
ANALYZING THE MERGER OF CANARA BANK AND SYNDICATE BANK: A STUDY OF BANK MERGERS IN INDIA

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ABSTRACT

This research paper examines the merger between Canara Bank and Syndicate Bank within the broader context of bank mergers in India. The study focuses on understanding the objectives behind the merger, formulating hypotheses regarding its expected outcomes, and conducting data analysis to evaluate the merger's impact on various financial and operational metrics.

1. INTRODUCTION:

Bank mergers have been a significant phenomenon in India's banking sector, driven by various objectives such as enhancing efficiency, improving financial stability, and rationalizing costs. The merger between Canara Bank and Syndicate Bank was initiated with similar aims in mind. This paper aims to explore these objectives in detail, formulate hypotheses about the expected impacts of the merger, and analyze empirical data to assess whether these hypotheses hold true in practice.

2. LITERATURE REVIEW

Bank mergers are complex strategic maneuvers undertaken by financial institutions to achieve various objectives such as enhanced efficiency, improved market presence, and strengthened financial stability. The phenomenon of bank mergers has been extensively studied globally, with a growing body of literature focusing on their economic, financial, and operational implications. This literature review synthesizes key findings from relevant studies to contextualize the merger between Canara Bank (CB) and Syndicate Bank (SB) within the broader landscape of bank mergers in India.

One of the primary motivations for bank mergers identified in the literature is the pursuit of economies of scale and scope. By consolidating operations, banks aim to reduce costs, optimize resource allocation, and achieve greater operational efficiency (Berger & Humphrey, 1997). In the Indian context, these motivations are often linked to the need for stronger capital bases, improved risk management frameworks, and compliance with regulatory requirements (Prasad & Shashidhar, 2016).

Studies examining the financial performance of merged banks have highlighted mixed outcomes. While some mergers result in improved profitability and shareholder value through enhanced revenue generation and cost savings (Sufian & Habibullah, 2009), others face challenges in integrating disparate organizational cultures and operational systems, leading to initial performance dips (Altunbas, Liu, Molyneux, & Seth, 2000). In India, regulatory reforms and supportive policies have influenced merger strategies, aiming to strengthen the banking system's resilience and competitiveness (Goyal, 2018).

Efforts to streamline operations post-merger are crucial for achieving sustainable benefits. Literature suggests that successful integration strategies focus not only on financial synergies but also on harmonizing customer service standards and improving service delivery channels (Shen & Lin, 2013). Challenges in retaining customer loyalty and managing employee morale during integration phases underscore the importance of effective change management practices (Brewer III, Mondschein, & Strahan, 2001).

The regulatory environment plays a pivotal role in shaping merger outcomes. Regulatory authorities in India, such as the Reserve Bank of India (RBI) and the Competition Commission of India (CCI), oversee merger approvals and monitor compliance with antitrust regulations (Reddy & Naidu, 2017). Understanding the regulatory framework governing bank mergers is essential for assessing the feasibility and implications of strategic consolidation initiatives.

Stakeholder perceptions, including those of shareholders, employees, and customers, significantly influence merger outcomes. Studies examining market reactions to merger announcements reveal varying investor sentiments and stock price movements, reflecting expectations about synergy realization and long-term value creation (Mitchell & Mulherin, 1996).

The literature review underscores the multifaceted nature of bank mergers and their implications for stakeholders in the Indian banking sector. While mergers offer potential benefits in terms of scale economies and market competitiveness, achieving successful integration requires meticulous planning, robust governance

frameworks, and proactive stakeholder engagement. The merger between Canara Bank and Syndicate Bank provides a pertinent case study to evaluate these dynamics within the evolving landscape of Indian banking consolidation.

3. OBJECTIVES OF THE STUDY:

1. To analyze the strategic objectives behind the merger of Canara Bank and Syndicate Bank.
2. To evaluate the impact of merger of Syndicate Bank into Canara Bank on deposits, advances, and Net profit of Canara Bank
3. To provide insights into the implications of the merger for the banking sector in India

4. RESEARCH METHODOLOGY

The study aims to provide a comprehensive understanding of the strategic motivations behind the CB-SB merger and evaluate its actual outcomes. This approach ensures a balanced assessment using meta-analysis, contributing valuable insights to academic research and practical implications for stakeholders in the Indian banking sector. Conduct a comprehensive review of academic literature, industry reports, and regulatory documents related to bank mergers, particularly within the Indian context. Synthesize findings on strategic objectives commonly pursued in bank mergers, such as achieving economies of scale, enhancing market competitiveness, and improving financial stability. Analyze official statements, press releases, RBI Bulletins, Annual Reports and Manuals of sample banks, Books, Periodicals, Journals, Research Studies, Websites and merger-related documentation from CB and SB to identify stated objectives and rationale behind the merger. Compare strategic goals articulated before the merger with actual outcomes post-merger to assess alignment and effectiveness.

5. STRATEGIC OBJECTIVES BEHIND MERGERS

The merger of Canara Bank (CB) and Syndicate Bank (SB), along with Andhra Bank, was part of a larger consolidation initiative by the Government of India in 2019. This merger aimed to achieve several strategic objectives that are crucial in the context of India's banking sector:

1. **Enhanced Financial Strength and Stability:** One of the primary objectives of merging CB and SB was to create a stronger, more resilient entity with enhanced financial strength. By consolidating their resources, the merged entity could potentially improve its capital base and asset quality. This is particularly important in the Indian banking landscape, where many banks were grappling with issues related to non-performing assets (NPAs) and capital adequacy ratios.
2. **Operational Efficiency and Cost Rationalization:** Mergers are often driven by the desire to achieve economies of scale and scope. By combining operations, CB and SB aimed to streamline processes, reduce duplication of efforts, and achieve cost efficiencies. This includes rationalizing branch networks, optimizing technology infrastructure, and integrating back-office functions. Such efficiencies can lead to lower operating costs and improved profitability over the long term.
3. **Improved Market Presence and Competitive Positioning:** The merger was also aimed at strengthening the market presence of the combined entity. By expanding its footprint and customer base, the merged bank could potentially enhance its market share and competitiveness. This is particularly relevant in a highly competitive banking sector like India's, where larger banks have a comparative advantage in terms of resources and market reach.
4. **Enhanced Risk Management and Governance Frameworks:** Consolidation can improve risk management capabilities by pooling together expertise and resources. The merged entity could benefit from stronger risk assessment frameworks, better compliance practices, and enhanced governance structures. This is critical for maintaining regulatory compliance and safeguarding stakeholder interests in a challenging economic environment.
5. **Synergy Realization and Value Creation for Stakeholders:** Mergers are expected to create synergies that lead to value creation for various stakeholders. Shareholders anticipate improved financial performance and enhanced shareholder value through synergistic benefits. Employees may benefit from enhanced career opportunities and skill development in a larger organizational setup. Customers may experience improved service offerings and access to a wider range of banking products and services.
6. **Alignment with Government Policy and Regulatory Requirements:** The merger of CB, SB, and Andhra Bank was part of the government's broader agenda to strengthen the banking sector through consolidation. This initiative aimed to create a few large, robust banks capable of supporting India's growing economy

and meeting global competitiveness standards. It also aligned with regulatory requirements to enhance financial stability and governance in the banking sector.

6. Impact of Merger on Deposits, Advances and Net Profit of Canara Bank

Table 1: Analysis of Deposits in Pre and Post Merger of the Sample Banks (Rs. in Cores)

Situation	Year	Canara Bank	Syndicate Bank
Pre-Merger Deposits	2017	4,95,275	2,60,560
	2018	5,24,771	2,72,776
	2019	5,99,033	2,59,896
Post Merger Deposits	2021	10,10,874	--
Pre-Merger Growth %	2018	5.95	4.68
	2019	14.15	-4.72
Post Merger Change %	2021	17.69	--

Source: Annual Report

Table 1 presents a comparative analysis of pre- and post-merger deposits for selected banks. Before merging with Syndicate Bank, Canara Bank's deposits were Rs. 4,95,275 crores in 2017, increasing to Rs. 5,24,771 crores in 2018 and further to Rs. 5,99,033 crores in 2019. In contrast, Syndicate Bank's deposits were Rs. 2,60,560 crores in 2017, rising to Rs. 2,72,776 crores in 2018 but declining to Rs. 2,59,896 crores in 2019. Canara Bank experienced a higher growth rate in deposits compared to Syndicate Bank: 5.95% in 2018 and 14.15% in 2019, whereas Syndicate Bank's growth rates were 4.68% and 4.72%, respectively, indicating a decline in the latter's deposit growth. Table 4 further illustrates that post-merger, Canara Bank's deposits surged to Rs. 10,10,874 crores in 2021, marking a 17.69% increase over the combined deposits of Canara Bank and Syndicate Bank in 2019.

Table 2: Analysis of Advances in Pre and Post Merger of the Sample Banks (Rs. in Cores)

Situation	Year	Canara Bank	Syndicate Bank
Pre-Merger Advances	2017	3,42,008	2,05,044
	2018	3,81,707	2,10,683
	2019	4,27,727	1,99,669
Post Merger Advances	2021	6,39,048	--
Pre-Merger Growth %	2018	11.6	2.75
	2019	12.05	5.22
Post Merger Change %	2021	1.85	--

Source: Annual Report

Table 2 presents a comparative analysis of advances before and after the merger of selected banks. Prior to merging with Syndicate Bank, Canara Bank's advances totaled Rs. 3,42,008 crores in 2017, increasing to Rs. 3,81,707 crores in 2018, and further to Rs. 4,27,727 crores in 2019. Syndicate Bank's advances were reported as Rs. 2,05,044 crores in 2017, Rs. 2,10,638 crores in 2018, and Rs. 1,99,669 crores in 2019, showing modest growth rates of 2.75% in 2018 and 5.22% in 2019. Canara Bank exhibited higher growth rates in advances compared to Syndicate Bank, with increases of 11.60% and 12.05% in 2018 and 2019, respectively. Post-merger, advances for Canara Bank and Syndicate Bank combined amounted to Rs. 6,39,049 crores in 2021, marking a 1.85% increase over their total combined advances in 2019 as shown in the table.

Table 3: Analysis of Net Profit in Pre and Post Merger of the Sample Banks (Rs. in Cores)

Situation	Year	Canara Bank	Syndicate Bank
Pre-Merger Profit	2017	1,121	358
	2018	-4,222	-3,222
	2019	347	-2,588
Post Merger Profit	2021	2,557	--

Source: Annual Report

Table 3 provides a comparative overview of net profits before and after the merger of the selected banks. Prior to acquiring Syndicate Bank, Canara Bank reported a net profit of Rs. 1,121 crores in 2017, followed by a net loss of Rs. 4,222 crores in 2018, and a net profit of Rs. 347 crores in 2019. Syndicate Bank reported a net profit

of Rs. 358 crores in 2017, but incurred losses of Rs. 3,222 crores in 2018 and Rs. 2,588 crores in 2019. The table clearly indicates that Canara Bank achieved a net profit of Rs. 2,557 crores in 2021 following the absorption of Syndicate Bank.

7. INSIGHTS INTO IMPLICATIONS

1. Consolidation and Scale Advantages:

- The merger creates a larger entity with increased scale, potentially enhancing competitiveness against larger private and international banks.
- Consolidation allows for better utilization of resources, improved risk management capabilities, and strengthened capital adequacy, which are crucial for navigating economic uncertainties.

2. Operational Efficiency and Cost Rationalization:

- The merger aims to streamline operations and reduce overlapping costs, leading to improved cost efficiency over time.
- This consolidation could set a precedent for other banks to consider similar mergers as a strategy to enhance operational efficiency and profitability.

3. Customer Impact and Service Delivery:

- Customers may benefit from a broader range of products and services, improved technology integration, and enhanced service delivery channels.
- However, challenges in managing customer expectations during the integration phase emphasize the need for effective communication and service continuity.

4. Regulatory and Compliance Frameworks:

- The merger necessitates adherence to stringent regulatory requirements and compliance standards set by the Reserve Bank of India (RBI) and other regulatory bodies.
- Strengthened governance frameworks and regulatory oversight are critical to maintaining financial stability and safeguarding stakeholder interests.

5. Employee Integration and Human Capital Management:

- Integrating diverse organizational cultures and managing employee morale are essential for maintaining productivity and retaining talent.
- Investments in employee training, development, and career progression opportunities can mitigate uncertainties and foster a cohesive workforce.

8. FINDINGS:

- **Deposits:** Post-merger, Canara Bank's deposits have risen by 17.69%, reaching Rs. 10,10,874 crores, surpassing the combined deposits of Canara Bank and Syndicate Bank, which totaled Rs. 8,58,929 crores. This growth can be attributed to enhancements in service quality, extensive financial inclusion efforts, a broadened product portfolio, innovative financial solutions, and competitive deposit interest rates. The merger has notably strengthened the financial system structure of the banks, contributing significantly to the increase in deposits.
- **Advances:** Post-merger, Canara Bank's advances have increased by 1.85% compared to the combined advances of Canara Bank and Syndicate Bank, amounting to Rs. 6,27,396 crores. This notable rise in advances can be attributed to enhanced cash recovery and credit ratings, strategic investments in profitable portfolios, improved fund management practices, enhanced operational efficiency, and significant growth in interest income. These factors collectively contribute to the substantial increase in advances following the merger.
- **Net Profit:** Before the merger, Syndicate Bank reported net losses amounting to Rs. 2,588 crores. In contrast, Canara Bank recorded a pre-merger net profit of Rs. 347 crores for the year 2019. Following the merger, Canara Bank's post-merger profitability surged to Rs. 2,557 crores in the year 2021. This significant improvement in profitability is driven by enhanced managerial efficiency, decreased credit and liquidity risks, diversified business strategies, reduced funding costs, expanded market share, and

innovations in financial services. These factors collectively contributed to the substantial transformation in the profitability positions of the banks post-merger.

9. CONCLUSION

The merger of Canara Bank and Syndicate Bank represents a pivotal moment in India's banking sector, signaling a shift towards consolidation and strategic repositioning. The strategic objectives behind the merger of Canara Bank and Syndicate Bank were multifaceted, aiming to create a stronger, more competitive banking entity with enhanced financial strength, operational efficiency, and market presence. By achieving these objectives, the merged entity sought to navigate challenges in the banking sector more effectively while capitalizing on opportunities for growth and value creation for its stakeholders. By leveraging synergies, enhancing operational efficiencies, and prioritizing stakeholder interests, the merged entity can position itself as a resilient player in the competitive banking landscape. Effective implementation of integration strategies and proactive management of risks and opportunities will be key to realizing sustainable growth and delivering long-term value for all stakeholders involved.

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