

A COMPREHENSIVE ANALYSIS OF UNION BANK'S MERGERS AND ACQUISITIONS IN HYDERABAD

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ABSTRACT

In the rapidly evolving landscape of the global banking sector, mergers and acquisitions (M&A) have emerged as pivotal strategies for growth and restructuring, significantly impacting the operations of financial institutions. This study specifically examines the influence of M&A on Union bank of India, with a focus on its operations in Hyderabad, a city that serves as a hub for banking and financial services in India. The research delves into the strategic implications of M&A activities on Union bank of India, exploring how these transactions have shaped the bank's position within the competitive banking sector. The study assesses the effects of M&A on various operational facets, including customer service, technological advancements, employee dynamics, and overall financial performance, all of which are critical components of the bank's operational efficiency in Hyderabad.

Keywords:-Mergers and Acquisitions (M&A), Union bank of India, Synergistic Opportunities, Operational Efficiencies, Sustainable Growth

1. INTRODUCTION

MERGERS: A merger is a strategic business move where two companies join forces to form a new, unified entity. This typically occurs when two companies of similar size and stature come together, although the term can also be used in the context of a larger company absorbing a smaller one, which is more commonly referred to as an acquisition. However, in legal terms, a merger is a specific type of integration where both companies consolidate into one. Unlike a merger, where two companies combine to form a new entity, in an acquisition, one company takes over the other, maintaining its identity and absorbing the target company.

Mergers and acquisitions (M&A) are strategic business transactions that occur on a global scale, influencing the economic landscape and shaping the future of industries and markets worldwide. These transactions are pivotal in creating new market leaders, driving innovation, expanding market reach, and reshaping the competitive environment across various sectors.

Mergers and acquisitions (M&A) are strategic maneuvers where companies join forces. Understanding these complex transactions can be simplified by categorization. Key factors include industry focus (horizontal for market share dominance, vertical for supply chain control), financial instruments (stock for tax benefits, cash for simplicity), and operational impact (full mergers creating new entities, acquisitions where one company takes control). Analyzing M&A through these categories unveils the strategic motivations behind corporate decisions.

The study on mergers and acquisitions (M&A) focusing on Union Bank in Hyderabad is imperative due to its strategic and economic implications. M&A activities are pivotal for enhancing business expansion, increasing market share, and improving operational efficiencies. Given the stringent regulations in the banking sector, investigating Union Bank's M&A provides crucial insights into regulatory challenges and compliance issues. Additionally, the study aims to uncover the economic impacts on local economies and employment, as well as the outcomes that prioritize customer satisfaction. It will delve into the complexities of cultural integration and risk management strategies, essential for successful M&A transitions. Financial performance assessment pre- and post-merger will be pivotal in determining transaction success and identifying key factors influencing outcomes. The geographic focus on Hyderabad enables a detailed analysis of local market dynamics, specific challenges, and opportunities unique to this region. Ultimately, the study seeks to offer comprehensive insights into how mergers and acquisitions have shaped Union Bank's growth trajectory in Hyderabad, contributing significantly to finance and business management knowledge.

2. REVIEW OF LITERATURE

1. Dr.K.A. Goyal and Vijay JoshiTo keep the head high in globalized economy one has to follow the path of growth, which contains various challenges and issues; one has to overpower these challenges and issues to become a success story. We consider a case of ICICI Bank Ltd., The largest private sector bank in India. Which as acquired nine financial firms to make the steps of the ladder of success. Therefore, the aim of the article is to study the growth of ICICI Bank Ltd. Through mergers, acquisitions, and amalgamation. This article is divided into four parts. The first part includes

introduction and conceptual framework of mergers and acquisitions. The second part discusses the historical background of ICICI Bank Ltd., and followed by review of literature. The third part discusses all the mergers, acquisitions and amalgamations in detail finally; the article concludes that a firm must devise a strategy in three phases i.e. pre merger phase, acquisition phase and post-merger phase. The article will be helpful for policy makers, strategy makers, HR people, bankers, researchers and scholars.

2. Muhammad Faizaan Malik and Shehzad Khan From the last few decades, maximum studies focused to understand the importance of going into the deal of Mergers and Acquisitions. The current study examined the motivation to recognize either the assumed benefits of the deal of Mergers and Acquisitions have posted increase or not. The current study calculated whether the deal is beneficial or harmful for using the perspective of history, waves, motives and methods to determined Mergers and Acquisition valve. The study focuses on the current literature available on M&A form the recent post to portray unlike the methods used to gauge performance of M&A. Although field of M&A research is far too broad and more complex to be covered in a review paper, therefore, the study attempts to start covering some historical and background issues such as History, waves in M&A methods of measuring deals and M&A motives.

3. Pawaskar (2001)²⁴, in a study entitled “Effect of Mergers on Corporate Performance in India” compared the pre- and post-merger OP of the corporations involved in merger between 1992 and 1995 to identify the financial characteristics. The study identified the profile of the profits. Regression analysis showed that there was no increase in post-merger profits. The study of a sample of firms restructured through M&As showed that the merging firms were at the lower end in terms of growth, tax, and liquidity of the industry. The merged firms performed better than the industry performance in terms of profitability.

4. Beena (2004)²⁸, in a work “Towards Understanding the Merger Wave in the Indian Corporate Sector – A Comparative Perspective” analyzed the pre-and post-merger performance of a sample of 115 acquiring firms in the manufacturing sector in India, during 1995 – 2000, using a set of financial ratios and paired two samples t-test. The study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-merger period for the acquiring firms. In short, the number of merging firms-which is less than 10% of all firms in the industry-overall performance is far better than that of the others and their own pre-merger period performance, thereby leading to conclude that if the industry is able to transfer a part of its improved performance due to consolidation to the consumers in the form of a price reduction and a better quality of drugs, it would be a welcome sign; and on the other hand if it leads to increased market power and consequent price rise, then it would deserve special attention.

5. Dr. P. Natarajan and k. Kalaichelvan (2011) used the share price data and financial statements of eight select public and private sector banks, during the period between 1995 and 2004, this study examined M&A as a business strategy and to identify the relative importance of mergers on business performance and increased Shareholders wealth. The study showed that in a banking environment marked by frequent mergers.

3. RESEARCH METHODOLOGY

Objectives of the Study

- To identify synergistic opportunities that enhance UBI's competitive position, drive operational efficiencies, and ensure sustainable growth for its stakeholders.
- To analyse the potential benefits and challenges associated with merger and acquisitions in Union bank of India, Hyderabad.

This investigation will utilize a secondary data collection approach. Data will be sourced from academic journals, industry reports, and reputable online databases. While this method offers advantages in terms of accessibility and time efficiency, there are inherent limitations. The data gathered may not perfectly align with the specific research objectives, and potential inaccuracies in the original sources necessitate critical evaluation to ensure data authenticity and reliability.

4. DATA ANALYSIS AND INTERPRETATION

1. Sales position and assets turnover of UNION BANK OF INDIA:

Year	Net Sales	Increase over previous period (%)	Total Assets (Rs. cr.)	Assets Turnover Ratio
2019	1042.09	39.14	12072.62	0.860
2020	1442.48	27.75	19736.50	0.730
2021	2724.73	47.06	104959.50	0.250
2022	10771.83	74.70	107760.30	0.199
2023	11509.26	60.4	126149.60	0.091

Shows the Sales position and Assets Turnover of Union bank of India.

Correlations					
		Net sales	Increase over previous period	Total Assets	Asset turnover ratio
Net sales	Pearson Correlation	1	.893*	.806	-.822
	Sig. (2-tailed)		.041	.100	.088
	N	5	5	5	5
Increase over previous period	Pearson Correlation	.893*	1	.803	-.794
	Sig. (2-tailed)	.041		.102	.108
	N	5	5	5	5
Total Assets	Pearson Correlation	.806	.803	1	-.996**
	Sig. (2-tailed)	.100	.102		.000
	N	5	5	5	5
Asset turnover ratio	Pearson Correlation	-.822	-.794	-.996**	1
	Sig. (2-tailed)	.088	.108	.000	
	N	5	5	5	5
*. Correlation is significant at the 0.05 level (2-tailed).					
**. Correlation is significant at the 0.01 level (2-tailed).					

An examination of Union bank of India's data from 2019 to 2023 reveals a contrasting picture. While net sales and year-over-year growth demonstrate a positive trajectory, particularly in recent years, the asset turnover ratio exhibits a concerning decline. This suggests potential inefficiency in utilizing assets to generate sales despite significant growth. The strong positive correlations between sales and total assets indicate growth in both areas, but the negative correlation with the asset turnover ratio necessitates further investigation into the underlying causes and potential impact on profitability and long-term sustainability.

2. Profitability position of Union bank of India:

Year	PAT (Rs.Cr)	PBDIT %	PBIT % of	PAT %	ROI %
2019	72.62	64.38	61.50	25.22	2.37
2020	80.54	66.43	67.24	28.35	2.65
2022	97.10	74.56	74.99	37.06	2.96
2023	105.35	78.97	79.52	45.63	3.25

Correlations						
		PAT	PBDIT	PBIT	PAT_Percent	ROI
PAT	Pearson Correlation	1	.995**	.997**	.984*	.992**
	Sig. (2-tailed)		.005	.003	.016	.008
	N	4	4	4	4	4
PBDIT	Pearson Correlation	.995**	1	.985*	.992**	.981*
	Sig. (2-tailed)	.005		.015	.008	.019
	N	4	4	4	4	4
PBIT	Pearson Correlation	.997**	.985*	1	.977*	.996**
	Sig. (2-tailed)	.003	.015		.023	.004
	N	4	4	4	4	4
PAT_Percent	Pearson Correlation	.984*	.992**	.977*	1	.985*
	Sig. (2-tailed)	.016	.008	.023		.015

	N	4	4	4	4	4
ROI	Pearson Correlation	.992**	.981*	.996**	.985*	1
	Sig. (2-tailed)	.008	.019	.004	.015	
	N	4	4	4	4	4
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

INTERPRETATION:

Union bank of India's Profitability on the Rise, but Efficiency Warrants Scrutiny An analysis of UNION BANK OF INDIA's profitability metrics from 2019 to 2023 reveals a positive trend. Profit after Tax (PAT) has steadily increased, reaching Rs. 105.35 crore in 2023. Similarly, profitability ratios like Profit Before Interest and Tax (PBDIT) and Profit Before Tax (PBIT) as a percentage of PAT also show upward movement. However, a significant point to note is the presence of extremely high positive correlations between all these profitability metrics. While this suggests a consistent relationship between these measures, it also indicates a lack of diversification in the bank's profit generation strategies. Further investigation is needed to understand the specific drivers of profitability and explore potential avenues for broader revenue streams.

3. Shows the profitability position of Union bank of India:

Year	PAT (Rs.Cr)	PBDIT %	PBIT % of	PAT %	ROI %
2019	138.25	79.95	77.48	11.27	0.84
2020	185.35	74.93	72.38	9.77	0.81
2021	210.58	69.97	67.62	5.93	0.24
2022	354.75	74.69	69.99	5.07	1.19
2023	578.35	82.11	77.42	14.11	1.29

INTERPRETATION:

The PAT has seen a significant improvement especially after the merger. In 2020, PAT were Rs. 185.35 crore, the level went up to Rs. 210.58 crore in 2021. There was sizeable jump at Rs. 354 crore in 2022 and Rs. 538 crore in 2023. The PBDIT as percentage of sales has also gone up from 74.93% in 2020 to 82.11% in 2022 (after the merger). PBIT as percentage of sales has almost remained the same at around 72% in 2020 and slightly improved in 2017 at 77.42%. The PAT as percentage of sales was 17.06% but declined to 9.77% in 2020 (the year of the merger), reduced to 5.93% in 2021 and also a negative in 2022 but in 2023 it has gone up to 14.11%. The ROI was 2.25% in 2008 it declined to 0.81% in 2020 (the year of the merger) and has now improved in 2023 at 1.29%. Overall, the operational performance of the Bank has enhanced after the merger as indicated by its PAT and ROI. His single most important reason for the merger was synergies between the two institutions. The only problem faced due to this merger was to raise lot of fund and the biggest challenge was to meet the government regulation. And after analysis that there has been an increase in sales by 50% in fee income in 2023 and by 80% in 2022 due to the merger.

4. Financial Position of Union bank of India and before Merger in year 2023

PARTICULARS	Amount in Cr
Net Interest Income	185.92
Net Profit	105.3
Deposits	9866.02
Advances (Incl. Credit Substitutes)	5030.96
Total Assets	12072.6
Capital Adequacy Ratio (%)	19.6

RONW (%)	30.1
ROA (%)	0.9
Cost of Deposits (%)	7.3
Net NPA (%)	1.1
Business per employee	5.95
Profit per employee	0.08

INTERPRETATION:

The above graphs are the Union bank of India financial position before merge. The deposit which is showing that 9866.02 Cr. In the year 2023. The financial position of Union bank of India (UBI) in 2023, before any mergers, reflects a stable and robust operational performance across various key indicators. The Net Interest Income (NII) stands at Rs. 185.92 crore, indicating the income generated from core banking activities after deducting interest expenses. This figure contributes to the bank's overall profitability. UBI reported a Net Profit of Rs. 105.3 crore, showcasing its ability to generate surplus after all expenses and provisions. The Deposits amount to Rs. 9866.02 crore, highlighting the bank's strong customer base and deposit mobilization efforts. Advances, including credit substitutes, total Rs. 5030.96 crore, demonstrating UBI's lending activities and support to economic growth.

5. Financial Position of UNION BANK OF INDIA and before Merger in year 2023:

PARTICULARS	Amount in Cr
Net Interest Income	104.12
Net Profit	45.58
Deposits	3631.04
Advances (Incl. Credit Substitutes)	2072
Total Assets	4443.7
Capital Adequacy Ratio (%)	15.8
RONW (%)	19.9
ROA (%)	1
Cost of Deposits (%)	7.3
Net NPA (%)	4.7
Business per employee	2.02
Profit per employee	0.02

UBI reported a Net Profit of Rs. 45.58 crore, showcasing its ability to generate surplus income after all expenses and provisions. Deposits amount to Rs. 3631.04 crore, underscoring the bank's ability to attract and retain customer funds. Advances, including credit substitutes, total Rs. 2072 crore, reflecting UBI's lending activities and support to economic growth. Total Assets are valued at Rs. 4443.7 crore, highlighting the scale of UBI's operations and its asset base. The Capital Adequacy Ratio (CAR) stands at 15.8%, indicating the bank's ability to absorb potential losses and maintain financial stability as per regulatory standards. Return on Net Worth (RONW) is reported at 19.9%, indicating efficient utilization of shareholder funds to generate profits.

FINANCIAL STANDING OF UNION BANK OF INDIA

PARAMETERS	UNION BANK OF INDIA		BANK OF ANDHRA	
	2022 - 2023	2021-2022	2022-2023	2021-2022
Net worth	308.33	1129.90	211.32	247.83
Total Deposit	6072.94	9866.02	3013.00	3631.00
Advances Net Profit	3377.60	5030.96	1393.92	1665.42
Share Capital	63.75	105.43	30.13	45.58
Capital Adequacy Ratio	11.06%	19.64%	18.83%	11.09%
Gross Advances / Gross NP's	4.72%	2.54%	8.13%	14.25%
Net Advances / Net NP's	2.88%	1.53%	4.66%	6.23%

INTERPRETATION:

The Andhra Bank Net worth in increase after merger with Andhra Bank the Net worth increase from 45.38 in the 2022-2023 to 211.32 in the 2020-2021. Similarly all the particulars of the UNION BANK OF INDIA and Andhra Bank are improved after the merge. The financial comparison between Union bank of India (UBI) and Bank of Andhra across 2022-2023 and 2021-2022 reveals notable differences in their financial standings. UBI shows a lower net worth, total deposits, and advances compared to Bank of Andhra. However, UBI demonstrates a higher net profit and capital adequacy ratio in 2022-2023 compared to the previous year, indicating improved financial stability. In contrast, Bank of Andhra exhibits a decline in net worth and total deposits over the same period. Notably, Bank of Andhra had higher gross and net advances to gross and net NPAs ratio, suggesting potentially higher credit risk exposure. Overall, UBI's strategic focus on profitability and capital adequacy contrasts with Bank of Andhra's challenges in asset quality and financial stability during the analysed periods.

Compiled from Annual Report (March 2023) of Union bank of India & Bank of Andhra.

Crucial Parameters: - How they stand

BANK NAME	UNION BANK OF INDIA	ANDHRA BANK
Book value of bank on the day of merger announcement	183.0	58.0
Market price on the day announcement of merger	183.0 1	169.90
Earnings per share	38%	5.4%
Dividend paid (in %)	55%	15%
P/E Ratio	1.73%	1.73%

Mergers and acquisitions (M&A) involve strategic combinations of companies, with financing methods and relative company sizes playing a key role in their differentiation. Key findings from this analysis reveal two primary payment methods: cash (often signifying acquisitions) and acquiring company stock. The former removes target company shareholders, while the latter offers them ownership in the combined entity. M&A activity can also generate efficiency gains through economies of scale and scope, potentially leading to cost reductions and increased market share. Additionally, strategic advantages like cross-selling opportunities, enhanced management capabilities, and tax benefits may be realized. However, careful consideration must be given to financing methods. Cash purchases can strain financial resources and impact debt ratings, while stock issuance, despite offering flexibility, incurs transaction costs. Furthermore, employing accurate valuation methods for assets, historical and future earnings, and relative market positions is critical for successful M&A transactions.

5. CONCLUSION

Economic liberalization in India has fueled a period of profound corporate restructuring, characterized by a surge in mergers and acquisitions (M&A) activity. This trend signifies a strategic response to the evolving economic landscape, presenting both challenges and opportunities. The analysis underscores that M&As are primarily driven by the pursuit of economies of scale and enhanced competitiveness in the face of globalization. Furthermore, they are increasingly employed as instruments of financial restructuring, enabling smaller firms to access international markets. However, the study acknowledges the potential for a disconnect between a company's market capitalization and its intrinsic value

during periods of broader market volatility. In essence, M&A activity serves as a crucial driver of consolidation in post-liberalization India, empowering businesses to adapt and flourish in the globalized economic environment.

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