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A Study of Punjab National Bank (PNB) Financial Performance: Both Pre and Post Merger

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Abstract:- The banking sector plays a unique role in the country's economic development. It acts as the key driver of the Indian economy, as no economic activity will sail smoothly without an adequate amount of funding, which is mostly provided by the banking sector. Banks are considered the backbone of the growth and development of the Indian economy, so there is a need to strengthen them. In order to make Indian banks more efficient and effective, the government of India has taken a very crucial step, i.e., the merger of banks. The Indian government has conducted a series of mergers in 2019, combining 10 public sector banks into four larger entities. This paper examines the impact of the merger of Punjab National Bank with Oriental Bank of Commerce and United Bank of India from the year 2017 to 2023. The study has reviewed various research articles in order to understand the impact of the merger on the financial performance of PNB. The pre- and post-merger performance of the bank has been analysed using four parameters: Capital, Assets, Earning and Liquidity. The study shows that the merger of banks has been crucial for improving the overall performance of banks as it enlarges their earning capacity and reduces their NPA.

***Keywords*:-** *Banking Sector, Portfolio, Economic Prosperity, Merger.*

I. INTRODUCTION

Merger is one of the most commonly used business strategies nowadays. The primary objective of mergers is to integrate two or more entities together to achieve or enhance economies of scale. It helps business enterprises grow and change the nature of their business. This objective can be achieved only when two institutions merge to form another institution or one institution takes over the other. An arrangement between two or more banks, one of which becomes the acquiring bank and the other the merging bank, is referred to as a merger of banks. Through this procedure, two or more banks merge to create a single, bigger organisation by combining their activities, liabilities, and assets. The process restructuring initiative is most significant especially in the context of public sector banks in India. Banking merger is an important steps taken by the Indian government to restructure and redefine the Indian banking system. The merger of banks is done under the Banking Regulation Act of 1949. The decision to merge any two public-sector banks can be taken by the government only after consultation with the RBI and approval in Parliament. Parliament can also amend or reject it. No public or private bank can be merged without the consent of Parliament. The merger of banks can help them face global competition and also increase the scope of their work, which increases their working capacity. In the year 2019, 10 public sector banks were merged into four larger entities by Finance Minister Nirmala Sitaraman. This was done specifically to increase the lending capacity of banks and reduce the cost of their operations.

➢ *Those 10 Banks that are Merged into 4 Banks are:*

- Allahabad Bank got merged with Indian Bank.
- Oriental Bank of Commerce and United Bank of India merge with Punjab National Bank.
- Union Bank of India merges Andhra Bank and Corporation Bank.
- Canara Bank will be with Syndicate Bank.

➢ *Types of Mergers: The following are the main Categories of Mergers:*

- **Horizontal Merger:** A horizontal merger occurs when two businesses are in direct competition with one another. The important objective of horizontal mergers is to increase economies of scale, enhance market power (market share), and take advantage of merger synergies.
- **Vertical Merger:** It is that type of merger in which businesses that are part of the same supply chain are merged together. Such type of mergers are justified by enhanced information flow throughout the supply chain, title quality control, and merger synergies.
- **Conglomerate Merger:** It is that type of merger in which two completely unrelated businesses are united together. It is of two types: pure and mixed.

➢ *Objective of the Study*

- To know the reason behind merger of bank.
- To know the impact of merger on financial performance of bank.

➢ *Conceptual Framework of the Study*

- To analyse the objective of the reason behind the merger of commercial banks in India, the annual reports of the chosen entities have been taken into consideration from various reputed websites. Some other published papers,

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reports, articles, and other forms of journals are also used for this purpose.

- To analyse the effect of Merger on the financial performance of Punjab National Bank, four vital banking parameters have been used, which are: capital, assets, earnings, and cash flow position.

➢ *Limitations of the Study*

Some of the limitations of this research paper are mentioned below so that the findings can be understood in a proper manner:

- The result cannot be applied to the entire banking system as the study is limited to only one commercial bank.
- The time period of study is limited to only seven years (2017–2023).
- The present study is based on secondary data collected from various relevant internet sources and published bank annual reports.

II. REVIEW OF LITERATURE

Sai and Sultan (2013), Financial Performance Analysis in the Banking Sector: A Pre- and Post-Merger Perspective. It is possible to conclude that there is a considerable difference in net profit margin, operating profit margin, return on capital used, return on equity, and debt-equity ratio after studying Indian Overseas Bank's four-year pre- and post-merger financial indicators. However, the gross profit margin is not much different. However, it was discovered that there is no discernible difference in the net profit margin, operational profit margin, return on capital employed, return on equity, or debt-to-equity ratio after three years of HDFC Bank financial data analysis before and after the merger. However, the gross profit margin varies significantly.

A.A. Khan and S. Javed (2017), Accounting of Post Merger Financial Performance of Punjab National Bank (PNB) and Nedungadi Bank, reveal that mergers have improved the performance of banks, especially in enhancing operating efficiency, solvency, enterprise value, and business performance (except the profitability of banks). Researchers also observed in a comparative static study that mergers have significantly altered PNB’s financial performance in terms of total income, total expenses, and net profit.

T.K. Sethy (2017), in his study Impact of Merger of Financial Performance of Banks: A Study of State Bank Group. The current study tries to explore the financial performance of the state bank group during the merger period in order to find the technical efficiency of the state bank group. DEA a non-parametric approach, paired t-test, and Krushkal-Wallies test were used during the period between 2005 and 2016. The study concluded that mergers have a positive impact on the financial performance of banks, and in order to maximise financial stability in the banking sector, merger are very essential.

S. Singh and S. Das (2018), Impact of Post-Merger and Acquisition Activities on the Financial Performance of Banks: A Study of Indian Private Sector and Public Sector Banks According to the findings of the study, the post-merger and acquisition process depends heavily on procedural, physical, and sociocultural factors. study shows that surviving workers of merged banks have positive perceptions of their employer’s merger activity. Initially, employees were worried, but effective communication from management eased their transition. Involving employees in the process of change increased their confidence in their employer, and they started appreciating the objective of the merger strategy.

R. Agarwal and S. Vichore (2019), The effect of mergers and acquisitions on the performance of commercial banks in India. The study highlighted the effect of mergers and acquisitions on the performance of commercial banks in India using the CAMEL method (capital, assets, management, earnings, and liquidity). The commercial banks selected for this purpose were the State Bank of India, ICICI Bank, HDFC Bank, and Kotak Mahindra Bank. The study concluded that private sector banks have performed well compared to public sector banks.

III. REASONS BEHIND MERGER OF BANKS IN INDIA

A. There are following Reasons for the Merger of Banks in India:

➢ *To Enlarge Financial Gain :*

Whenever two or more companies are merge together, there is an increase in their asset due to which value of their share also increases which ultimately helps in increasing financial gain of the businesses.

➢ *Diversification of Banking Services :*

Merger helps in diversifying the services of bank which expands their market and helps them to grow quickly. Business seeking to expand quickly in terms of size. Market share or diversification in terms of their product may discover that a combination can be utilize to achieve the goal rather than going through the labour-intensive internal expansion.

➢ *Collaboration :*

When two or more banks collaborate together, their working efficiency increases and their value also increases. Banks will grow larger and better as a result of merger since they will be able to serve a greater number of customers. A broad client base will help increasing profitability because the combined bank will assist from synergies the business portfolio assist quality market capitalization apatite for risk and risk management strategies of the combined institution will be improved.

➢ *Reduces Competition :*

In merger the entities which have potential to face competition in the market gets merge with the big business enterprise, so the competition in the market is reduced.

➢ *Achieve Economies of scale :*

Through merger the banking industry bank are able to expand their operation and also significantly reducing their

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costs. This is because a merger removes competitors from banking sector which is another significant benefit of merger.

- *To Avail Tax Benefit :*

According to section 47(vi) of the IT act, if the combined firm is an Indian company, capital gains from the transfer of asset by the merging companies to the combined companies are tax free. Capital gains resulting from the transfer of shares by the shareholders of the merging company are free from taxation under section 47(vii) of the IT act because these transaction are not considered "transfers" as log as the transfer is made in exchange for the allotment of shares in the combined company, which must be an Indian company.

- *Larger Capital Base :*

An acquisition broadens the correspondent banks capital structure. Additionally it expands the banks financial resources, enabling it to make decision on stringent lending standards. Consequently this would lessen the need for recapitalization which government have to contribute otherwise.

- *Reduction in NPA :*

Merger assist bank in strengthening their balance sheet since they combine the assets and liabilities of all the participating institutions. In the end, it would assist in removing the non-performing assets (NPA) of India's smaller PSU banks. NPA, also referred to as bad loans are one of the most significant problem facing by banking sector by merging them with bigger bank, government tries to prevent weaker banks from being forced out of the market as a result of poor loans or NPAs. Combining the banks will save money on legal fees or other related expenses because the borrower has taken out loans from multiple banks. Additionally there have been cases of careless financial choices . Additionally bank mergers will keep a lid on this by requiring stringent oversight which will reduce NPAs.

- *Helps in Facing Global Competition :*

Indian banks still don't have a world wide network after all these years. The measurement of the balance sheet, inadequate operations failure to adhere to international banking norms and other factors are some of the causes of the same. After the merger the bank will now be able to play a significant role in the global banking system in addition to having a global footprint. The RBI's premerger duty was laborious because it required to oversea a sizable number of banks.

IV. PROFILE OF PUNJAB NATIONAL BANK

Based in New Delhi, Punjab National Bank (PNB) is the second-biggest state-owned company. Established in 1894 as a bank with 6937 branches and 10681 ATMs spread over 764 locations, the bank served over 80 million clients as of March 31, 2017. PNB was founded in 1894 in what is now Lahore, Pakistan, and had a pre-independence history. In its more than 120 years of existence, it has seen many peaks and troughs. Leaders of the Swadeshi movement, Lala Dholan Das, Lala Harkrishen Lal, Majithia, and Sardar Dayal Singh, created the bank in 1894. The first person to create a PNB account at the initial Lahore branch was Lala Lajpat Rai, the legendary independence warrior of Punjab. The bank became the second-biggest bank in the private sector in 1951 after assuming the debt and assets of Bharat Bank Ltd. The famous PNB was abruptly taken over by Dalmias and Jains in 1953 after Dalmias had successfully purchased its shares from the market. Punjabis had previously owned the bank. After Yodh Raj departed, Shiyaram passed, and Jain assumed leadership of the PNB. The way banking was conducted in India was altered when Mrs. Indira Gandhi nationalised fourteen significant banks at midnight on July 19, 1969. The Jaliawala Bagh Committee, Jawaharlal Nehru, Indira Gandhi, Lal Bahadur Shastri, and Mahatma Gandhi are just a few of the notable national leaders whose biographies PNB is privileged to preserve. PNB's history of amalgamation began in 1960 when it saved Indo-Commercial Bank Limited, which had been founded in 1933. Subsequently, in 1961, PNB acquired the Universal Bank of India, which it nationalised in 1969. In 1988 and 1993, PNB also acquired Hindustan Commercial Bank Limited and New Bank of India.

V. PARAMETER TO EVALUATE FINANCIAL PERFORMANCE OF PNB

Four essential factors have been used to perform this study: capital, assets, earnings, and liquidity. The capital adequacy ratio, non-performing assets, net profit/loss before tax, and liquid assets are evaluated in order to apply these requirements. These factors have been used to analyse the bank's performance both Pre and Post Merger.

- *Capital Adequacy Ratio*

The capital adequacy of the bank shows its overall financial position and its ability to fulfil additional capital requirements. A bank can fulfil its obligations even in the time of a financial crisis by using its capital. The level of capital adequacy reflects the general health of the bank's finances and its capacity to provide the necessary additional capital. In other words, It is a measure of the bank's core capital, represented as a percentage of its risk-weighted assets, and it indicates the bank's capacity to handle likely loan defaults. The analysis shows that the combination of banks has a favourable effect on the capital adequacy ratio.

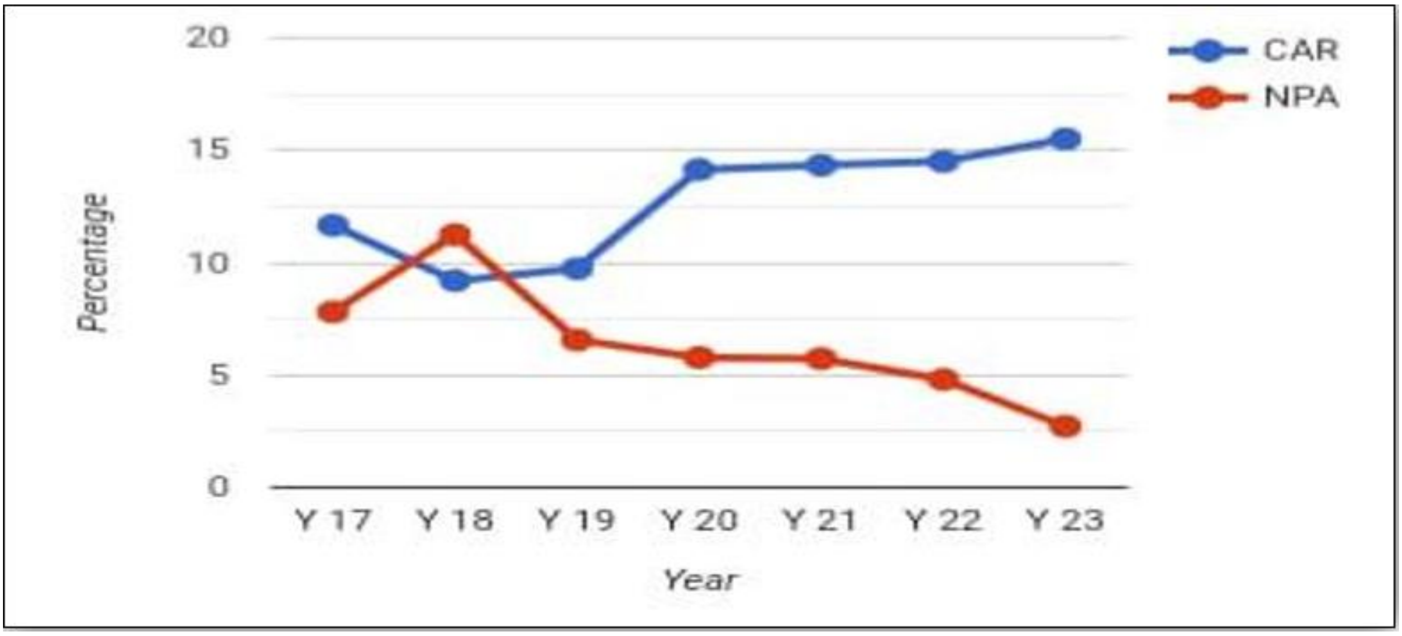

Fig 1 Capital Adequacy Ratio and Non Performing Assets of PNB

- *Net Non-Performing Assets*

Any financial security possessed by a bank is classified as an asset. The interest we pay on loans is the principle source of income for banks; hence, they are considered assets. When the borrowers are unable to return the amount on these assets, these assets are called non-performing assets as they do not generate any income for the bank. The bank allows the borrower 90 days to repay the loan. The amount that remains after subtracting questionable and unpaid debt from the gross NPA is referred to as the net NPA. It displays the bank's accurate losses.

Before the merger of banks, net NPAs in 2019 were 6.56%. After the merger of banks, the net non-performing assets have started decreasing continuously, as can be clearly seen in Fig. 1.

- *Net Profit/ Loss Before Tax*

Net profit before tax (NPBT) is also referred to as earning before tax. It is a significant term that helps in measuring the profitability of a bank before deducting its taxes. NPBT is the residual income that remains after deducting all operating expenses. It is an important parameter to assess the earning quality of a bank. In India, before the merger of banks, the NPBT of banks was not adequate, but after the merger process, there was a positive change in the earning capacity of banks. This can be understood with the help of the following diagram:

- *Net Profit/Loss Before Tax of PNB*

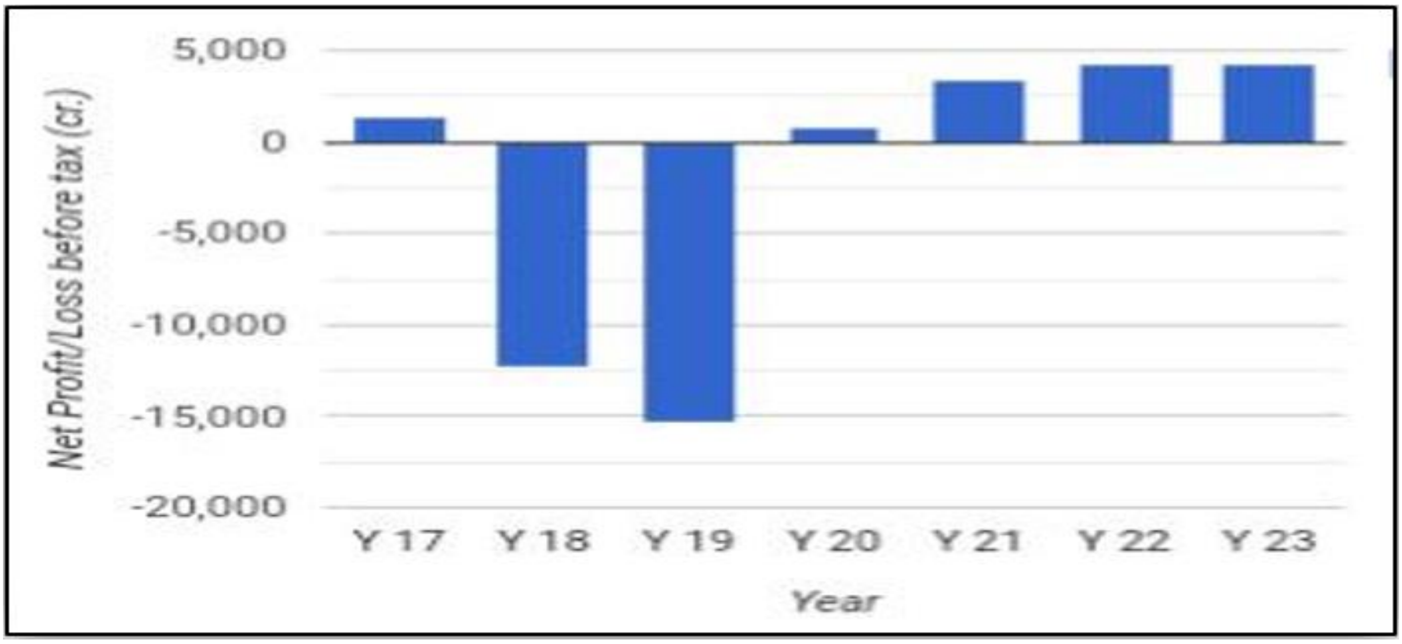

Fig 2 Net Profit/Loss Before Tax of PNB

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➢ *Liquid Assets*

In every business organisation, liquidity is very crucial in order to be financially strong. The ability of banks to fulfil their short-term lending commitments is called liquidity. Though banks act as market facilitators of liquidity, liquidity is an important component in the banking industry. Liquidity is a crucial component that a bank uses to gauge its capacity to pay its debts. Maintaining an appropriate amount of liquidity is crucial for banks since failing to do so will result in lower profits. The most liquid assets of a bank are cash investments. A high level of liquidity suggests that the bank is doing very well. For this reason, improper liquidity management can have a negative impact on a bank's success. This indicator of an organisation's ability to maintain short-term solvency allows it to obtain adequate funding by taking on more debt or by swiftly and affordably turning its assets into cash. In order to earn profits and maintain liquidity, banks must be cautious, and they should make sure that a sizable portion of their assets are allocated to investments that generate greater returns. Cash investments are the most liquid assets held by a bank. The bank is more prosperous if its liquidity ratio is high.

In the case of PNB, the liquidity position of the bank has improved after the merger of banks. The effect of mergers on the liquidity of PNB is explained with the help of the following pie chart:

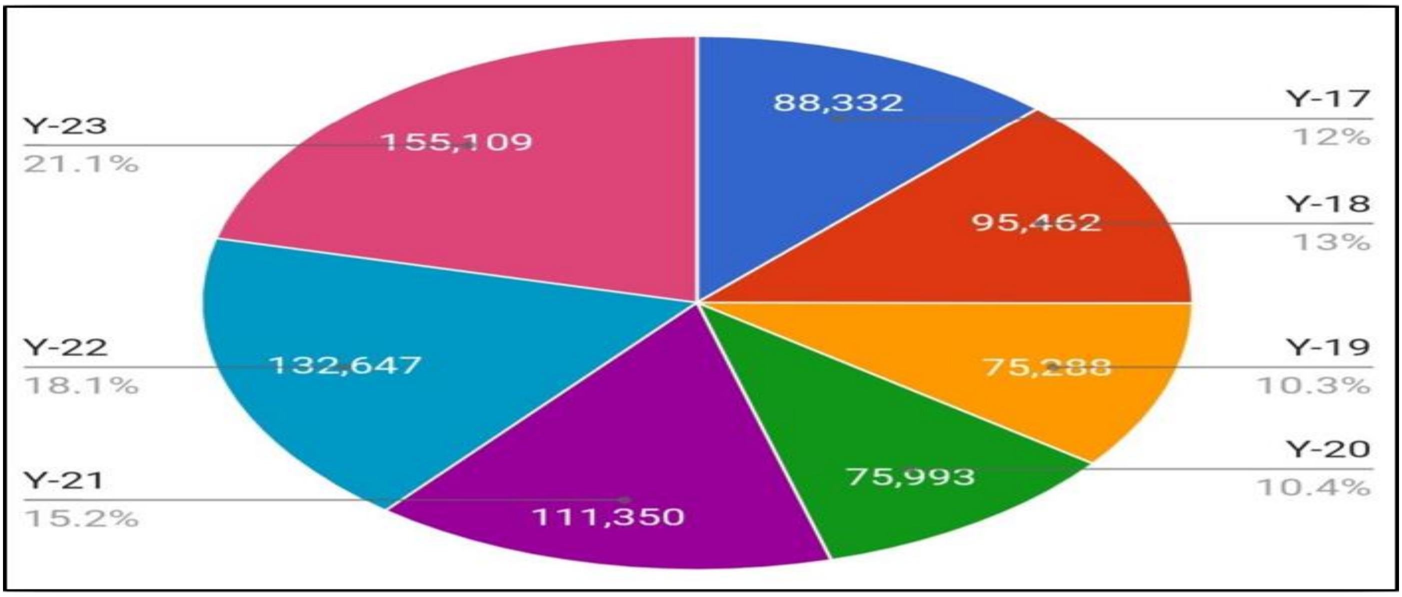
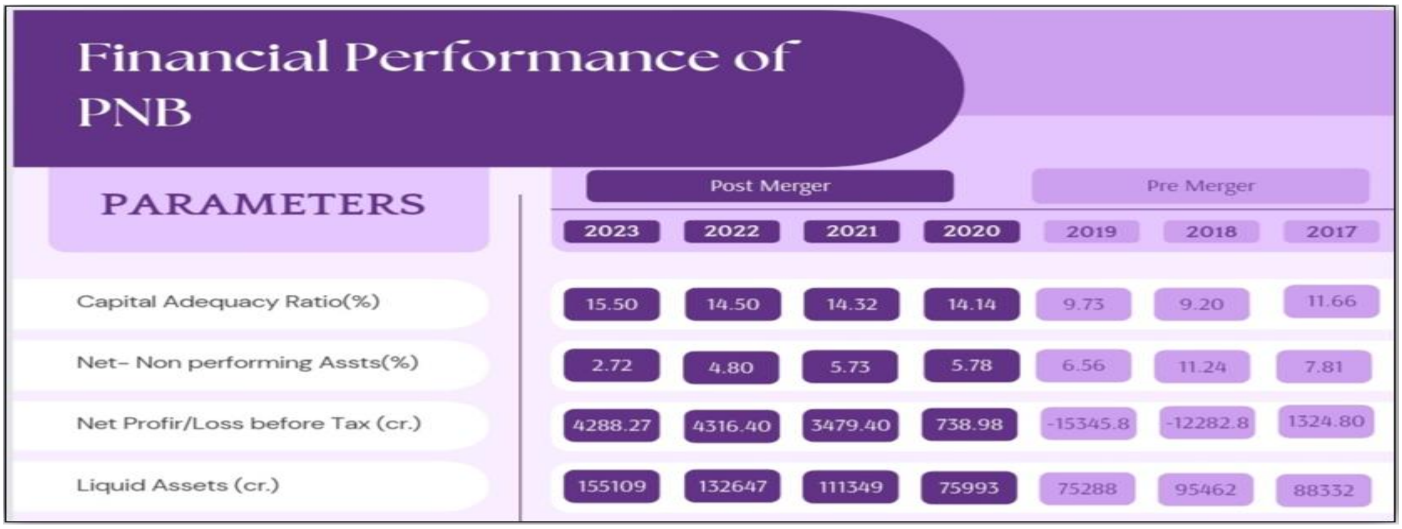


Fig 3 Liquid Assets of PNB

VI. A COMPARISON BETWEEN PNB'S FINANCIAL PERFORMANCE PRE AND POST MERGER

The following section compares Punjab National Bank's financial performance from 2017 to 2023 using four criteria (capital adequacy ratio, net non-performing assets, net profit/loss before tax, and liquid assets):

➢ *Parameter for Measuring Financial Performance of PNB*



Financial Performance of PNB

PARAMETERS	Post Merger				Pre Merger		
	2023	2022	2021	2020	2019	2018	2017
Capital Adequacy Ratio(%)	15.50	14.50	14.32	14.14	9.73	9.20	11.66
Net- Non performing Assts(%)	2.72	4.80	5.73	5.78	6.56	11.24	7.81
Net Profir/Loss before Tax (cr.)	4288.27	4316.40	3479.40	738.98	-15345.8	-12282.8	1324.80
Liquid Assets (cr.)	155109	132647	111349	75993	75288	95462	88332

Fig 4 Parameter for Measuring Financial Performance of PNB

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- PNB's Capital Adequacy Ratio(CAR) was 9.73% in year 2019 before the merger of banks. But after the merger of banks the CAR has started increasing and reached to 15.50 % in the year 2023.
- There is a positive impact of merger on the net non performing assets of Punjab National Bank as due to merger the N-NPA of PNB has started decreasing and reached to 2.72% in year 2023, which was 7.81%in the year 2017.
- The process of merger has also improved the earning capacity of PNN as the net profit before tax has increased to 4288.27 crore in year 2023.
- The present research shows that merger has a positive impact on the liquidity of Punjab National Bank as its liquid assets keeps on increasing post merger.

VII. CONCLUSION

On the basis of the 7-year pre- and post-merger analysis on the impact of the financial performance of PNB, it can be said that banks can significantly improve their administrative efficiency and enlarge their scope of banking activities. It also helps in reducing operational costs. By way of merger, banks can reduce competition as they eliminate competitors from the banking sector. The present research reveals that mergers of banks have been crucial for improving the overall performance of banks as they enlarge their earning capacity and liquidity and reduce their NPA. Using four vital parameters: capital, assets, earnings, and liquidity, it can be concluded that a merger provides a larger capital base, which allows the bank to offer a larger amount of loan to the customer.

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