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A Study on Impact of Mergers on Share Price Performance of Merged Banks – An Event Study

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ABSTRACT: The effect of merging banks on share charges is multifaceted, fashioned by marketplace perceptions, synergies, integration risks, regulatory approval, and broader marketplace situations. Positive reactions from traders, driven by expectancies of increased efficiency, synergies, and marketplace electricity, can force percentage prices higher following a merger statement. Conversely, worries about integration challenges, regulatory hurdles, or ability dilution of shareholder price may additionally result in percentage charge declines. Ultimately, the success realization of synergies and the capability to navigate integration risks at the same time as preserving regulatory compliance are essential elements that decide the long-time period effect of a merger on share fees

KEY WORDS: shareholder, market place, share price, perceptions, sentiments.

I. INTRODUCTION

A merger is an agreement that unites current companies into one new organization. There are several types of mergers and reasons companies' complete merge. Mergers are normally performed to amplify an employers attain, enlarge into new segments, or benefit marketplace percentage. All of these are accomplished to increase shareholder cost. Often, during a merger, businesses have a no keep clause to save you purchases or mergers via additional agencies.

Mergers are common in the business, with companies searching for to amplify their operations and increase their market percentage. The news of a merger deal can trigger a response in the stock market, with traders adjusting their positions in response to the records. The mergers can impact at the inventory price volatility, stock fee of the merging businesses and the goal agencies.

II. RESEARCH METHODOLOGY

RESEARCH GAP

A survey of the literature reveals that previous studies on the impact of mergers on the share price performance of merged banks were done. However, the long term and short term impact of these mergers on share price is research gap. In this study, the impact of mergers of share price performance of merged banks be it a long term, short term or immediate impact is studied.

NEED FOR THE STUDY

This study helps the shareholders to understand and determine the impact of mergers on shares and to know how the share value changes because of mergers of two banks. It also helps to understand the investment decisions in banking sector and market integrity. Also, to understand the peoples reaction on such mergers and in decisin making.

PROBLEM STATEMENT

When the first bank merger happened in 1921 it impacted the share prices of banks. There are various factors which impact these share prices. The goal of the current study is to study the long term, short term and immediate impact of merger of banks on share price performance. To help shareholders better understand the banking sector and take better investment decisions.

OBJECTIVES OF THE STUDY

1. To study the concept of merged banks.
2. To study the impact of merged banks on the share price performance.
3. To study the long term and short term impact of merges on shares.

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RESEARCH DESIGN

When you conduct research, you need a plan to answer your question with real data. This plan, called a research design, involves making decisions about your goals, how you'll gather information, and who or what you'll study. You'll need to decide if you'll collect your own data or use existing data, and how you'll choose your research subjects.

SCOPE OF THE STUDY

The scope of the study was extended for 5 years viz. the financial data of the years

1) 2018-2019
2) 2019-2020
3) 2020- 2021
4) 2021- 2022
5) 2022- 2023

RESEARCH TYPE: Descriptive in nature

Sampling technique: Simple non-random sampling was utilised for the purpose of the study.

DATA COLLECTION METHODS

We have two types of data collection techniques

1. primary data collection
2. secondary data collection

Primary data:

When researchers gather data directly from the original sources, it is known as primary data collection. This data is collected for projects at hand.

Secondary data:

On the other hand, secondary data collection involves utilizing data that has already been collected by someone else for a different purpose than the current study being conducted.

Area of the study Finance

DATA INTERPRETATION OF PUNJAB NATIONAL BANK

To analyse the share price performance of Punjab national bank before and after its merger several indicators like price-to-earnings ratio, dividend yield, earnings per share growth, return on equity, debt-to-equity ratio can be used. Here, we are going to use these financial indicators to interpret the share price performance of Punjab national bank for 5 years (i.e. 2019 to 2023).

Price-to-earnings ratio: The price-to-earnings ratio calculates company's share price relative to its earnings per share. It is also called as price or earnings multiplier, the price-to-earnings ratio helps in assessing the relative value of a company's stock.

P/E ratio = market value per share / earnings per share

Dividend yield: The dividend yield can be given in percentage. It is a financial ratio that shows how much dividend a company pays to its shareholders every year relative to its stock price.

Dividend yield = Dividends per share / price per share

Earnings per share: Earnings per share is a measure of a company's profitability that indicates how much profit each shareholder has earned.

EPS = Net Income – Preferred Dividends / Outstanding Weighted Average Shares

Higher the EPS, higher is the share price performance of bank.

Return on equity: Returns on equity (ROE) is a financial indicator that calculates how much returns are generated on the assets of the bank.

ROE = Net income / average shareholder equity

Debt-to-equity ratio: The debt-to-equity ratio is used to calculate a company's financial leverage or liabilities. It is denoted as D/E ratio.

D/E ratio = Total liability / Total shareholder equity

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The above indicators are used to compare the share price performance of merged banks for 5 years and let us study whether the merger given any positive impact or negative impact in long term for Punjab national bank. A consolidated balance sheet and income statement of 5 years of Punjab national bank have been taken into consideration to evaluate the share price performance of merged banks.

Balance sheet and income statement of Punjab national bank

Consolidated balance sheet for the year 2019 to 2023

BALANCE SHEET OF PUNJAB NATIONAL BANK (in Rs. Cr.)	**Mar-23**	**Mar-22**	**Mar-21**	**Mar-20**	**Mar-19**
	12 months	12 months	12 months	12 months	12 months
EQUITIES AND LIABILITIES					
SHAREHOLDER'S FUNDS					
Equity Share Capital	2,202.20	2,202.20	2,095.54	1,347.51	920.81
TOTAL SHARE CAPITAL	**2,202.20**	**2,202.20**	**2,095.54**	**1,347.51**	**920.81**
Revaluation Reserve	8,455.12	7,048.62	7,200.41	4,758.69	3,582.23
Reserves and Surplus	2,202.20	2,202.20	2,095.54	1,347.51	920.81
TOTAL RESERVES AND SURPLUS	**1,00,678.30**	**95,379.72**	**90,438.80**	**62,528.85**	**44,597.32**
TOTAL SHAREHOLDERS FUNDS	**92,223.18**	**88,331.10**	**83,238.38**	**57,770.16**	**41,015.09**
Minority Interest	459.38	473.47	486.79	360.69	0
Deposits	12,90,347.07	11,54,234.46	11,13,716.86	7,10,254.37	6,81,874.18
Borrowings	70,148.62	59,371.67	52,298.14	62,512.41	46,827.98
Other Liabilities and Provisions	29,813.37	27,639.61	20,688.94	14,453.42	15,045.50
TOTAL CAPITAL AND LIABILITIES	**14,93,648.94**	**13,39,301.13**	**12,79,725.06**	**8,51,457.25**	**7,89,265.79**
ASSETS					
Cash and Balances with Reserve Bank of India	78,213.52	57,027.84	44,267.27	38,603.79	32,338.32
Balances with Banks Money at Call and Short Notice	79,114.96	77,166.04	69,067.16	39,151.96	44,957.65
Investments	4,16,913.84	3,88,585.82	4,04,368.96	2,53,782.47	2,09,723.01
Advances	8,37,458.98	7,33,765.83	6,79,345.77	4,76,853.34	4,62,416.23
Fixed Assets	12,083.96	10,696.21	11,048.71	7,261.98	6,247.55
Other Assets	69,863.68	72,059.39	71,627.20	35,803.71	33,583.03
TOTAL ASSETS	**14,93,648.94**	**13,39,301.13**	**12,79,725.06**	**8,51,457.25**	**7,89,265.79**
CONTINGENT LIABILITIES, COMMITMENTS					
Bills for Collection	34,377.60	37,786.05	40,493.76	28,052.60	27,866.28
Contingent Liabilities	6,45,263.22	6,06,685.43	3,85,387.95	2,13,299.34	3,07,895.89

The above balance sheet shows the assets and liabilities for the year ended 2019 to 2023 of Punjab national bank. Shareholders' equity, total debts can be calculated from the above balance sheet.

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Consolidated P&L account for the year ended 2019 to 2023

Consolidated Profit & Loss account	in Rs ---Cr----				
	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
INCOME					
Interest / Discount on Advances / Bills	57,741.67	48,874.12	53,682.82	36,156.25	35,416.49
Income from Investments	26,401.79	24,471.01	25,347.01	16,093.74	14,621.85
Interest on Balance with RBI and Other Inter-Bank funds	1,909.98	2,287.88	1,902.42	2,530.73	1,937.19
Others	791.85	608.82	934.14	137.75	171.6
Total Interest Earned	**86,845.29**	**76,241.83**	**81,866.40**	**54,918.47**	**52,147.13**
Other Income	12,239.59	12,097.66	13,124.45	9,387.66	7,367.40
Total Income	99,084.88	88,339.49	94,990.85	64,306.13	59,514.53
EXPENDITURE					
Interest Expended	51,816.99	46,823.08	50,804.58	36,997.47	34,655.66
Payments to and Provisions for Employees	14,942.59	11,971.93	12,296.72	7,060.02	7,047.54
Depreciation	904.87	896.17	982.23	614.44	584.01
Operating Expenses (excludes Employee Cost & Depreciation)	8,488.22	7,622.67	7,236.82	4,476.03	4,057.71
Total Operating Expenses	**24,335.68**	**20,490.77**	**20,515.77**	**12,150.49**	**11,689.26**
Provision Towards Income Tax	1,792.08	918.5	1,629.93	463.67	79.81
Provision Towards Deferred tax	0.00	0	0.00	0	-5,418.15
Other Provisions and Contingencies	18,070.79	16,431.18	19,888.14	14,331.16	28,534.36
Total Expenditure	**96,015.54**	**84,663.53**	**92,838.42**	**63,942.79**	**69,540.94**
Net Profit / Loss for The Year	**3,069.34**	**3,675.96**	**2,152.43**	**363.34**	**-10,026.41**
Net Profit / Loss After EI & Prior Year Items	**3,069.34**	**3,675.96**	**2,152.43**	**363.34**	**-10,026.41**
Minority Interest	-10.33	-46.85	-132.62	-46.48	456.3
Share Of Profit/Loss Of Associates	289.44	231.63	542.16	121.59	0
Consolidated Profit/Loss After MI And Associates	**3,348.45**	**3,860.74**	**2,561.97**	**438.45**	**-9,570.11**
Profit / Loss Brought Forward	2,538.54	1,778.50	1,490.85	-8,488.92	206
Total Profit / Loss available for Appropriations	**5,886.99**	**5,639.24**	**4,052.82**	**-8,050.47**	**-9,364.11**
APPROPRIATIONS					
Transfer To / From Statutory Reserve	626.8	899.84	617.3	139.74	29.49
Transfer To / From Special Reserve	250	100	0.69	0	0
Transfer To / From Capital Reserve	52.15	700.93	1,036.12	203.63	0
Transfer To / From Investment Reserve	194.74	870.68	480.09	48.52	0
Transfer To / From Revenue And Other Reserves	767.55	-175.45	0	-105.34	-47.83
Equity Share Dividend	715.72	704.71	180.51	32.07	30.01
Balance Carried Over To Balance Sheet	3,280.03	2,538.53	1,738.11	-8,369.09	-9,375.78
Total Appropriations	**5,886.99**	**5,639.24**	**4,052.82**	**-8,050.47**	**-9,364.11**
EARNINGS PER SHARE					

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Basic EPS (Rs.)	3	4	3	1	-30

Analysis of share price performance with the ratios

Price-to-earnings ratio:

Year	Market price per share	Earnings per share	Price-to-earnings ratio
2019	95.5	-30	-3.183333333
2020	32.35	1	32.35
2021	36.65	3	12.21666667
2022	35.05	4	8.7625
2023	46.6	3	15.53333333

Interpretation:
From the above table of price-to-earnings ratio we can observe that in 2019 i.e., before the merger of Punjab national bank with two banks the p/e ratio was negative i.e., -3.183%. But, after its merger the p/e ratio gradually became positive and increased and it was highest in 2020(i.e., 32.35%) when the bank merged. And by 2023 the p/e ratio came to 15.53%. this indicates that the share price performance of PNB after the merger shown a positive impact.

Dividend yield:

Year	Market price per share	Dividend per share	Dividend yield
2019	95.5	3.3	3.455497382
2020	32.35	3.3	10.20092736
2021	36.65	3.3	9.004092769
2022	35.05	0.64	1.82596291
2023	46.6	0.65	1.394849785

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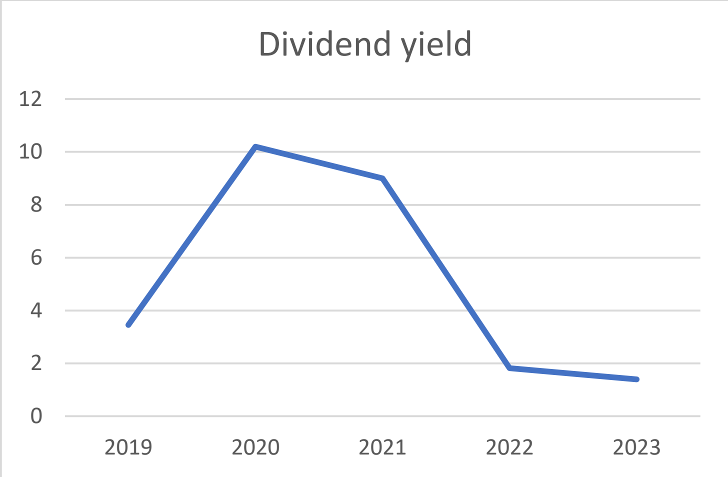

Interpretation:
The above charts depict the dividend yield of Punjab national bank for the year 2019 to 2023.we can observe that in 2019 before the merger of PNB the dividend yield of the bank was highly down and after its merger in 2020 the dividend yield growth increased rapidly to 10.2%. However, it is seen that the growth did not remain constant in the following years. It gradually decreased more than before the merger till 2023. This indicates that there may not be high profits to pay out to shareholders.

Earnings per share:

Year	Earnings per share
2019	-30
2020	1
2021	3
2022	4
2023	3

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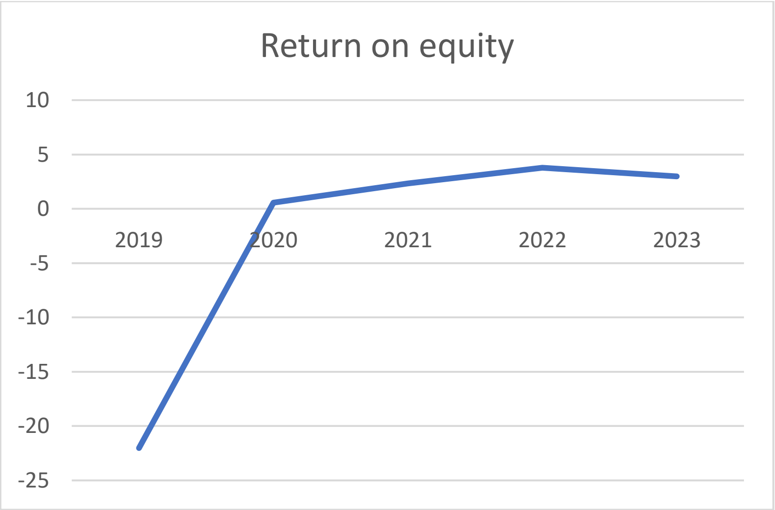
Interpretation:
In the above given profit and loss statement, earnings per share can be observed. From the above chart we can interpret that the earnings per share of PNB were exceptionally low before the merger of PNB in 2019. However, in the long run it can be observed that EPS increased indicating a successful merger and positive impact of this merger for the shareholders. EPS was highest in 2022 with Rs. 4/-. Though it was low in 2023 the damage wasn't high for the shareholders compared to 2019.

Returns on Equity:

Year	Net income	Shareholders' equity	Return on equity
2019	-10,026.41	45,518.13	-22.02728891
2020	363.34	63,876.36	0.568817635
2021	2152.43	92,534.34	2.326087807
2022	3675.96	97,581.92	3.76705029
2023	3069.34	1,02,880.50	2.983403074



Interpretation:
Just as the interpretations given above, even the returns on equity in 2019 i.e., before merger were negative which shows the ROE of Punjab national bank was very low but after the merger it again started increasing. The highest returns were generated in 2022 which were 3.5% and decreased by a percent in 2023. The highest returns on equity indicate that assets of the bank are having a high value. If the returns on equity is high it can reduce the debts of the company.

Debt-to-Equity ratio:

Year	Total debt	Shareholders' equity	Debt-to-equity ratio
2019	61,873.48	45,518.13	135.9315069
2020	76,965.83	63,876.36	120.4918846
2021	72,987.08	92,534.34	78.87566929
2022	87,011.28	97,581.92	89.16741954
2023	99,961.99	1,02,880.50	97.16320391

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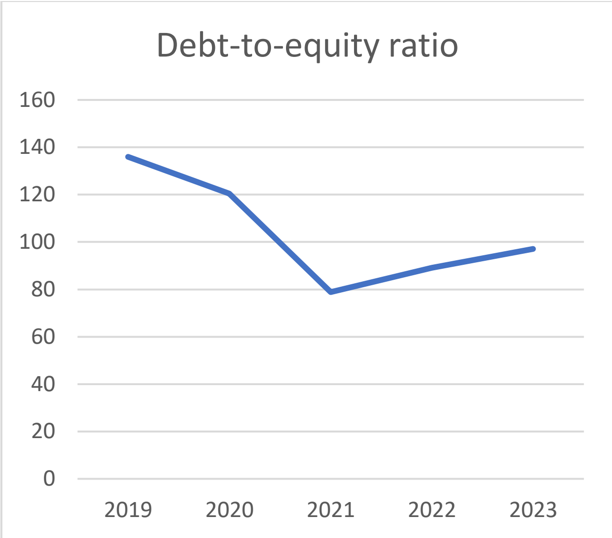

Interpretation:
As we know debt-to-equity ratio indicates the leverage of the company. Higher the ratio, higher the leverage and vice versa. Before merger D/E ratio of Punjab national bank was 135.93 but after its merger with Oriental bank of Commerce and Union bank of India its leverage ratio came down to 120.49 in 2020 and gradually decreased till 2021 (i.e., 78.87) and it increased a bit after 2021 and reached 97.16 in 2023. This indicates that the bank is in a good financial position to invest in. The leverages of the bank are low compared to equities which is a good indicator.

III. FINDING OF THE STUDY

- The share price performance of the study shows positive impact after the merger of Oriental bank of commerce and Union bank of India with Punjab national bank.
- The price-to-earnings ratio of the Punjab national bank increased after the merger of the banks. It was negative before the merger later became positive
- However, it is seen that dividend yield did not increase after the merger instead it had a rapid decline in the long run.
- It is also observed that earnings per share also had a positive impact after the merger of the banks.
- Return on equity also increased after the merger of the banks.
- Debt-to-equity ratio declined rapidly after the merger, leaving a positive impact on the share price performance of the merged banks.
- In the long run, the impact of mergers on the share price performance of the merged banks may not be much positive but it maintains the financial position of the firm stronger.

IV. CONCLUSION

The impact of mergers on the share price performance of the merged banks depends upon various factors such as environmental factor of the merging companies, geographical factors, social factors and many more. It isn't necessary for the companies to always gain a positive impact from the mergers of the firms. If the analysis, interpretations and forecasts are done accurately before the mergers the chances of reducing the risk are very high. If done in the right way we might witness a positive results and successful mergers.

Successful mergers indicate positive impact on share price performance of the merged banks.as seen in the case of the Punjab national bank, PNB witnessed a successful merger. However, dividend yield of the bank did not improve much but the alone factor does not define the success factor. By this study, we can conclude that mergers have a positive impact on share price performance of the merged banks.

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