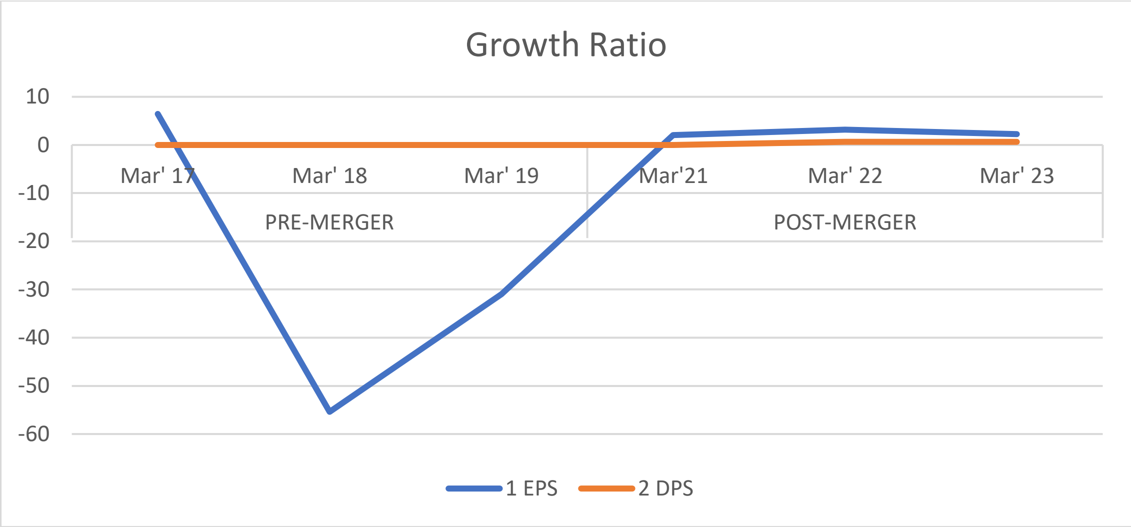
Tables 2.1 and 2.2 provide the details of the Liquidity Ratios of Punjab National Bank. The Quick Ratio and Current Ratio have minutely increased post the merger.

Table 3.1: Growth Ratios of Punjab National Bank for three Financial Years before the Merger and three Financial Years after the Merger (In Rs.)

GROWTH RATIOS		PRE-MERGER			POST-MERGER		
		Mar' 17	Mar' 18	Mar' 19	Mar'21	Mar' 22	Mar' 23
1	EPS	6.45	-55.39	-30.94	2.08	3.16	2.28
2	DPS	00	00	00	00	0.64	0.65

Source- Computed from annual report of PNB

Table 3.2: Line Chart showing the Growth Ratios of Punjab National Bank for three Financial year before the Merger and three financial years after the Merger (in Percentage)



Interpretation:

Tables 3.1 and 3.2 provide the details of the Growth Ratios of Punjab National Bank. The Dividend Per Share was zero before the merger and after the merger, it increased positively. The Earnings Per Share was negative before the merger. It increased significantly after the merger to positive values.

FINDINGS OF THE STUDY

- Prior to the merger, Punjab National Bank's net profit ratio was 19.22%, and after the merger, it was 2.6%. It demonstrates how Punjab National Bank's net profit ratio, which was formerly negative, has significantly increased since the bank merger.
- Because the bank was losing money, Punjab National Bank did not pay dividends for three years prior to the merger. Following the merger, it began to turn a profit and resume paying dividends.
- Punjab National Bank's pre-merger earnings per share were Rs. -30.94, while its post-merger earnings were Rs. 2.08. Prior to the merger, the bank's expenditures exceeded its earnings, but following the merger, they were within its earnings.

SUGGESTIONS TO THE STUDY

The following are the suggestions for the study-

1.Banks must raise awareness about acquisitions and mergers. For the aims of expansion and consolidation, mergers are crucial. India needs more international banks in order to compete with the rest of the globe. A merger lowers banking operations costs, which improves risk management. Both short- and long-term liquidity can be readily managed by a larger bank.

2.After the merger, banks ought to focus on growth. Following the merger, they must implement the right plans to boost the bank's growth.

3.Mergers should be used to improve performance and growth, not as a short-term fix for issues like bad loans and subpar management.

CONCLUSION

One of India's largest and most significant industries is banking. Over the last 20 years, this industry in India has experienced tremendous growth and development. One important instrument that has assisted numerous banks in recovering from losses and insolvency is mergers and acquisitions. As part of Prime Minister Narendra Modi's $5 trillion economic goal, Punjab National Bank merged with United Bank of India and Oriental Bank of Commerce.

PNB 2.0 (Punjab National Bank 2.0) is the name of the combined company. There will be specific interoperable services available with PNB 2.0. With regard to the client experience, PNB 2.0 will strive to be a truly next-generation bank that offers cutting-edge services and products that are developed and provided using the newest technologies. The profitability, growth, liquidity, and valuation ratios are examined in this study to determine whether Punjab National Bank has expanded after the merger. The study's findings show that the bank's post-merger financial performance is noticeably superior to its pre-merger performance. Punjab National Bank benefits as a result of the merger.

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