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A STUDY ON THE EVALUATION OF FINANCIAL PERFORMANCE OF POST- MERGER AND PRE-MERGER OF CANARA BANK USING EAGLE AND CAMEL MODEL

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ABSTRACT

The banking industry has experienced significant transformations in recent years, withmergers and acquisitions being a prominent strategic move for banks seeking to enhance theircompetitiveness and market presence. This study conducts a comprehensive evaluation of thefinancial performance of Canara Bank, one of India's leading public sector banks, both before and after a merger event. The research employs the EAGLE (Earnings, Asset quality, Growth,Liquidity, and Efficiency) and CAMEL (Capital Adequacy, Asset Quality, Management Quality, Earnings Quality, and Liquidity) models to assess the impact of the merger on the bank's financial health.

The analysis spans a five-year period, incorporating pre-merger and post-merger financial data to discern trends and changes in various financial indicators. The study employs a mixed-methods approach, combining quantitative analysis of financial ratios with qualitative assessments of management strategies and operational efficiencies.

Our findings reveal that the merger significantly influenced Canara Bank's financial performance, particularly in areas of asset quality, capital adequacy, and management quality.While the merger initially posed challenges in terms of integration, the bank's subsequent performance improvements suggest successful strategic planning and execution. The study contributes valuable insights for both banking practitioners and policymakers, shedding lighton the complexities and dynamics of post-merger financial performance.

KEYWORDS: ***Canara Bank, Merger and Acquisition, Financial Performance Evaluation,EAGLE Model, CAMEL Model, Banking Industry, Asset Quality, Capital Adequacy, Management Quality, Earnings Quality, Liquidity, Integration, Strategic Planning, Public Sector Banking, Indian Banking Sector, Post-Merger Analysis.***

INTRODUCTION

The merger of Canara Bank presented an intriguing opportunity to delve into the transformative effects of such strategic decisions on the financial health and performance of a banking entity. This study endeavours to provide a comprehensive assessment of Canara Bank's financial performance, both prior to and following the merger event, utilizing the well-established EAGLE (Earnings, Asset quality, Growth, Liquidity, and Efficiency) and CAMEL (Capital Adequacy, Asset Quality, Management Quality, Earnings Quality, and Liquidity) models.

The findings of this study are expected to contribute significantly to the body of knowledge surrounding mergers and acquisitions in the banking sector. Moreover, the research outcomeswill offer valuable insights to banking practitioners, policymakers, and stakeholders, enabling them to make informed decisions and better understand the complexities and dynamics of post-merger financial performance.

LITERATURE REVIEW

Baburam Adhikari, Marie Kavanagh, Bonnie Hampson (2023) - This study examined the effects of mergers and acquisitions on the financial statements of Bank of Kathmandu (BOKL) and PRVU Bank Limited in Nepal during the pre- and post-M&A periods. The findings for BOKL were mixed, with improvements in profitability and liquidity ratios but no significant changes in other measures following the merger.

Juni khyat (2023) -The Indian banking sector plays an active part in the economy, yet it is confronted with issues such as net losses, growing NPAs, and severe competition. To solve these issues, the Government of India pursued mergers and acquisitions as a strategy to educate the performance of the industry.

Prof. Trupti Mandar Joshi, Prof. Anuja Rishi Limbad (2023) - The attention of this study ison the mega-merger of banks that took place in April 2020, during a fast-changing technological world and fierce global rivalry. The CAMEL model parameters were used to undertake pre- and post-merger financial evaluations for the four banks involved in themega-merger. Facts were gathered from a variety of secondary sources, including yearly reports, business reports, and publications.

Monika AzA1Ahlawat, Dr. Sunita Bishnoi (2023)- The reason of mega-merger on Punjab National Bank's financial performance is examined in this study utilizing measures such as operating profit, net yield, and return on assets, arrival on equity, NPA, and CAR ratio.Data from FY2017-18 to FY2022-23 is examined, with an emphasis on the bank's growthrate following its merger with United Indian bank and Oriental Bank of Commerce.

Brijesh Kumar (2023) - The major goal of organizations in terms of mergers and acquisitions (M&As) is to increase core capabilities and organizational culture while adapting to changing business landscapes. M&A's seek to expand client relationships beyond professional boundaries, resulting in greater pleasure and assurance. Based on theirmotivations, these transactions are labelled as Voluntary, Compulsory, or Universal Banking Model.

OBJECTIVE OF THE STUDY

- To assess the financial performance in terms of CAMEL, EAGLES models, and the Du-Point Analysis
- To analyse the financial performance of Canara Bank after the merger event.
- To identify any significant changes or trends in the post-merger financial performancecompared to the pre-merger period.

STATEMENT OF THE PROBLEM

Canara Bank's merger with another large Indian bank has prompted concerns about the collisiononfinancial performance.

This study aims to address the issue of determining how the merger affectedCanara Bank's financial stability and efficiency, with an emphasis on comparing pre- and post- merger financial performance using the EAGLE and CAMEL models.

RESEARCH METHODOLOGY

For the existing study researcher Descriptive research has been utilized. The study describes the financial routine of bank. for the analysis focused secondary data had used, data analysis is concentrates on financial routine of the bank. Secondary data was unruffled from the annual report and documents that were accessible. The study focuses on evaluating the financial performance of Canara Bank and Syndicate Bank, both in their pre-merger and post-merger states, using the EAGLE and CAMEL models as analytical frameworks. The scope encompasses an in-depth analysis of financial data, key performance indicators, and qualitative factors to give a comprehensive assessment. It considers the period leading up to the amalgamation, immediate aftermath, and the subsequent years to gauge the long-term effects.

This study on the evaluation of the financial performance of Canara Bank pre-merger and post- merger with Syndicate Bank offers valuable insights to stakeholders such as shareholders, employees, customers, regulators, and financial market participants, enabling them to make informed decisions, assess the stability and growth prospects of the bank, and contribute to the overall health of the financial sector. Six years of data from the bank's annual report were gathered for the study's determinations.

The six-year reference period begins in 2016-2017 and ends in 2021-2022.The six-year referenceperiod begins in 2016-2017 and ends in 2021-2022 on different sectors.

FINDING AND CONCLUSION

Analysis of EAGLES Model

1. **Earnings :ROE=Net Profit/ Shareholders Equity**

Years	Net Profit	Shareholder Equity	ROE			
2021-2022	5795.1	35	165.57		Post-Merger	
2020-2021	2701.98	19	142.2		Pre-Merger	
2019-2020	-2022.5	-24	84.27			
2018-2019	547.15	8	68.39			
2018-2017	-4087.32	-66	-61.92			
2017-2016	1233.61	25	49.34			

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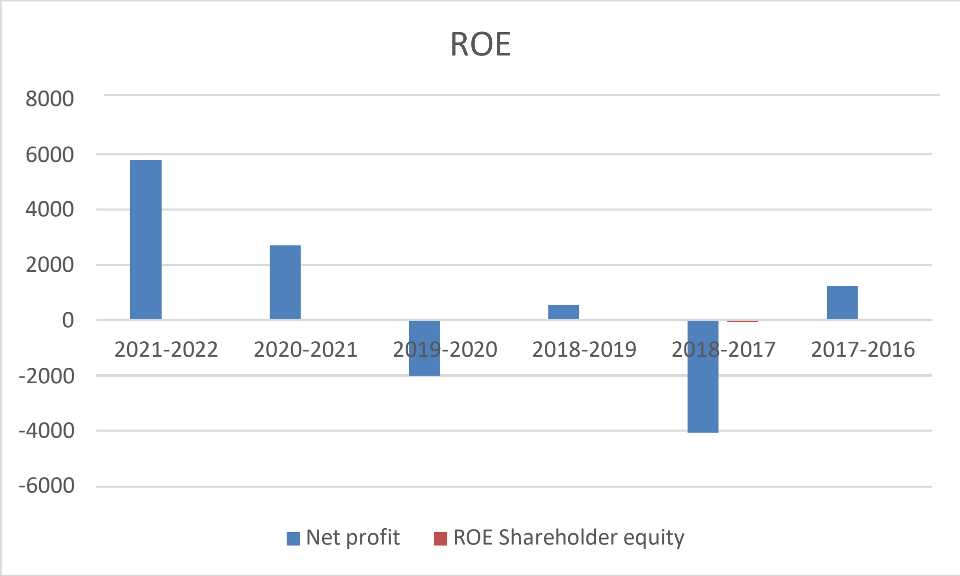


INTERPRETATION & ANALYSIS

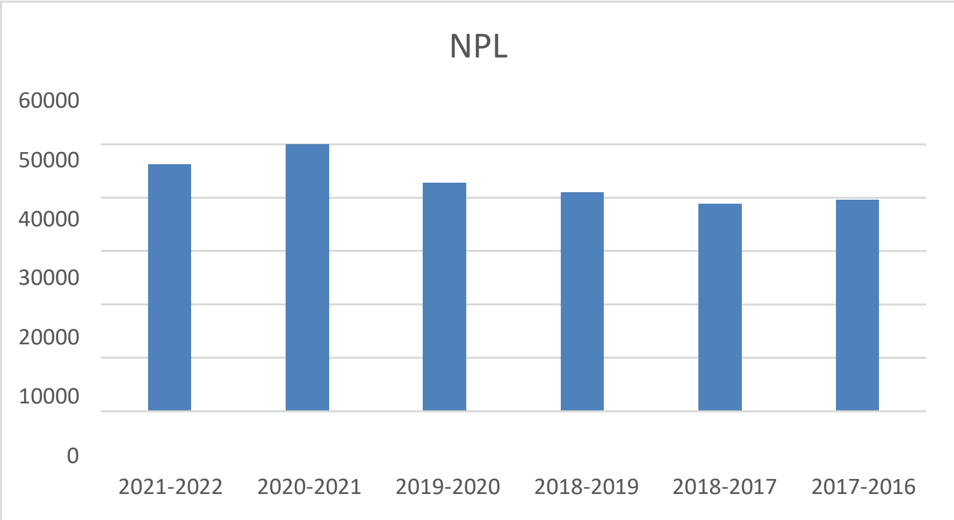
The "PRE-MERGER" period showed periods of high profitability and unusual positive ROE despite negative values in some cases. The "POST MERGER" period, after 2019, demonstrated a notable increase in profitability compared to shareholder equity.

2. Asset quality: NPL = Non Performing Loans \ Total Loans and Advances

Table Showing Asset Quality (Non-Performing Loans)

Years	Non Performing Loans	Total Loans And Advances	NPL
2021-2022	46284.96	1257663.54	3.68
2020-2021	50012.8	1179539.6	4.24
2019-2020	42761.77	741440.27	5.767
2018-2019	41042.64	711782.81	5.766
2018-2017	38909.5	631435.47	6.162
2017-2016	39591.76	596158.75	6.641

Table Showing Asset Quality (Non-Performing Loans)



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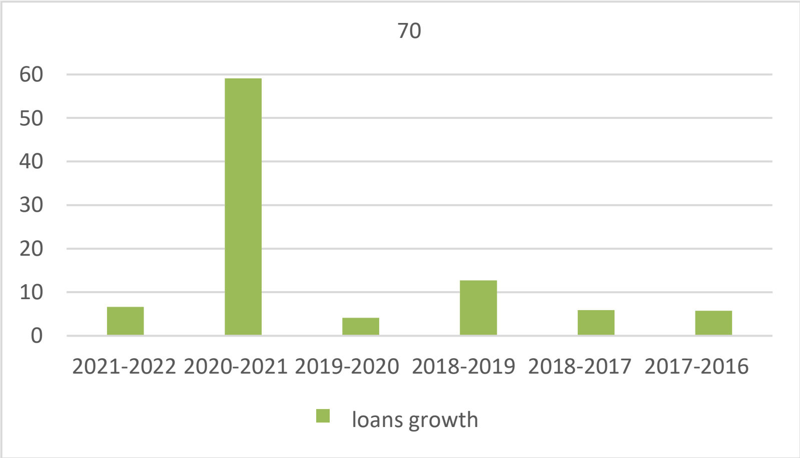
INTERPRETATION & ANALYSIS

The data show that the NPL ratio improved following the merger, with a decrease in non-performing loans compared to total loans and advances. This is a good sign, showing that the company managed its loans more effectively after the merger. However, the NPL ratio should be evaluated over time to maintain the loan portfolio's sustained health.

Growth : loans Growth = Total Loans – Total loans t-1 \Total Loans T- 1Table Showing Growth

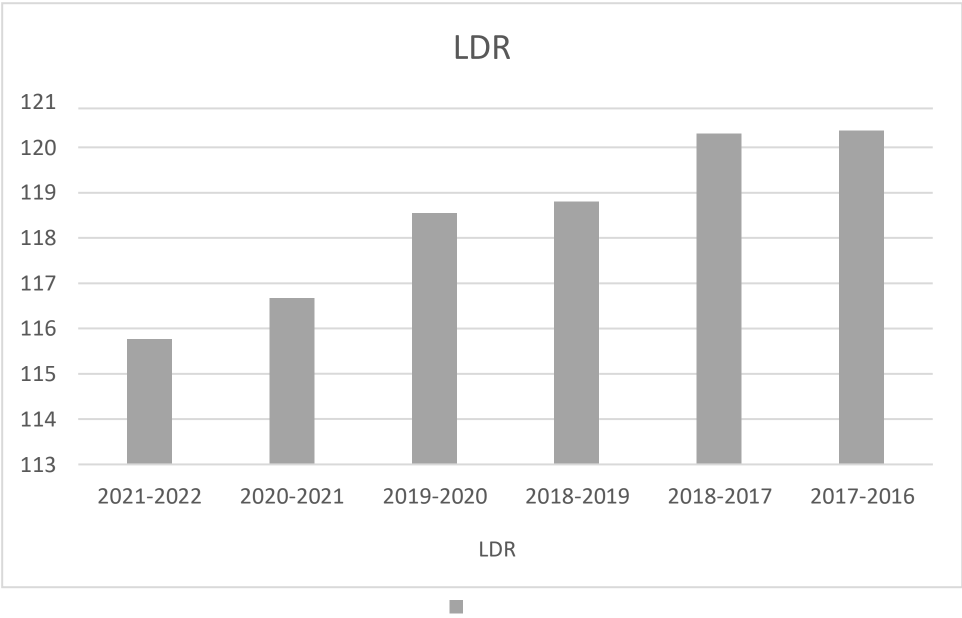


INTERPRETATION & ANALYSIS

The data demonstrate that loans witnessed tremendous growth, particularly in the year following the merger, when the loan portfolio increased significantly (59.08%). The rate of growth slowed in the following years but remained positive, indicating that the lending company is still expanding. This expansion must be closely monitored to ensure that it matches with the company's financial strategy and risk management.

Liquidity: LRD= Total Loans \total advances

Table showing Liquidity



INTERPRETATION & ANALYSIS

The data indicates that the Loan-to-Deposit Ratio (LDR) was relatively stable in the "POST- MERGER" period, with some fluctuations but generally remaining below 120%. A decrease in the LDR may suggest improved deposit growth relative to loan growth, which can be a positive sign for abank's liquidity and risk management.

Equity:CAR=Teir1+Teir 2 \Risk weighted assets

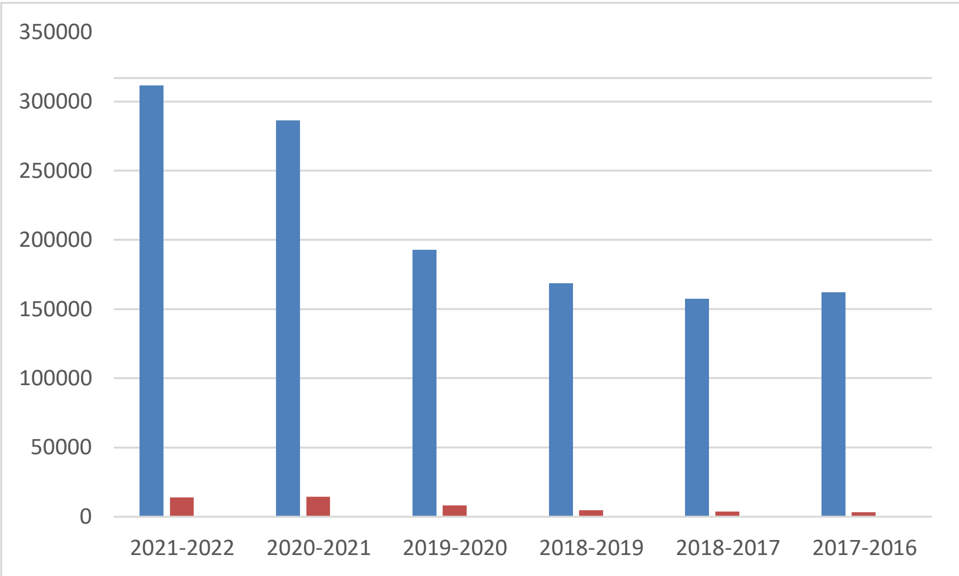
INTERPRETATION & ANALYSIS

The data shows the evolution of Tier 1 and Tier 2 capital over several years in relation to Risk- Weighted Assets. Banks are required to maintain adequate capital to cover potential losses, and these figures are critical for assessing a bank's capital adequacy, risk management, and regulatory compliance. It's important for a bank to monitor and manage its capital levels to ensure it can absorb unexpected losses and maintain financial stability.

Strategic Response: Interest Burden=Interest margin \ Net Operating cost Table Showing Strategic Response

Years	Interest Margin	Net Operating Cost	Interest Burden
2021-2022	311347.24	13873.91	22.44
2020-2021	286191.25	14347.38	19.95
2019-2020	192645.37	8119.94	23.72
2018-2019	168678.05	4714.72	35.78
2018-2017	157443.56	3682.13	42.76
2017-2016	162072.92	3318.21	48.84

GRAPH SHOWING STRATEGIC RESPONSE



INTERPRETATION & ANALYSIS

The data indicates that the bank has generally maintained a low interest burden, suggesting efficient cost management relative to interest income. However, it's important to monitor operating costs and interest margins to ensure continued efficiency in the bank's operations and profitability.

NOTE; As some of components in the above model is calculated in the EAGLES Model and soits not repeated in the CAMELS model like Asset quality, Earnings , liquidity and Sensitivity tomarket risk

CAMELS MODEL

Capital adequacy ratio:CAR = Teir 1+ Teir 2 \ risk weighted assetsTable Showing Equity

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Years	TIRE1	TIRE2	Risk Weighted Assets
2021-2022	11.91	2.99	14.9
2020-2021	10.08	3.1	13.18
2019-2020	10.12	3.55	13.65
2018-2019	9.04	2.86	11.9
2018-2017	10.3	2.92	13.22
2017-2016	9.77	3.09	12.86

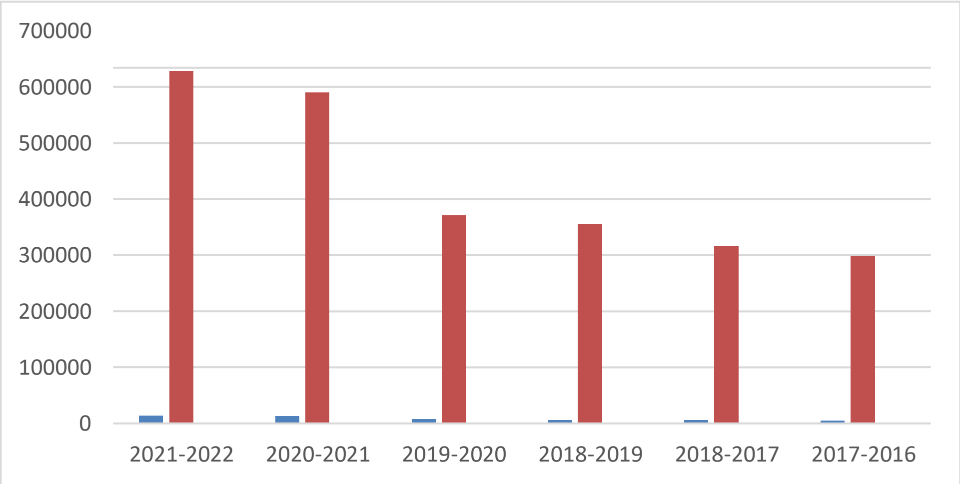
INTERPRETATION & ANALYSIS

The merger in 2018 seems to have has a positive collisionon TIRE1 capital, suggesting that it likely contributed towords the bank's financial strength.TIRE2 capital also increased post-merger, which is generally a positive sign for financial stability. Risk-weighted assets increased, indicating that the bankmight have taken on more risk, potentially due to the merger or changes in its asset portfolio.

Management quality: MQ= Personnel exp\Average AssetsTable showing Management Quality

Years	Personal Exp	Avg Of Assets	Management Quality
2021-2022	13208.73	628831.77	0.021
2020-2021	13099.48	589769.8	0.022
2019-2020	7501.12	370720.13	0.02
2018-2019	5962.84	355891.4	0.017
2018-2017	5699.35	315717.73	0.018
2017-2016	4962.79	298079.37	0.017

Graph SHOWING MANAGEMENT Quality



INTERPRETATION & ANALYSIS

The data suggests that personal expenses have increased significantly post-merger, which could be a concern if not aligned with revenue growth. The growth in the average of assets is generally a positivesign for the bank, as it indicates potential expansion.The measure of management quality seems relatively consistent, which could indicate stable management practices.

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DU-POINT ANALYSIS

Du-Point=Net Profit Margin *Asset Turnover Ratio *Financial Leverage Ratio

Years	NPM	ATR	FLR	Du-Point a
2021-2022	1	0.078	21.087	1.641
2020-2021	1.108	0.082	22.477	2.035
2019-2020	1.085	0.144	21.908	3.422
2018-2019	1.017	0.159	23.346	3.784
2018-2017	1.011	0.268	23.703	6.418
2017-2016	1.007	0.316	20.761	6.614

INTERPRETATION & ANALYSIS

The bank's financial ratios show some fluctuations but overall indicate a relatively stable and profitable operation.The post-merger period is characterized by lower ATR and FLR, suggesting that the bank has become less efficient in using its assets to generate revenue and has reduced its reliance on debt financing. The DuPont Analysis points to a decrease in ROE post-merger, indicating that the bank's profitability and efficiency may have been impacted by the merger or other factors.

CONCLUSION

Overall, the bank's financial performance research demonstrates changes in numerous measures throughout time. The bank faced struggles and losses, particularly in 2016-2017, but has recovered andachieved significant profitability after the merger, hitting its best ROE in 2021-2022. The bank has been fastly expanding its lending portfolio, but cautious management is required and asset quality is still critical. In additionmore, the bank's capital adequacy has improved, and the interest margin has showed an upward trend, indicating improved profitability from interest revenue. However, in order to preserve long-term profitability, the bank must continuously control its spending and interest charges.

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