"ANALYSIS OF PRE AND POST MERGER FINANCIAL PERFORMANCE OF CANARA BANK THROUGH CAMEL MODEL"

Mr.Devaraju N* Dr. Prathap B N Ms.Vishalakshi R*****

**Assistant Professor& Research Scholar, Dept. of MBA and Research Centre, East West Institute of Technology, Bangalore-.*

***Professor, Dept. of MBA and Research Centre, East West Institute of Technology, Bengaluru.*

****Student, Dept. of MBA and Research Centre, East West Institute of Technology, Bangalore.*

Abstract

This analysis assesses Canara Bank's pre and post-merger financial performance using the CAMEL model. The study evaluates key indicators before and after the merger to gauge its impact. CAMEL model components—Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity—are examined individually. Post-merger, capital adequacy improved with increased resources. Asset quality enhanced, reflecting better risk management. Management quality remained stable, showing effective leadership. Earnings fluctuated due to integration costs and restructuring. Liquidity faced initial strain but stabilized over time. Overall, Canara Bank's post-merger performance displayed growth potential, although long-term effects require continuous monitoring and strategic planning for sustained success in the competitive banking sector.

Key Words: Merger, Financial Performance, Canara Bank, Camel Model.

Introduction

Banks play a significant role in economies, managing savings, loans, and payments. Evolving complexity brings specialized financial services and increased risks, exemplified by the 2008 crisis. Regulatory frameworks like CAMEL assess banks' overall performance and risk management. The model was introduced in the US in 1979, CAMEL is used by regulatory agencies. India's Banks also use CAMEL ratings for self-assessment. This study examines how Indian banks use CAMEL.

Literature Review

1. **TruptiMandar Joshi, Anuja Rishi Limbad (2023),** The study evaluates Indian Bank's activity in a merger compared to others, using the CAMEL model for financial performance. It assesses pre and post-merger subsets, aiming to enhance efficiency, customer satisfaction, market share, and resilience through lending, asset management, and technology training.
2. **Selvi S (2023),**The paper examines Indian bank sector mergers, focusing on SBI's pre- and post-merger financial performance with its partner bank using DuPont model, value ratios, return, growth rates, and key financial ratios. The SBI merger aimed to cut costs and enhance profitability, yielding little observable change in overall performance during 2017-2018, with some notable variations.
3. **Shraddha Thakur and Prof Arvind Kumar (2022),**This study examines the impact of a merger on Canara Bank's financial performance, highlighting the success of mergers in the Indian banking sector for stability and economic growth. The research evaluates Canara Bank's pre and post-merger performance, discussing merger benefits, potential challenges, and the bank's aspiration to achieve global standards of profitability, efficiency, and risk management.
4. **AbhiDutt Sharma and DrPradeep Kumar Garg (2022)**,This research focuses on the impact of mergers in India's banking sector, specifically examining Canara Bank's performance pre and post-merger. Successful mergers have brought stability and growth to the Indian banking

industry. The study evaluates Canara Bank's financial performance post-merger by analyzing comparative financial data and emphasizes the bank's commitment to profitability, corporate social responsibility, and global standards.

5. **Prasad Kandi V. S and SaiAnvitha V (2022),**This study evaluates SBI's performance using the CAMEL model, analyzing its eight-year performance and the impact of the 2017 merger with subsidiaries and BharatiyaMahila Bank. The merger improved asset quality, capital adequacy, and liquidity, with ongoing progress in earnings quality and management efficiency, indicating long-term synergy potential.

Research Gap

From the above researches, it is found that many studies have examined the impact of mergers and acquisitions on banks' efficiency, but none of the study has not made an effort to use the CAMEL model to analyse Canara Bank's pre and post-merger financial performance. This study seeks to close this gap by analysing the merging of financial performance using the CAMEL model.

Need for the study

Here, the main need for the study is banks which over comes from problem by nonperforming asset and weak bank are in the need of merger to enhance and improve the Financial Performance of weak bank there is a great need of merger. In this context the study is enable to analyse the financial performance of Canara bank in pre and post accommodation period.

Objectives of the study

- To study the concept of merger and acquisition.
- To know the significance of CAMEL model in analysing financial performance.
- To examine the Pre and Post-merger financial performance of bank through CAMEL model.

Scope of the study

The scope of the study to analysis of financial performance of canara bank right pre and post syndicate bank was merged into it and the impact of merger on Canara Bank has not been done. The research aims to fill this gap by analysing the financial performance of Canara Bank from 2018-2022 and clarify on, if the merger between canara bank and syndicate bank will be beneficial or not.

Research Methodology

Types of research: Descriptive research
Sample size: 5 years Financial Statements of bank
Data collection method: Secondary data through web source, research articles, text books and bank year-end reports.

Limitations

- The major drawback is that the research data collection was dependent on secondary sources rather than primary sources.
- The study only focus on canara bank in the analysis and it does not affect other banks
- For study only data for five-year period (2018 to 2022) were taken into consideration

Analysis & Interpretation

Parameters	Pre-merger		Post-merger			Results
	2017-18	2018-19	2019-20	2020-21	2021-22	
Capital Adequacy						
Capital Adequacy ratio (%)	13.22	11.9	13.65	13.81	14.9	Increased
Advanced to Total Asset ratio (%)	60.5	60.14	58.31	54.19	55.96	Fluctuated
Government securities to Total Investment (%)	83.03	82.16	86.59	85.98	86.75	Increased
Debt equity ratio	10.54	10.88	10.37	8.01	4.98	Decreased
Assets Quality						
Gross NPA ratio (%)	12.43	9.16	8.56	9.43	7.9	Decreased
Net NPA ratio (%)	7.47	5.36	4.22	3.82	2.65	Decreased
Total Investment to Total Assets Ratio (%)	24.93	23.69	25.7	24.26	24.75	Increased
Management						
Business per employee	15.41	17.6	18.04	18.7	20.59	Increased
Profit per employee (in Rs 000)	-717396.99	59472.15	381313.95	289932.95	653299.04	Increased
Return on equity	1.3	1.41	1.37	1.35	1.34	Decreased
Profit per branch	-0.72	0.05	-0.35	0.24	0.58	Increased
Earning Quality						
Return on Assets (%)	-0.62	0.08	-0.26	0.24	0.48	Increased
Operating Profit to Total Asset(%)	-1.81	-1.31	-1.86	-1.75	-1.41	Decreased
Earning per share (%)	-4.27	-17.3	0.69	0.91	1.73	Increased
Net Profit to Total Assets	1.51	0.04	-0.3	0.21	0.45	Fluctuated
Liquidity						
Current ratio	1.59	2.01	2.22	3.38	3.25	Fluctuated
Quick ratio	24.67	26.78	29.97	21.97	28.51	Increased
Cash deposit ratio	4.21	4.99	3.61	4.26	4.75	Increased

*Source: Secondary data

Findings

Capital adequacy

- The CAR improved from 13.22% (2017-18) to 14.9% (2021-22), indicating enhanced post-merger financial strength. CAR measures a bank's ability to meet obligations using capital and assets.
- Advanced credit to Total-assets ratio declined post-merger, from around 60% to 55%, signifying reduced dependence on credit extension relative to the overall asset portfolio.
- Post-merger, Canara Bank increased investments in government securities from 82% to 86%, likely due to their perceived stability.
- Debt-equity ratio decreased from 10.54% (2017-18) to 4.98% (2021-22), showcasing improved objectivity in the bank's operations.

1. **Asset Quality**

- Canara Bank's Gross Non-Performing Assets (NPA) ratio decreased from 12.43% (2017-18) to 7.90% (2018-19), indicating improved debt recovery ability.
- The Net NPA ratio also declined from 7.47% to 2.65% (2017-18 to 2021-22), reflecting better loan quality and bank safety post-merger.
- Pre-merger, the slippage ratio varied from 7.47 to 5.36, and post-merger, it gradually decreased from 4.22 to 2.65, showing increase performance and less non-performing loans.

2. **ManagementEfficiency**
   - Business units per employee increased from 15.41 to 20.59 post-merger, highlighting improved management effectiveness and operational efficiency.
   - Post-merger, profitability per employee showed an upward trend, with periods of loss and recovery, indicating positive post-merger financial performance.
   - ROE initially increased but declined after the merger (1.30% to 1.34%), it indicates challenges in generating higher returns on shareholders' equity post-merger.
   - Post-merger, branch profitability notably improved from negative values to positive, showcasing the positive impact of the merger on overall financial performance.
3. **Earning Efficiency**
   - ROA improved post-merger, from negative 0.62% (2017-18) to positive 0.48% (2021-22), indicating enhanced financial performance.
   - The trend in operating profit divided by total assets was negative post-merger, showing improvement in 2019-20, and subsequently decreasing in 2020-21 and 2021-22.
   - EPS trend turned positive (0.69 to 1.73) post-merger with Syndicate Bank, reflecting improved earnings per share.
   - Net profit to Total Assets ratio fluctuated initially but improved post-merger (2020-21 and 2021-22), highlighting the bank's adaptation and improvement over time.
4. **Liquidity**
   - Post the merger with Syndicate Bank (2019-20 to 2021-22), Canara Bank's current ratio increased (2.22 to 3.25), indicating a stronger ability to meet short-term obligations.
   - The quick ratio trend is generally upward, except in 2020-21, reflecting consistent liquidity improvement, with ratios consistently above 1:1 before and after the merger.
   - The cash deposit ratio decreased in 2019-20 post-merger (3.61), from a pre-merger ratio of 4.99, but improved in 2020-21 and 2021-22, suggesting improved deposit management.

Suggestions

- Considering the drop in advanced assets, review risk-taking and investment structure post-merger to maintain a balanced approach between risk and returns.
- To achieve optimal capital structure and financial stability, create a balance between debt and equity, as demonstrated by the downward trend in the debt-to-equity ratio.
- Bank risk management has improved asset quality by lowering the gross NPA ratio. To further manage and reduce non-performing assets, the bank should maintain proactive measures in loan assessment, monitoring, and recovery.
- Increased recovery efforts and proper provisioning have helped to reduce the net NPA ratio. To lower it even more, the bank should prioritise cautious provisioning and aggressive actions.
- To prevent further asset quality reductions, regularly monitor loan slippage and use entire credit monitoring and early warning systems.
- Focus on increasing income flows, lowering costs, and enhancing operational efficiencies inside the bank to increase profitability per employee.

- Improve operating profitability by focusing on cost reduction, operational effectiveness, and revenue growth prospects to guarantee that operating income exceeds operating expenses.
- Maximise net profitability through managing the asset base effectively, enhancing asset quality, lowering non-performing assets, and optimising asset utilisation.

Conclusion

Canara Bank's highlights the diverse outcomes of industry mergers, driven by varied motives like expanding consumer base or rescuing failing banks.

Regardless of differences, Canara Bank's post-merger performance showed modest improvement compared to pre-merger results, suggesting potential geographic benefits.

Mergers, driven by consumer-focused technology, are now common in a rapidly changing business landscape, potentially leading smaller banks to merge or close.

Canara Bank should carefully assess the benefits and risks of mergers, considering both geographical and economic factors, while remaining adaptable to technological advancements for continued competitiveness.

Future success will rely on strategic choices, technological adaptability, and maintaining a competitive edge in an ever-evolving industry.

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