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An Event Study on Merger of Syndicate Bank with Canara Bank

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Abstract- This research delves into the dynamics of mergers and acquisitions (M&A) as strategic tools for business expansion, focusing on the notable merger between Syndicate Bank and Canara Bank announced on 30th August 2019. Employing the OLS Market Model of Event Study, the study rigorously analyzes the impact of the merger on shareholder returns during the event day, as well as in designated pre and post-event windows. While marginal abnormal returns were observed on the event day, the research reveals an absence of abnormal returns in both pre and post-event windows. The findings contribute valuable insights to the discourse on banking sector consolidations and their implications, offering practical implications for stakeholders navigating the evolving financial landscape.

Keywords- Mergers, Event Study, Abnormal Returns.

I. INTRODUCTION

Entrepreneurs navigate the path of business expansion through two primary avenues: internal and external. Internal expansion involves a gradual and organic growth process over time, achieved by acquiring new assets, updating technologically obsolete equipment, and establishing new product lines. On the other hand, external expansion propels a firm's rapid growth through corporate combinations, encompassing mergers, acquisitions, amalgamations, and takeovers. These strategies have evolved into integral components of corporate restructuring, significantly influencing the global business landscape.

In the dynamic landscape of the banking industry, mergers and acquisitions (M&A) have emerged as strategic maneuvers adopted by financial institutions to enhance competitiveness, achieve economies of scale, and fortify their market presence. One such noteworthy event in recent times was the merger between Syndicate Bank and Canara Bank, a pivotal development that reshaped the contours of the Indian banking sector. The amalgamation, announced in 30th August, 2019, marked a significant stride in the ongoing consolidation efforts within the banking industry.

The amalgamation of Syndicate Bank, and Canara Bank, a stalwart in the financial domain, drew considerable attention from stakeholders, policymakers, and industry observers alike. The merger was envisioned to bring about synergies that could potentially reconfigure the competitive dynamics, drive operational efficiencies, and foster financial stability within the consolidated entity.

This research embarks on an event study, seeking to comprehensively analyze the impact of the Syndicate Bank and Canara Bank merger on various financial and market indicators. By employing rigorous empirical methodologies, the study aims to unveil the underlying economic implications, share price movements, and investor sentiments associated with this strategic amalgamation. Understanding the consequences of this merger is not only academically intriguing but also holds practical significance for regulators, investors, and banking professionals navigating the intricacies of an evolving financial landscape.

As we delve into the intricacies of this significant financial event, our research seeks to answer critical questions pertaining to the merger's effects on shareholder value, market dynamics, and the broader financial ecosystem. Through a meticulous examination of pre and post-merger periods, this study aspires to contribute valuable insights to the ongoing discourse surrounding banking sector consolidations and their implications.

II. REVIEW OF LITERATURE

In Firth's (1980) investigation of takeover activities in the United States spanning the years 1969-1975, it was determined that mergers and acquisitions yielded advantages for the shareholders of the companies being acquired.

Fisher et al. (1983) conducted a study to assess a hypothesis, revealing that mergers characterized as horizontal in nature generate returns for both the shareholders of the acquiring company and those of the target company. The research suggested that the primary factor contributing to the positive abnormal returns was the increased success of collaboration among competing producers.

Dasgupta Saibal (2001) conducted research on the merger between ICICI Bank and the Bank of Madura, highlighting the favourable aspects of the merger. The author noted that ICICI Bank's primary objective in acquiring the Bank of Madura was geographical expansion within the country. The merger successfully augmented the earnings per share of ICICI Bank, leading to the creation of shareholder wealth. Overall, the deal proved successful in expanding business operations, enhancing earnings, and generating value for shareholders.

Mishra (2006) deliberated on the suitability of mergers as a means to expand business, with a focus on mergers in the Indian banking sector. The author explored various alternatives for business expansion but highlighted the current prominence of mergers and acquisitions as a compelling strategy for growth. In the context of the Indian banking sector, mergers are often driven by the need to rehabilitate financially distressed banks. The rationale behind such mergers lies in preventing the catastrophic consequences of the outright closure of a financially ailing bank, which would adversely affect both society and the economy. Consequently, the strategy involves the financially distressed bank merging with a healthier counterpart, ensuring its survival to contribute positively to the economy. However, this approach can result in the dilution of shareholder wealth for the acquiring bank.

H G Rekha (2007) examined the impact of mergers on shareholder wealth, focusing on 13 cases of horizontal mergers over a 5-year period (1993-1998). The research revealed that in mergers involving a profitable company and a financially distressed one, the target companies experienced gains exceeding 100%. Similarly, when two profitable companies merged, shareholders of the target company enjoyed a higher rate of return. However, the study also found that shareholders from both merging entities (profitable and distressed) faced an immediate dilution in earnings post-merger. In conclusion, the research suggested that mergers indeed generate shareholder wealth, particularly benefiting the shareholders of the target companies.

In their research, Deo and Shah (2011) examined 28 merger announcements within the Indian Information Technology Industry from January 2000 to June 2010. Employing the market model, they assessed the impact on shareholder wealth for both acquiring and target companies. The findings indicated that merger announcements within the Indian IT sector did not exert a noteworthy influence on the bidder portfolio. Instead, the study revealed that mergers and acquisitions led to significant positive returns specifically for the shareholders of the target companies.

Porwal and Baghla (2012) conducted a study titled "Merger & Acquisition Announcements and Stock Price Behaviour: Testing for Efficient Market Hypothesis," where they investigated the impact of merger announcements on the stock prices of 21 Indian companies listed on the BSE. Employing the Event Study Methodology, the research indicated that the announcement of mergers and acquisitions did not exert any notable influence on the movement of share prices. Additionally, the study found that the announcement event did not generate significant abnormal returns for the shareholders.

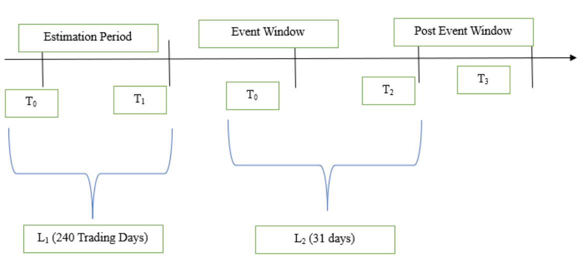
Sonia Singh and Shubhankar Das (2018) Mergers and acquisitions, emphasized the necessity for strategies and policies that align with the organizational procedural, physical, and social-cultural contexts. Post-M&A, crucial qualitative considerations involve accounting reports, market evaluations, and insights from key informants, all contributing significantly to the performance of the bank and its subsidiaries.

Ujjwala, P's study on the merger between Bank of Baroda, Dena Bank, and Vijaya Bank in 2019 aims to analyze the intricacies of this consolidation, driven by a strategic vision for enhanced size and client base. The research investigates the reasons behind the merger, emphasizing the anticipated benefits. It also conducts a pre-merger analysis of the banks' performance using various financial tools. The amalgamation, effective from April 1st, 2019, aligns with the government's focus on strengthening public-sector banks and addressing challenges such as non-performing assets (NPAs) and loan defaults.

III. METHODOLOGY, OBJECTIVES & HYPOTHESIS

1. To find out whether the announcement of merger and acquisition creates any positive abnormal returns and cumulative abnormal returns on the announcement day.
2. To find out whether the announcement of merger and acquisition creates any positive/negative abnormal returns and cumulative abnormal returns on the subsequent few days before and after the announcement of merger and acquisition.

Methodology and Cogent Tools
In this research we find out the abnormal return and cumulative abnormal return on the day of announcement of merger of Syndicate bank with Canara Bank, the OLS Model has been considered. The merger announcement date had bee considered as an Event Date. To Calculate Abnormal return and Event Window of 31 days (including the Event date, 15 days before announcement & 15 days after announcement) had been contemplated.



In OLS Market Model before calculating Abnormal Return, the expected return of a specific stocks has calculated during the specific Event Period. To calculate Expected Return, the Intercept or α and slope or β had been calculated based on the normal return of specific stock along with the normal return on market index. In this research as market index S&P BSE has been considered. In this model the Abnormal Return of the stock has been calculated by subtracting the Expected Return from the normal return of the Canara Bank Stock during the Event Window. After calculating the Abnormal Return of the stock, the cumulative Abnormal Return had also calculated. The required data has been calculated from finance.yahoo.com and also from other various financial websites. The mentioned hypothesis has been tested on probability value of the Abnormal Return at 5% significant level.

Hypothesis

H_0 = The announcement day of the Event of Merger and acquisition will not cause positive abnormal returns at the announcement day under OLS market model of the event study.

H_0 = The period prior to the announcement of the merger and acquisition shows a positive abnormal stock return under the selected models of the event study.

H_0 = The announcement event of merger and acquisition will not cause positive abnormal returns during the subsequent few days under the selected models of the event study.

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IV. DATA ANALYSIS

Table – 1: T Test of Abnormal Return and Cumulative Abnormal Return

Date	Stock price	Market price	Stock return	Market return	Normal return	Abnormal return	CAR	t- statistics of CAR
07-08-2019	209.52	36699.84	-0.0304	-0.0113	-0.0105	-0.0199	-0.0617	-0.8010
08-08-2019	211.94	36976.85	0.0115	0.0075	0.0067	0.0048	-0.0418	-0.5619
09-08-2019	212.59	36690.50	0.0031	-0.0078	-0.0073	0.0103	-0.0466	-0.6496
13-08-2019	205.76	37327.36	-0.0327	0.0172	0.0156	-0.0483	-0.0569	-0.8261
14-08-2019	209.57	37581.91	0.0184	0.0068	0.0061	0.0123	-0.0086	-0.1310
16-08-2019	219.52	36958.16	0.0464	-0.0167	-0.0154	0.0618	-0.0210	-0.3333
19-08-2019	214.96	37311.53	-0.0210	0.0095	0.0085	-0.0295	-0.0828	-1.3883
20-08-2019	209.52	37350.33	-0.0256	0.0010	0.0008	-0.0264	-0.0533	-0.9476
21-08-2019	204.45	37402.49	-0.0245	0.0014	0.0011	-0.0256	-0.0269	-0.5104
22-08-2019	195.15	37328.01	-0.0466	-0.0020	-0.0020	-0.0446	-0.0012	-0.0254
23-08-2019	201.57	37060.37	0.0324	-0.0072	-0.0067	0.0391	0.0434	1.0902
26-08-2019	208.17	36472.93	0.0322	-0.0160	-0.0148	0.0470	0.0043	0.1071
27-08-2019	213.52	36701.16	0.0254	0.0062	0.0055	0.0198	-0.0427	-1.2411
28-08-2019	211.06	37494.12	-0.0116	0.0214	0.0194	-0.0310	-0.0626	-2.2252
29-08-2019	205.20	37641.27	-0.0282	0.0039	0.0034	-0.0316	-0.0316	-1.5885
30-08-2019	220.60	37451.84	0.07238	-0.0050	-0.0048	0.077144	-3.87975	
03-09-2019	183.25	37068.93	-0.1131	-0.0103	-0.0095	-0.1036	-0.1036	-5.2114
04-09-2019	179.20	37332.79	-0.0223	0.0071	0.0063	-0.0287	-0.1323	-4.7041
05-09-2019	178.18	36562.91	-0.0057	-0.0208	-0.0192	0.0135	-0.1188	-3.9835
06-09-2019	178.32	36724.74	0.0008	0.0044	0.0039	-0.0031	-0.1219	-3.0654
09-09-2019	184.13	36644.42	0.0321	-0.0022	-0.0022	0.0342	-0.0876	-1.9715
11-09-2019	190.22	36981.77	0.0326	0.0092	0.0082	0.0243	-0.0633	-1.2999
12-09-2019	189.29	37145.45	-0.0049	0.0044	0.0039	-0.0088	-0.0721	-1.3704
13-09-2019	189.20	37270.82	-0.0005	0.0034	0.0029	-0.0034	-0.0755	-1.3426
16-09-2019	189.01	37104.28	-0.0010	-0.0045	-0.0042	0.0033	-0.0722	-1.2111
17-09-2019	180.50	37384.99	-0.0461	0.0075	0.0067	-0.0528	-0.1250	-1.9889
18-09-2019	182.27	37123.31	0.0097	-0.0070	-0.0066	0.0163	-0.1087	-1.6488
19-09-2019	176.59	36481.09	-0.0316	-0.0175	-0.0161	-0.0155	-0.1242	-1.8041
20-09-2019	187.52	36563.88	0.0601	0.0023	0.0019	0.0581	-0.0661	-0.9222
23-09-2019	195.11	36093.47	0.0396	-0.0129	-0.0120	0.0516	-0.0145	-0.1947
24-09-2019	189.06	38014.62	-0.03148	0.05186	0.047217	-0.0786967	-0.0932	-1.2102

The above table shows the results of the event on the announcement of merger of Syndicate bank with Canara Bank on 30-08-2019. To analyse the data OLS Market model has been adopted under Event study. The merger has been announced on 30-09-2019. Under OLS market model, Abnormal Return and Cumulative Abnormal Return has been calculated. The study shows that on the event day the share price of Canara Bank has created a positive return of 7.7%.

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Table – 2: T Test of Abnormal Return and Cumulative Abnormal Return during Pre-Event Window

Date	Stock price	Market price	Stock return	Market return	Normal return	Abnormal return	CAR	t- statistics of CAR
07-08-2019	209.52	36699.84	-0.0304	-0.0113	-0.0105	-0.0199	-0.0617	-0.8010
08-08-2019	211.94	36976.85	0.0115	0.0075	0.0067	0.0048	-0.0418	-0.5619
09-08-2019	212.59	36690.50	0.0031	-0.0078	-0.0073	0.0103	-0.0466	-0.6496
13-08-2019	205.76	37327.36	-0.0327	0.0172	0.0156	-0.0483	-0.0569	-0.8261
14-08-2019	209.57	37581.91	0.0184	0.0068	0.0061	0.0123	-0.0086	-0.1310
16-08-2019	219.52	36958.16	0.0464	-0.0167	-0.0154	0.0618	-0.0210	-0.3333
19-08-2019	214.96	37311.53	-0.0210	0.0095	0.0085	-0.0295	-0.0828	-1.3883
20-08-2019	209.52	37350.33	-0.0256	0.0010	0.0008	-0.0264	-0.0533	-0.9476
21-08-2019	204.45	37402.49	-0.0245	0.0014	0.0011	-0.0256	-0.0269	-0.5104
22-08-2019	195.15	37328.01	-0.0466	-0.0020	-0.0020	-0.0446	-0.0012	-0.0254
23-08-2019	201.57	37060.37	0.0324	-0.0072	-0.0067	0.0391	0.0434	1.0902
26-08-2019	208.17	36472.93	0.0322	-0.0160	-0.0148	0.0470	0.0043	0.1071
27-08-2019	213.52	36701.16	0.0254	0.0062	0.0055	0.0198	-0.0427	-1.2411
28-08-2019	211.06	37494.12	-0.0116	0.0214	0.0194	-0.0310	-0.0626	-2.2252
29-08-2019	205.20	37641.27	-0.0282	0.0039	0.0034	-0.0316	-0.0316	-1.5885

The researcher sought to determine if the pre-event period generated abnormal returns for shareholders. The data indicates that while the merger event resulted in abnormal returns on the event day, it did not produce any abnormal returns during the designated pre-event window.

Table – 3: T Test of Abnormal Return and Cumulative Abnormal Return during Post-Event Window

Date	Stock price	Market price	Stock return	Market return	Normal return	Abnormal return	CAR	t- statistics of CAR
03-09-2019	183.25	37068.93	-0.1131	-0.0103	-0.0095	-0.1036	-0.1036	-5.2114
04-09-2019	179.20	37332.79	-0.0223	0.0071	0.0063	-0.0287	-0.1323	-4.7041
05-09-2019	178.18	36562.91	-0.0057	-0.0208	-0.0192	0.0135	-0.1188	-3.9835
06-09-2019	178.32	36724.74	0.0008	0.0044	0.0039	-0.0031	-0.1219	-3.0654
09-09-2019	184.13	36644.42	0.0321	-0.0022	-0.0022	0.0342	-0.0876	-1.9715
11-09-2019	190.22	36981.77	0.0326	0.0092	0.0082	0.0243	-0.0633	-1.2999
12-09-2019	189.29	37145.45	-0.0049	0.0044	0.0039	-0.0088	-0.0721	-1.3704

13-09-2019	189.20	37270.82	-0.0005	0.0034	0.0029	-0.0034	-0.0755	-1.3426
16-09-2019	189.01	37104.28	-0.0010	-0.0045	-0.0042	0.0033	-0.0722	-1.2111
17-09-2019	180.50	37384.99	-0.0461	0.0075	0.0067	-0.0528	-0.1250	-1.9889
18-09-2019	182.27	37123.31	0.0097	-0.0070	-0.0066	0.0163	-0.1087	-1.6488
19-09-2019	176.59	36481.09	-0.0316	-0.0175	-0.0161	-0.0155	-0.1242	-1.8041
20-09-2019	187.52	36563.88	0.0601	0.0023	0.0019	0.0581	-0.0661	-0.9222
23-09-2019	195.11	36093.47	0.0396	-0.0129	-0.0120	0.0516	-0.0145	-0.1947
24-09-2019	189.06	38014.62	-0.03148	0.05186	0.047217	-0.078696	-0.0932	-1.2102

The researcher also investigated whether the post-event window yielded abnormal returns for shareholders. The findings revealed that this specific merger event did not generate any abnormal return during the designated post-event window. Consequently, it can be inferred that the merger announcement did not result in abnormal returns in both the pre- and post-event windows.

V. CONCLUSION

In contemporary business strategies, mergers and acquisitions are acknowledged as effective means for business expansion. Notably, when Finance Minister Smt. Nirmala Sitaraman announced the merger of Syndicate Bank with Canara Bank on 30-08-2019, it facilitated Canara Bank in expanding its customer base nationwide, consequently fostering credit growth in the economy. This research explores the impact of the merger announcement on shareholder returns during the event day, as well as in specified pre and post-event periods. Applying the OLS Market Model of Event Study to calculate abnormal returns and cumulative abnormal returns, the study concludes that while there were marginal abnormal returns for shareholders on the event day, no abnormal returns were observed during the specified pre and post-event windows.

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