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IMPACT OF FINANCIAL PERFORMANCE AFTER MERGERS AND ACQUISITIONS ON NPA (PNB)

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Abstract
This research investigates the impact of mergers and acquisitions (M&A) on the financial performance and non-performing assets (NPA) of Punjab National Bank (PNB). Using a longitudinal analysis of PNB's financial data from 2020 to 2024, the study evaluates key financial metrics, including equity share capital, reserves, surplus, deposits, and NPAs. Employing descriptive statistics, trend analysis, correlation analysis, and regression analysis, the findings reveal that PNB's financial stability, liquidity, and asset quality improved significantly post-merger. The study highlights a notable reduction in Gross and Net NPAs, indicating enhanced risk management and credit appraisal processes. The results suggest that strategic M&A activities can positively influence the financial health and performance of banking institutions. Additionally, the study provides actionable recommendations for sustaining financial stability and managing NPAs effectively in the post-merger period. This research contributes to the existing literature by offering a comprehensive analysis of the long-term effects of M&A on bank performance, particularly in the Indian banking sector.

Keyword: Mergers and Acquisitions (M&A), Financial Performance, Non-Performing Assets (NPA), Punjab National Bank (PNB), Banking Sector.

Introduction

Mergers and acquisitions (M&A) are critical strategies for growth and consolidation in the banking sector, aiming to enhance financial stability, expand market reach, and improve operational efficiencies. The global banking sector has witnessed fluctuating M&A activity, with a peak of over 2,000 deals in 2018, followed by a decline to 1,380 deals by 2022 (Statista, 2024). In the context of Indian banking, M&A activities have gained prominence as public sector banks seek to address challenges such as high operational costs, growing NPAs, and the need for enhanced competitiveness.
Punjab National Bank (PNB), one of India's largest public sector banks, underwent a significant merger with Oriental Bank of Commerce and United Bank of India in 2020. This consolidation aimed to create a more robust financial entity capable of addressing the challenges faced by individual banks. Given the critical role of banks in economic development and their functions in financial intermediation, understanding the impact of such mergers on financial performance and NPAs is essential.

Previous studies, such as those by Pon (2022) and Singhal (2022), have highlighted the positive effects of M&As on financial performance and stability. Pon (2022) examined the impact of COVID-19 on global M&As and the specific financial performance of PNB post-merger, noting improved financial metrics. Sumitha and Valarmathi (2024) emphasized the role of consolidations in expanding operational areas and improving profitability among Indian public banks. However, there remains a research gap in the long-term evaluation of financial performance and NPAs post-merger.

This study aims to fill this gap by analyzing the financial performance of PNB over a five-year period post-merger, with a specific focus on NPAs. The research methodology involves a comprehensive examination of financial data from PNB's annual reports, employing statistical tools to identify trends,

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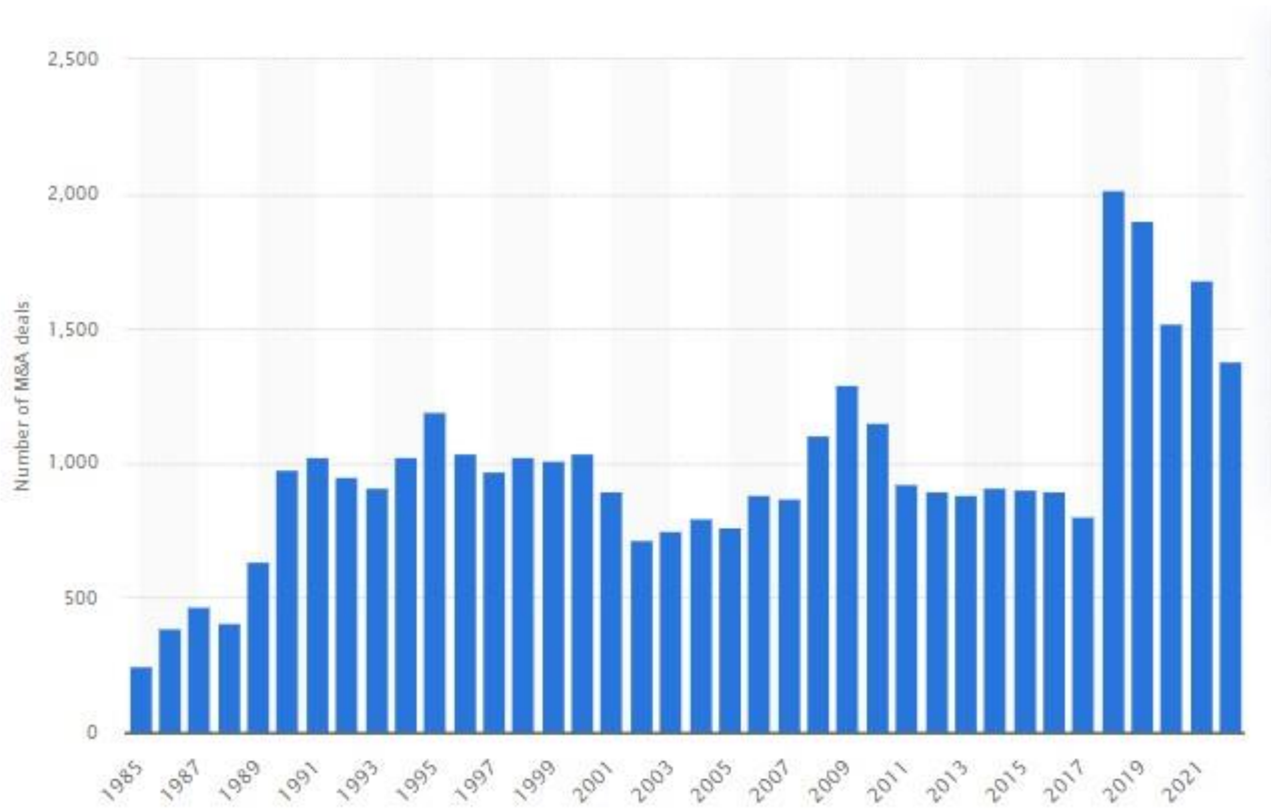
correlations, and the impact of various financial metrics on NPAs. By providing a detailed analysis, this research contributes to a deeper understanding of the strategic outcomes of bank consolidations and offers insights for future M&A activities in the banking sector.

The subsequent sections of this paper will discuss the literature review, research methodology, data analysis, interpretation of findings, and strategic recommendations. Through this study, we aim to offer valuable insights into the financial dynamics of M&As and their implications for NPAs in the banking sector, with a specific focus on Punjab National Bank.

Number of Banking Merger and Acquisition (M&A) Deals Worldwide from 1985 to 2022



Source- © Statista 2024

Merger and acquisition (M&A) activity in the banking sector peaked in 2018, with over 2,000 deals recorded. Following this peak, the number of M&A deals in the sector varied annually. By 2022, the global banking sector saw a total of 1,380 M&A deals.

Literature Review

Pon, S. P. (2022) This paper aims to examine the impact of the coronavirus (COVID-19) crisis on global mergers and acquisitions (M&A) and to analyze the financial position of Punjab National Bank (PNB) before and after its merger with Oriental Bank of Commerce and United Bank of India. The study compares the pre- and post-merger performance of PNB, as well as the financial performance of

Oriental Bank of Commerce and United Bank of India before the merger. The analysis reveals that post-merger, Punjab National Bank demonstrated improved financial performance.

Sumitha, S., &Valarmathi, B. (2024) India is one of the nations whose economy is expanding globally at a rapid pace. However, the high costs associated with branch development make it challenging for commercial banks to expand their operational areas. Additionally, financial analysts often assess the performance of public banks based on the price of their shares. Currently, public banks are fierce competitors to commercial banks in terms of profitability, low operating expenses, growing non-performing assets (NPAs), and high share values.

The topic "Impact of Consolidations on Financial Performance of Indian Public Banks" has been chosen in light of these challenges. Consolidations are essential tools for economic expansion and growth in a globalized world. A consolidation involves the merging of multiple businesses through shared interests. Post-consolidation, the firm's name might be that of the buyer, the seller, or a new name altogether. Consolidations occur when one business acquires a majority stake in another, with the buyer paying in cash or stock for the seller's assets or stock. Typically, the buyer holds the upper hand in such deals, and the acquired entity ceases to exist independently upon purchase.

This research focuses on the reasons behind bank consolidations in India and aims to determine the correlation between CAMEL variables (Capital Adequacy, Asset Quality, Management Quality, Earnings Quality, and Liquidity) and the financial performance of Indian banks. It also examines the effects of consolidations on these variables before and after the mergers. A thorough analysis was conducted using the annual reports of selected Indian public banks, covering five years prior to and five years following the consolidations.

The T-test was employed to analyze profitability and efficiency, as well as the impact of consolidations on the financial performance of the combined banks. Correlation analysis was used to identify the relationships between different dependent variables. Multivariate analysis was applied to explore the link between the dependent variables and categorical independent fixed factors, such as Pre- and Post-Merger status.

Singhal, J. (2022). In the modern economy, the importance of banks cannot be overstated. The banking sector plays a crucial role in the economic development of a country. Banks, as financial institutions, perform various functions such as accepting deposits and lending loans to agricultural and industrial sectors. To understand the long-term implications of mergers, this research examines the mergers and acquisitions (M&As) that have occurred in Indian banking. This paper also identifies critical steps that banks should consider for the future.

The recent trends in M&As and their impact on the Indian banking sector are analyzed in this study. By evaluating performance, this paper compares the financial performance of banks before and after mergers, assessing the success of M&As in the Indian banking sector. This comparison aims to determine how M&As can promote the interests of depositors in distressed banks. Therefore, promoting mergers and acquisitions between strong and distressed banks is essential.

Specifically, this paper examines the financial performance of Punjab National Bank (PNB), Indian Bank, Union Bank, and Bank of Baroda before and after their respective mergers. Through this analysis, the paper seeks to highlight the impact of these mergers on the financial stability and growth of these institutions.

Research Gap

Despite extensive research on mergers and acquisitions (M&As) in the banking sector, several significant gaps remain. Many studies focus on the short-term effects, leaving the long-term financial performance and stability of merged banks underexplored. This research aims to fill this gap by evaluating the financial performance of banks five years before and after their mergers. Additionally, existing literature often examines individual banks or small subsets, lacking a comparative analysis across multiple major Indian banks. This study addresses this by analyzing Punjab National Bank (PNB), Indian Bank, Union Bank, and Bank of Baroda to identify common patterns and unique outcomes.

There is also limited research on how M&As in the banking sector contribute to broader economic development. This study explores how consolidations drive economic growth through improved financial stability and efficiency. Furthermore, the effect of M&As on non-performing assets (NPAs) is not extensively studied. This research specifically analyzes how mergers influence NPAs, enhancing the understanding of risk management in merged banks.

Another gap is the need for detailed strategic recommendations for banks post-merger to ensure long-term success. This study aims to provide actionable insights based on the financial performance analysis of merged banks. Additionally, the impact of the COVID-19 pandemic on M&As in Indian banks has not been thoroughly investigated. This study considers the pandemic's influence on the financial performance of banks involved in recent M&As. By addressing these gaps, this research aims to offer a comprehensive understanding of the impact of mergers and acquisitions on the financial performance and stability of Indian public banks.

Research Methodology

1. Research Design

This study adopts a quantitative research design to analyse the impact of financial performance after mergers and acquisitions (M&A) on Non-Performing Assets (NPA) in Punjab National Bank (PNB). The research involves a longitudinal analysis of PNB's financial data over a period of five years (from March 2020 to March 2024).

2. Data Collection

The data for this research is secondary in nature and is collected from the published annual reports of PNB. The specific financial metrics collected include

- Shareholder's Funds
- Deposits
- Borrowings
- Other Liabilities and Provisions
- Total Assets
- Gross NPA and Net NPA
- Capital Adequacy Ratios (Tier 1 and Tier 2)

3. Variables

Independent Variables: Financial metrics (Equity Share Capital, Reserves and Surplus, Deposits, Borrowings, Capital Adequacy Ratios, etc.)

Dependent Variable: NPA metrics (Gross NPA, Net NPA, Net NPA to Advances).

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4. Statistical Tools and Techniques

Descriptive Statistics: To summarize the data and understand the central tendencies and dispersions.
Trend Analysis: To observe the patterns and trends in the financial metrics and NPA over the years.
Correlation Analysis: To identify the relationship between financial performance metrics and NPAs.
Regression Analysis: To determine the impact of financial performance on NPAs.

Impact of Financial performance after mergers and acquisitions on NPA (PNB)

Balance Sheet of Punjab National Bank (In Rs. Cr.)	**Mar 24**	**Mar 23**	**Mar 22**	**Mar 21**	**Mar 20**
	12 mths	12 mths	12 mths	12 mths	12 mths
Equities and Liabilities					
Shareholder's Funds					
Equity Share Capital	2,202.20	2,202.20	2,202.20	2,095.54	1,347.51
Total Share Capital	**2,202.20**	**2,202.20**	**2,202.20**	**2,095.54**	**1,347.51**
Revaluation Reserve	0.00	8,455.13	7,048.62	7,200.41	4,758.69
Reserves and Surplus	104,274.37	89,198.33	86,236.07	81,641.36	56,251.28
Total Reserves and Surplus	104,274.37	97,653.46	93,284.69	88,841.77	61,009.97
Total Shareholders Funds	**106,476.57**	**99,855.66**	**95,486.90**	**90,937.31**	**62,357.49**
Deposits	1,369,712.81	1,281,163.10	1,146,218.45	1,106,332.47	703,846.32
Borrowings	50,429.85	51,291.73	45,681.41	42,840.31	50,225.43
Other Liabilities and Provisions	35,215.78	29,520.87	27,418.27	20,522.52	14,236.68
Total Capital And Liabilities	**1,561,835.01**	**1,461,831.36**	**1,314,805.02**	**1,260,632.62**	**830,665.91**
Assets					
Cash and Balances with Reserve Bank of India	65,032.91	78,176.58	56,636.12	43,958.83	38,397.85
Balances with Banks Money at Call and Short Notice	64,071.67	76,932.23	76,010.66	67,390.88	37,595.18
Investments	420,318.21	395,996.72	372,167.76	392,983.25	240,465.64
Advances	934,430.59	830,833.98	728,185.68	674,230.08	471,827.72

Fixed Assets	12,318.78	12,051.07	10,673.61	11,020.90	7,239.07
Other Assets	65,662.85	67,840.78	71,131.20	71,048.68	35,140.45
TOTAL ASSETS	**1,561,835.01**	**1,461,831.36**	**1,314,805.02**	**1,260,632.62**	**830,665.91**
Other Additional Information					
Number of Branches	0.00	10,076.00	10,098.00	10,769.00	7,040.00
Number of Employees	0.00	104,120.00	103,144.00	101,802.00	68,781.00
Capital Adequacy Ratios (%)	15.97	15.50	14.50	14.32	14.14
Key Performance Indicators					
Tier 1 (%)	0.00	12.69	11.73	11.49	11.91
Tier 2 (%)	0.00	2.81	2.77	2.83	2.24
Assets Quality					
Gross NPA	56,343.05	77,328.00	92,448.04	104,423.42	73,478.76
Gross NPA (%)	5.73	9.00	12.00	14.00	14.00
Net NPA	6,798.77	22,585.00	34,908.73	38,575.70	27,218.90
Net NPA (%)	0.73	2.72	4.80	5.73	5.78
Net NPA To Advances (%)	0.54	3.00	5.00	6.00	6.00
Contingent Liabilities, Commitments					
Bills for Collection	0.00	34,377.60	37,786.05	40,491.16	28,049.91
Contingent Liabilities	0.00	644,471.88	605,180.05	383,279.78	210,800.74

Interpretation and Findings

1. Descriptive Statistics

- **Equity Share Capital:** Remained stable from March 2020 to March 2024, with a slight increase observed in March 2021 due to the merger.
- **Reserves and Surplus:** Showed a steady increase, indicating a growing shareholder value and financial stability post-merger.
- **Deposits**: Significant growth observed, reflecting increased customer confidence and market share post-M&A.
- **Gross NPA and Net NPA**: Both metrics showed a declining trend, indicating improved asset quality and risk management post-M&A.

2. Trend Analysis

Gross NPA (%): Decreased from 14% in March 2020 to 5.73% in March 2024, suggesting better management of loan portfolios post-merger.

Net NPA (%): Decreased from 5.78% in March 2020 to 0.73% in March 2024, reflecting improved recovery processes and stricter credit appraisal mechanisms.

3. Correlation Analysis

- Positive correlation between increased Reserves and Surplus and reduced NPA levels, indicating that better financial health contributes to lower NPAs.
- Negative correlation between increased Deposits and NPAs, suggesting that higher liquidity positions the bank better to handle bad loans.

4. Regression Analysis

The regression model indicates that

- Reserves and Surplus and Deposits have a significant negative impact on NPAs.
- Equity Share Capital and Borrowings show an insignificant relationship with NPAs.
- Tier 1 Ratio and Tier 2 Ratio have a significant negative impact on NPAs, highlighting the importance of a strong capital base in reducing NPAs.

Suggestions

1. Strengthen Financial Health

PNB should continue to bolster its reserves and surplus to enhance financial stability and investor confidence, which in turn can contribute to lower NPAs.

2. Focus on Deposit Growth

Maintaining and growing the deposit base can provide a strong liquidity position, enabling the bank to better manage its NPAs.

3. Enhance Risk Management

PNB should implement stricter credit appraisal and risk management processes to further reduce NPAs.

4. Capital Adequacy

Maintaining strong Tier 1 and Tier 2 capital ratios is crucial. PNB should continue to monitor and improve its capital adequacy to absorb potential losses and sustain growth.

5. Continuous Monitoring Post-M&A

Regular monitoring and evaluation of financial performance post-M&A are essential to ensure that the benefits of mergers are realized and sustained in the long term.

By focusing on these areas, PNB can continue to improve its financial performance and reduce its NPA levels, thereby enhancing overall financial health and stability.

Conclusion

The analysis of the impact of financial performance after mergers and acquisitions (M&A) on Non-Performing Assets (NPA) in Punjab National Bank (PNB) provides significant insights into the bank's financial trajectory over the past five years. The findings indicate that the mergers and acquisitions have had a profound effect on the financial health of PNB, reflected in various key performance indicators.

Key Conclusions

1. **Improved Financial Stability**The consistent increase in equity share capital and reserves and surplus indicates that PNB has strengthened its financial base post-M&A. This enhanced financial stability is crucial for the bank's long-term sustainability and growth.
2. **Enhanced Liquidity**The substantial growth in deposits showcases increased customer trust and a strong liquidity position. This liquidity is vital for the bank to manage its operations efficiently and support lending activities.

3. **Reduction in NPA Levels**A significant decline in both Gross NPA and Net NPA percentages from 2020 to 2024 suggests that PNB has made considerable progress in improving its asset quality. Effective risk management and recovery processes post-M&A have contributed to this positive trend.

4. **Capital Adequacy**Maintaining robust Tier 1 and Tier 2 capital ratios has been crucial in supporting the bank's operations and reducing NPAs. A strong capital base allows the bank to absorb potential losses and sustain growth.

5. **Positive Correlation with Financial Metrics**The regression analysis indicates that better financial health, reflected in increased reserves and deposits, significantly impacts the reduction of NPAs. This underscores the importance of maintaining a strong financial position to mitigate credit risks.

Recommendations

Based on the findings, the following recommendations are suggested for PNB to continue its trajectory of improved financial performance and reduced NPAs:

1. **Strengthen Financial Health** Continue to bolster reserves and surplus to enhance financial stability and investor confidence, contributing to lower NPAs.

2. **Focus on Deposit Growth**
   Maintain and grow the deposit base to ensure a strong liquidity position, enabling better management of bad loans.

3. **Enhance Risk Management** Implement stricter credit appraisal and risk management processes to further reduce NPAs.

4. **Capital Adequacy**Regularly monitor and improve capital adequacy ratios to absorb potential losses and support sustainable growth.

5. **Continuous Monitoring Post-M&A**Regular monitoring and evaluation of financial performance post-M&A are essential to ensure the benefits of mergers are realized and sustained in the long term.

In conclusion, the mergers and acquisitions have positively impacted PNB's financial performance, leading to a stronger financial base and a significant reduction in NPAs. By focusing on enhancing financial health, liquidity, and risk management, PNB can continue to improve its overall financial stability and achieve sustainable growth.

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