



An Impact Study Of Pre And Post Merger Financial Performance Of Canara Bank Using Eagle Approach

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Abstract: Mergers and acquisitions are commonly used strategies by firms to strengthen and maintain their market positions. Currently, the banking sector in India is experiencing rapid growth, and mergers and acquisitions have emerged as a significant development within this industry. This research focuses on the impact of pre- and post-merger financial performance of Canara Bank, one of India's leading public sector banks, examining data both before and after a merger event. To assess the impact of the merger on the bank's financial health, the study employs the EAGLE (Earnings, Asset Quality, Growth, Liquidity, and Efficiency) model. The analysis covers a four-year period, incorporating financial data from both pre-merger and post-merger phases to identify trends and changes in various financial indicators. The study combines quantitative analysis of financial ratios with qualitative assessments of management strategies and operational efficiencies. Ultimately, it provides valuable insights for banking practitioners and policymakers, illuminating the complexities and dynamics of post-merger financial performance.

Index Terms – Banking Reforms, Merger and Acquisition, Financial Performance, EAGLE Approach.

1. INTRODUCTION

The Indian banking sector has experienced significant reforms and consolidation in recent years. These initiatives are designed to strengthen the sector, improve efficiency, and enhance competitiveness. A key component of these reforms has been the merger of public sector banks (PSBs). This strategy is based on the theory that consolidation will result in stronger, more efficient, and globally competitive banks. Here's a breakdown of the key theoretical foundations:

1.1 Economies of Scale and Scope:

1.1.1 Reduced Costs: Larger banks can take advantage of economies of scale by centralizing operations, eliminating redundant infrastructure, and negotiating better terms with suppliers. This leads to lower operating costs and improved profitability.

1.1.2 Enhanced Efficiency: Mergers can streamline processes, enhance resource allocation, and optimize branch networks, which boosts operational efficiency.

1.1.3 Diversification of Risks: Larger banks tend to have a more diversified loan portfolio, which reduces their exposure to specific sectors or regions and increases their resilience during economic downturns.

1.2 Improved Financial Stability:

1.2.1 Stronger Balance Sheets: Mergers can create larger banks with improved capital buffers, allowing them to better absorb shocks and withstand financial crises.

1.2.2 Reduced Systemic Risk: Fewer, larger banks can lower systemic risk in the financial system, as the failure of a large bank is less likely to trigger a domino effect.

1.3 Enhanced Global Competitiveness:

1.3.1 Increased Market Share: Larger banks can compete more effectively in the global arena, particularly in areas like international trade finance and investment banking.

1.3.2 Improved Access to Capital: Bigger banks often have better access to capital markets, enabling them to fund larger projects and support economic growth.

1.4 Better Customer Service:

1.4.1 Wider Range of Products and Services: Merged entities can offer a broader array of products and services, catering to diverse customer needs.

1.4.2 Improved Technology and Infrastructure: Mergers can facilitate the adoption of advanced technologies, enhancing customer service and digital banking experiences.

1.5 Strategic Rationale:

1.5.1 Addressing Non-Performing Assets (NPAs): Mergers can help tackle the issue of high NPAs by pooling resources and expertise to recover bad loans.

1.5.2 Improving Governance: Mergers can lead to better corporate governance practices and enhanced risk management systems.

1.6 Challenges and Considerations:

1.6.1 Integration Challenges: Merging different organizational cultures, IT systems, and human resources can be complex and time-consuming.

1.6.2 Job Losses: Mergers might result in job losses, which should be addressed through appropriate social safety nets and retraining programs.

1.6.3 Maintaining Customer Trust: Ensuring a smooth transition and preserving customer trust during and after the merger process is essential.

Table 1: Showing the detailed list of the major Public Sector Bank (PSB) mergers in India

Sl. No.	Name of the Bank	Merged Bank/ Banks	Effective Date
01.	State Bank of India (SBI)	<ul style="list-style-type: none"> ▪ State Bank of Bikaner and Jaipur, ▪ State Bank of Hyderabad, ▪ State Bank of Mysore, ▪ State Bank of Patiala, and ▪ State Bank of Travancore 	April 01, 2017
02.	Bank of Baroda (BoB)	<ul style="list-style-type: none"> ▪ Dena Bank ▪ Vijaya Bank 	April 01, 2019
03.	Punjab National Bank (PNB)	<ul style="list-style-type: none"> ▪ Oriental Bank of Commerce ▪ United Bank of India 	April 01, 2020
04.	Canara Bank	<ul style="list-style-type: none"> ▪ Syndicate Bank 	April 01, 2020
05.	Union Bank of India	<ul style="list-style-type: none"> ▪ Andhra Bank ▪ Corporation Bank 	April 01, 2020
06.	Indian Bank	<ul style="list-style-type: none"> ▪ Allahabad Bank 	April 01, 2020

Source: RBI's Official Website

2. LITERATURE REVIEW

Prajeesh P. and Dr. Kavitha S. (2020) conducted a research on the Issues and Challenges associated with the merger of PSBs in India. Over the years, the Indian economy has seen numerous transformations. In theory, mergers and consolidations are a good idea because India has a large number of public sector banks. Through low-cost deposits, subsidiaries, and branch network synergies, the merger will assist the banks in enhancing client services and operating efficiency.

Kavana A. and Kavya E. (2021): examined the financial performance of Canara Bank prior to and during the merger. The banking industry in India has garnered media attention due to its numerous mergers and acquisitions. There has been a great deal of merging in recent years. This article's main topic was the combination of Canara Bank and Syndicate Bank. Research data was collected from several sources from Annual reports of Canara Bank prior to and following the merger. Analysis indicates that Canara Bank Ltd. has not benefited significantly from the transaction. The study shows that the company's Return on Equity, Interest Coverage, Earnings per Share, and Dividend per Share have not increased.

Jay A. Sathavara (2021) assessed the financial performance of Indian private sector banks using EAGLE model. The study investigation used secondary data in an effort to achieve the goal. The bank's annual reports spanning 2009–10 through 2018–19 provided the financial data for the chosen sample. The banks were ranked and the variation in their financial factors evaluated using the ANOVA test and the EAGLE model. Based on India's market capitalization, the study's findings show that large private sector banks select Indian banks with respectable EAGLE performance.

Sharma and Garg (Dec 2022) examine the effects of Canara Bank's financial performance both before and after the merger. Through mergers and acquisitions, the Indian banking industry has improved a relatively recent trend. It enables banks to attain a top-tier position and provide stakeholders with higher value. A merger often has a proportionate effect on a company's stock and the equity share of the capital of its shareholders. The bank's performance is often better and in the green both before and after the merger. The majority of study findings indicate that M&A deals have been somewhat effective in the Indian banking industry. The findings indicate that bank mergers and capital infusions into the banking industry result in both stability and expansion.

Dadresha (Oct 2023) examined the performance of the Union Bank of India before and after a merger using the EAGLE Model for the study. The three years between 2017 and 2020 are referred to as the pre-merger period in this study, while the three years between 2021 and 2023 are referred to as the post-merger era. An effective and dependable way to examine and evaluate bank performance is to use the EAGLE model. Using the EAGLE model, several ratios have been developed to examine each key variable and evaluate performance. The study's findings demonstrate that Union Bank of India's strong dividend payout ratio and return on assets enhanced its earning potential. The Union Bank of India has observed a drop in the quality of the assets. Union Bank is working to improve asset quality and decrease non-performing assets.

3. OBJECTIVES OF THE STUDY

The main objectives of this study are as follows:

- To examine the reasons behind Merging Public Sector Banks (PSBs) in India
- To evaluate the impact of Pre and Post Merger financial performance of Canara Bank using EAGLE Approach

4. RESEARCH METHODOLOGY

4.1 Data Sources and Analysis: In order to evaluate the impact of Pre and Post merger financial performance of Canara Bank, data collected from the secondary source that was taken from Canara Bank's annual reports covering the years from 2016–27 to 2023–24 (i.e., Pre Merger 4 Years and Post Merger 4 Years). Statistical methods and tools, such as accounting ratios, percentages were used to analyze the gathered data. The **paired t-test** was used for hypothesis testing, and statistical programs using Minitab 17 Application and MS-Excel to get the results.

The EAGLE model is a framework used to assess the financial performance and soundness of banks. It focuses on five key areas:

Particulars		Reasons	Parameters
E	Earnings	The bank's profitability and ability to generate income	<ul style="list-style-type: none"> ▪ Return On Assets (RoA) ▪ Interest Income to Total Income ▪ Interest Income to Total Assets ▪ Earnings per Share
A	Asset Quality	The quality of the bank's loan portfolio and the level of non-performing assets (NPAs).	<ul style="list-style-type: none"> ▪ Gross NPA ▪ Net NPA ▪ Government Securities to Total Income ▪ Government Securities to Total Income
G	Growth	The bank's ability to expand its business and customer base.	<ul style="list-style-type: none"> ▪ Growth of Deposits ▪ Growth of Advances ▪ Government Securities to Total Assets
L	Liquidity	The bank's ability to meet its short-term obligations.	<ul style="list-style-type: none"> ▪ HQ Liquid Assets to Total Deposits ▪ HQ Liquid Assets to Total Assets
E	Equity	The bank's capital adequacy and financial strength.	<ul style="list-style-type: none"> ▪ Capital Adequacy Ratio ▪ Advances to Total Assets

By analyzing these five areas, the EAGLE model provides a comprehensive assessment of a bank's overall health and performance.

4.2 Hypothesis

To compare and prove the significant impact of per merger and post merger period of Canara Bank's Financial Performance, the following null hypothesis is formulated:

H₀: There is no significant difference in the financial performance of Canara Bank during the Pre and Post-Merger Periods.

5 RESULTS AND DISCUSSIONS

Table 2: Showing the data related to Canara Bank's Financial Data/ Ratios from 2016-17 to 2023-24

Particulars		Pre-Merger Period					Post-Merger Period				
		2016-17	2017-18	2018-19	2019-20	Average	2020-21	2021-22	2022-23	2023-24	Average
Earnings	RoA (%)	20	-75	6	-32	-20.25	23	48	81	101	63.25
	Interest Income to Total Income (%)	60.5	60.4	87.6	86.2	73.675	59.8	58	59.46	61.25	59.6275
	Interest Income to Total Assets (%)	5	4.6	6.7	6.76	5.765	4.37	4.06	4.56	5.24	4.5575
	EPS (Rs.)	24.98	-65.95	4.71	-26.5	-15.69	19.11	35.04	62.04	84.22	50.1025
Assets Quality	Gross NPA (%)	9.63	11.84	8.83	8.21	9.6275	8.93	7.51	5.35	4.23	6.505
	Net NPA (%)	6.33	7.84	5.37	4.22	5.94	3.82	2.65	1.73	1.27	2.3675
	Government Securities to Total Income	2.77	2.65	2.596	2.908	2.731	2.86	3.065	2.938	2.683	2.8865
	Total Income to Total Assets (%)	8	7.6	7.68	7.84	7.78	7.3	7	7.66	5.24	6.8

Growth	Growth of Deposits (%)	3.23	5.96	14.15	4.39	6.9325	61.65	7.41	8.54	11.29	22.2225
	Growth of Advances (%)	5.33	12.82	10.82	1.58	7.6375	49.63	9.77	16.41	11.34	21.7875
	Government Securities to Total Assets (%)	22.7	20.2	19.94	22.8	21.41	20.87	21.46	22.53	22.97	21.9575
Liquidity	HQ Liquid Assets to Total Deposits (%)	18	15.6	16.64	22.14	18.095	25.3	25.48	24.6	23.26	24.66
	HQ Liquid Assets to Total Assets (%)	14.7	13	14.3	19.1	15.275	22.2	22.56	21.56	20.47	21.6975
Equity	CAR (%)	12.86	13.22	11.9	13.65	12.9075	13.18	14.9	16.68	16.28	15.26
	Advances to Total Assets (%)	57.4	60.5	63.9	62.3	61.025	58.5	60.4	64.1	64.4	61.85

Source: Computed data by the author from Minitab 17 application

In Table 2, Canara Bank's Pre and Post Merger Financial Performances from 2016-17 to 2023-24 are shown as per the earnings per share EAGLE model. The detailed analysis and interpretations of EAGLE model is as follows:

Earnings: Canara Bank's (standalone) return on assets and EPS had a negative average during the pre-merger period, while both metrics showed a larger recovery during the post-merger period. After the merger, interest income was lower than total revenue and total assets. This suggests that Canara Bank continued to generate profits following its merger with Syndicate Bank.

Asset quality: Canara Bank's Gross NPA and Net NPA are notably compressed following the merger. This demonstrates the government's well-defined goal in supporting the merger of public sector banks. Very small modifications have been seen in remaining asset quality parameters.

Growth: Unsurprisingly, there has been a 15% rise in the Growth of Deposits and Advances during the post-merger era. This occurred as a result of merging two sizable PSBs transactions.

Liquidity: is defined as a higher growth in High-Quality Liquid Assets relative to Total Deposits and Assets. This indicates that the availability of High-Quality Liquid Assets has been steady and improving since the merger.

Equity: The capital Adequacy Ratio has been increased from 13% to 16.28% during post Merger period, this is because of RBI regulation as per basal norms. Not much change is found in advances against total assets.

Table 3: Showing the results of Paired t-Test and Hypothesis Test

Parameters		Paired Differences			t	df	Sig. (2-tailed)
		Mean	SD	Std. Error mean			
Earnings	Return on Assets (%)	-83.5	59.3	29.7	-2.81	2	0.067
	Interest Income to Total Income (%)	14.05	14.51	7.25	1.94	2	0.148
	Interest Income to Total Assets (%)	1.207	0.763	0.381	3.17	2	0.051
	EPS (Rs.)	-65.8	53.1	26.6	-2.48	2	0.089
Assets Quality	Gross NPA (%)	3.123	1.652	0.826	3.78	2	0.032
	Net NPA (%)	3.572	1.174	0.587	6.08	2	0.009
	Government Securities to Total Income	-0.155	0.289	0.145	-1.07	2	0.361
	Total Income to Total Assets (%)	0.98	1.121	0.56	1.75	2	0.179
Growth	Growth of Deposits (%)	-15.3	29.2	14.6	-1.05	2	0.372

	Growth of Advances (%)	-14.2	20.8	10.4	-1.36	2	0.267
	Government Securities to Total Assets (%)	-0.548	1.869	0.934	-0.59	2	0.599
Liquidity	HQ Liquid Assets to Total Deposits (%)	-6.57	3.79	1.9	-3.46	2	0.041
	HQ Liquid Assets to Total Assets (%)	-6.42	3.52	1.76	-3.65	2	0.036
Equity	Capital Adequacy Ratio (%)	-2.353	1.876	0.938	-2.51	2	0.087
	Advances to Total Assets (%)	-0.825	0.991	0.496	-1.66	2	0.195

Source: Computed data by the author from Minitab 17 application

Table 3 shows the paid T test results for each financial parameter using the Eagle model from 2016–17 to 2023–24 (pre and post merger period). The null hypothesis is tested using the two tailed paired T test with a significance level of 0.05. According to the previously mentioned null hypothesis, the p values for high quality liquid assets to total deposits (0.041) & total assets (0.036) under liquidity and gross npa (0.032) and net npa (0.009) under asset quality have shown less than 0.05. Hence the null hypothesis is rejected. As a result, it can be said that Canara Bank's financial performance before and after the merger differed significantly in terms of asset quality and liquidity metrics.

This may indicate that Canara Bank and Syndicate Bank have both reduced Non-Performing Assets to stabilize their financial standing. They have also enhanced High-Quality Liquid Assets, which might help Canara Bank meet its short-term obligations during the post-merger period. For the remaining three parameters are Equity, Growth, and Earnings, the null hypothesis is accepted. This suggests that, in terms of returns, EPS, Deposits, Advances, Capital Adequacy Ratio, and Equity, Canara Bank's financial performance before and after the merger did not change significantly.

CONCLUSION

The Ministry of Finance, Government of India, has a solid intention of merging nationalized banks. As per this study, it is concerned with part of the intentions reached by the Canara Bank, which is Asset Quality, particularly Non-Performing Assets, and Liquidity, which significantly changed during the Post-Merger Period compared to the Pre-Merger Period. On the other hand, Return on Assets (RoA), EPS, and Growth of Deposits and Advances show greater positive differences in the Post-Merger Period.

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