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Financial Performance of Dena Bank after Merger with Bank of Baroda: A Research Study

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Abstract

The merger of Dena Bank and Vijaya Bank with Bank of Baroda was one of the important bank merger initiatives undertaken in the Indian public sector banking sector. The amalgamation came into force from 1 April 2019 under the Amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda Scheme, 2019. The main objective of the merger was to generate a stronger banking base with greater financial strength, improved operational efficiency, wider geographical coverage and boosted competitiveness. Dena Bank, was in great financial difficulties when it entered the merger, particularly with high levels of non-performing assets and persistent losses. Therefore, the post-merger performance of the Bank of Baroda gives an important basis for examining the financial outcomes of the amalgamation.

This study examines the financial results of Bank of Baroda during the post-merger period, considering Dena Bank's pre-merger financial position as the baseline. Since Dena Bank has stopped functioning as an independent reporting entity after 1 April 2019, its post-merger performance cannot be measured separately. As a result, the study examines the financial performance of the merged Bank of Baroda entity through financial indicators which includes net profit, gross non-performing assets, net non-performing assets, return on assets, net interest margin, capital adequacy and growth in business. Secondary data are collected from referring to the financial statements of Bank of Baroda, financial-result disclosures, the publications of Reserve Bank of India and other published sources.

The analysis shows a noteworthy positive improvement in the financial position of the merged entity after the merger. Bank of Baroda's standalone net profit rose from ₹546 crore in FY2020 to ₹19,581 crore in FY2025. During the same period, the gross NPA ratio decreased from 9.40% to 2.26%, while the net NPA ratio declined from 3.13% to 0.58%. Return on assets and capital adequacy also showed an improvement over the period. The findings indicate that the post-merger Bank of Baroda experienced substantial improvement in profitability and asset quality. However, these improvements cannot be attributed exclusively to the merger because several other factors, including recovery of stressed assets, provisioning, economic conditions, management initiatives and banking-sector reforms, influenced the financial results.

Keywords: *Dena Bank; Bank of Baroda; Bank Merger, Amalgamation, Financial outcomes, Non-Performing Assets, Net Profit, Asset Quality, Public Sector Banks; Banking Sector, Return on Assets, Capital Adequacy.*

Introduction

The banking sector is an important sector that plays a crucial role in the economic development of a country by mobilising savings, providing credit, facilitating investment and supporting economic activity. A financially stable banking sector is therefore vital for maintaining economic stability. In India, public sector banks are playing an important role in providing banking services across urban and rural areas. However, several public sector banks atrated experiencing difficulties during the period preceding 2019, particularly due to increase in non-performing assets, weak profitability and insufficient capital. Bank consolidation has come as one of the measures adopted by the Government of India to strengthen public sector banks. The merger of Dena Bank and Vijaya Bank with Bank of Baroda was announced as part of this merger process. The amalgamation came into force from 1 April 2019, making the branches of Dena Bank and Vijaya Bank branches of Bank of Baroda which was confirmed by the Reserve Bank of India (rbi.org.in).

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Dena Bank's financial position before the merger period was a major issue of concern. In FY2018, the bank disclosed a gross non-performing assets of ₹16,361 crore, representing 22.04% of gross advances. Net NPAs were arround ₹7,839 crore, representing 11.95% of net advances. The bank also recorded a net loss of around ₹1,923 crore. (economictimes.indiatimes.com)

The high level of stressed assets affected Dena Bank's profitability and financial sustainability. During the June 2018 quarter, the bank reported a gross NPA ratio of approximately 22.69% and a net loss of ₹721.71 crore. (business-standard.com). Alongside this background, the merger with Bank of Baroda provided Dena Bank's operations with the financial and organisational support of a much bigger banking institution. It also shaped a combined bank with a broader customer base, larger balance sheet and greater geographical reach. The objective of this research paper is to study whether the financial performance of the merged Bank of Baroda has improved during the years especially after merger. The importance has been given to profitability and the quality of assets because these were among the key issues of concern of Dena Bank during the pre-merger period. It is important to explain that this study does not say that the post-merger Bank of Baroda's entire performance as the performance of former Dena Bank operations. After 1 April 2019, Dena Bank liquidated and stopped as a separate reporting entity. Therefore, the study uses Dena Bank's pre-merger position as base and evaluates the performance of the combined Bank of Baroda after amalgamation.

Research Methodology

A descriptive study has been adopted. The study is based on secondary data. The research stresses on the financial performance of the merged Bank of Baroda during the post-merger period. The primary and the main sources of information contain Bank of Baroda annual reports and financial-result disclosures, Publications of Reserve Bank of India, Government of India documents and published financial information. Bank of Baroda's official financial reports convey information relating to profitability, asset quality, capital adequacy and other financial indicators (bankofbaroda.bank.in). The study primarily tests FY2020 to FY2025 as the post-merger period. FY2018 and FY2019 information relating to Dena Bank is considered for understanding its financial condition before amalgamation. The main financial indicators examined are net profit, gross NPA ratio, net NPA ratio, return on assets, net interest margin and capital adequacy ratio. The study uses comparative analysis to identify changes in these indicators over time.

The research is subject to certain limitations and they are as follows:

- Dena Bank's financial performance cannot be separately measured after April 2019 because it became part of Bank of Baroda.
- Improvement in Bank of Baroda's financial performance cannot be attributed solely to the merger. Changes in the Indian economy, interest rates, regulatory policies, recovery mechanisms, provisioning, loan restructuring and management strategies may also have influenced the results.

Analysis of Financial Performance

Pre-Merger Financial Position of Dena Bank

Dena Bank's financial position before the merger offers an important basis for evaluating the subsequent performance of the merged institution. The bank experienced serious asset-quality problems and recorded losses in the years immediately before the merger.

Financial Indicator	FY2017	FY2018	Q1 FY2019
Net Profit/(Loss) (₹ crore)	-864	-1,923	-722
Gross NPA (₹ crore)	12,619	16,361	15,866
Gross NPA Ratio (%)	16.27	22.04	22.69
Net NPA (₹ crore)	7,735	7,839	6,704
Net NPA Ratio (%)	10.66	11.95	11.04

Source: Dena Bank published financial information and contemporary financial reports.

The table validates that Dena Bank's asset quality deteriorated considerably before the merger. The gross NPA ratio rose from 16.27% in FY2017 to 22.04% in FY2018. The net NPA ratio also improved from 10.66% to 11.95%. The high NPA ratio had a direct influence on profitability because banks are required to make provisions against non-performing assets. Consequently, Dena Bank faced significant losses during the period. The financial stress of Dena Bank was therefore one of the important issue of concerns in the consolidation of the bank with Bank of Baroda.

Profitability after the Merger

The profitability of Bank of Baroda improved significantly during the post-merger period. In FY2020, the bank reported standalone net profit of ₹546 crore. This increased to ₹829 crore in FY2021 and then rose substantially to ₹7,272 crore in FY2022. Net profit increased further to ₹14,110 crore in FY2023, ₹17,789 crore in FY2024 and ₹19,581 crore in FY2025.

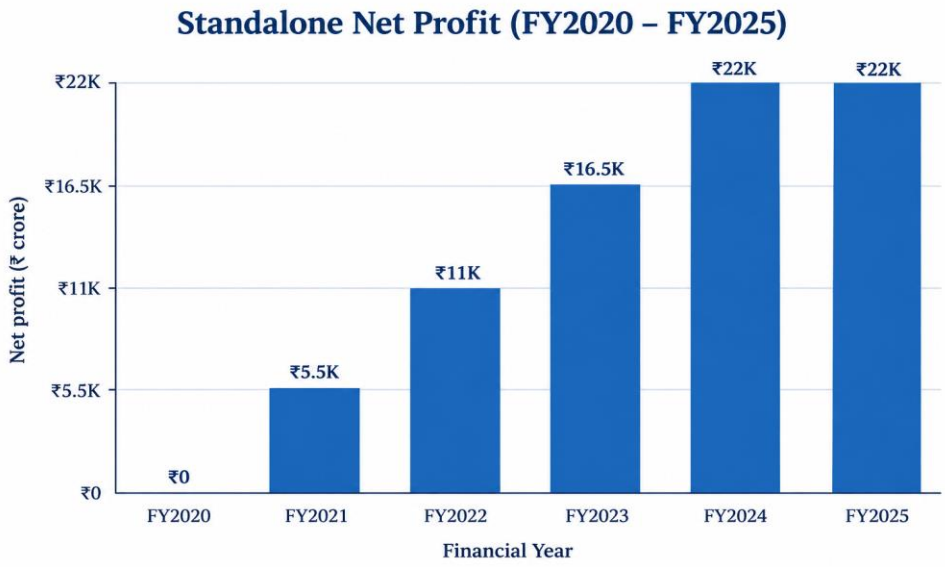
Financial Year	Net Profit (₹ crore)	Gross NPA Ratio (%)	Net NPA Ratio (%)
FY2020	546	9.40	3.13
FY2021	829	8.87	3.09
FY2022	7,272	6.61	1.72
FY2023	14,110	3.79	0.89
FY2024	17,789	2.92	0.68
FY2025	19,581	2.26	0.58

Source: Bank of Baroda financial results and annual financial information.

The improvement in profitability was particularly strong after FY2021. The increase in net profit during FY2022 was followed by higher net interest income and lower stress in the loan portfolio. In FY2023, net profit was doubled when compared with FY2022. Bank of Baroda reported net interest income of ₹41,355 crore in FY2023, while the global net interest margin rose to 3.31%. Return on assets also improved to 1.03%. (Approximately) (businessnewsweek.in). In FY2024, net profit rose to ₹17,789 crore and net interest income reached approximately ₹44,722 crore. In FY2025, net profit increased further to ₹19,581 crore. These figures tells a sustained improvement in the profitability of the merged institution.

Graph: Growth in Net Profit

Growth in Bank of Baroda net profit after merger



Source: Bank of Baroda financial results.

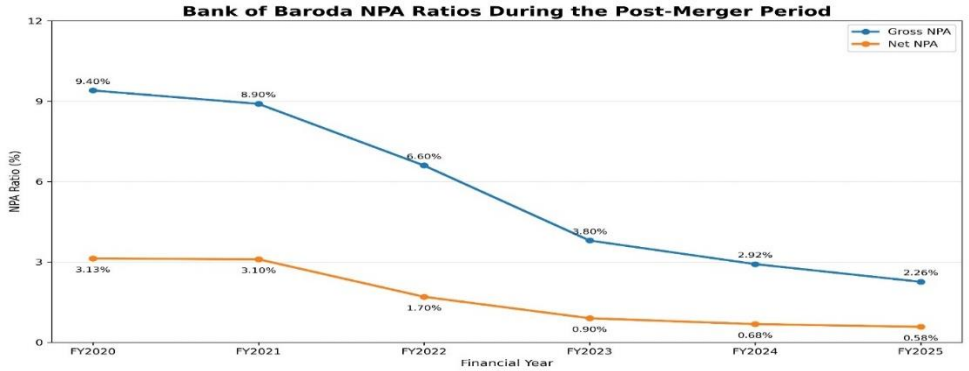
The graph demonstrates the sharp increase in profitability after FY2021. The most substantial increase occurred between FY2021 and FY2023.

Improvement in Asset Quality

Asset quality is one of the most important indicators for evaluating a bank's financial health. A high NPA ratio indicates that a significant portion of the loan portfolio is not generating the expected income. Dena Bank entered the merger with a gross NPA ratio exceeding 22%. After the merger, the gross NPA ratio of Bank of Baroda declined considerably. It was 9.40% in FY2020 and decreased to 8.87% in FY2021, 6.61% in FY2022, 3.79% in FY2023, 2.92% in FY2024 and 2.26% in FY2025. The net NPA ratio followed a similar pattern. It declined from 3.13% in FY2020 to 0.58% in FY2025. This indicates a significant improvement in the quality of the bank's loan portfolio. The improvement was particularly pronounced from FY2022 onwards. In FY2022, gross NPAs declined to ₹54,059 crore from ₹66,671 crore in FY2021. The gross NPA ratio declined from 8.87% to 6.61%, while the net NPA ratio decreased from 3.09% to 1.72%. By FY2023, the gross NPA ratio had reduced to 3.79% and the net NPA ratio to 0.89%. The provision coverage ratio, including technical write-offs, also moved in a positive direction. (businessnewsweek.in) By FY2025, gross NPAs were ₹27,835 crore and the gross NPA ratio was 2.26%. Net NPAs stood at ₹6,994 crore and the net NPA ratio was 0.58%. (goodreturns.in)

Graph: Decline in NPA Ratios

Decline in gross and net NPA ratios



The downward trend in both ratios communicates a substantial improvement in asset quality in the post-merger period.

Operating Performance and Capital Adequacy

Profitability and asset quality were accompanied by improvements in other operating indicators.

Financial Year	Net Interest Margin (%)	Return on Assets (%)	Capital Adequacy Ratio (%)
FY2020	2.73	0.06	13.30
FY2021	2.71	0.07	14.99
FY2022	3.03	0.60	15.98
FY2023	3.31	1.03	16.24
FY2024	3.18	1.17	16.31
FY2025	3.02	1.16	—

Source: The annual accounts of Bank of Baroda

The net interest margin grown from 2.71% in FY2021 to 3.31% in FY2023 before moderating to 3.18% in FY2024 and 3.02% in FY2025. The movement communicates that the bank maintained a relatively a stable and a strong interest-earning capacity during the later post-merger period. Return on assets advanced from only 0.06% in FY2020 to 1.03% in FY2023 and 1.17% in FY2024. It remained approximately 1.16% in FY2025. The improvement tells that the bank became more effective in generating profits from its asset base. Capital adequacy has also became strong. The capital adequacy ratio increased from 13.30% in FY2020 to 14.99% in FY2021 and 15.98% in FY2022. It reached approximately 16.24% in FY2023 and 16.31% in FY2024.

Growth in Deposits and Advances

The merger increased the scale of Bank of Baroda's operations and provided access to the customer and branch networks of Dena Bank and Vijaya Bank. The enlarged institution subsequently experienced growth in deposits and advances. Global deposits increased from approximately ₹10.46 lakh crore in FY2022 to ₹12.04 lakh crore in FY2023 and ₹13.27 lakh crore in FY2024. Global advances increased from approximately ₹8.18 lakh crore in FY2022 to ₹9.70 lakh crore in FY2023 and ₹10.91 lakh crore in FY2024. By FY2025, global deposits reached ₹14.72 approximately lakh crore and global gross advances touched approximately ₹12.30 lakh crore. Total global business was approximately ₹27.02 lakh crore. The growth in advances indicates that the merged institution was able to expand lending while simultaneously reducing its NPA ratio. This is important because rapid credit expansion without adequate risk management can create additional asset-quality problems.

Findings

The study identifies a number of important findings regarding the financial performance of the merged institution.

- Dena Bank entered the merger with significant financial stress. Its gross NPA ratio was 22.04% in FY2018 and its net NPA ratio was 11.95%. The bank also recorded a substantial net loss.
- The merger became effective from 1 April 2019, after which Dena Bank ceased to operate as an independent reporting entity. Its operations became part of Bank of Baroda.
- The post-merger Bank of Baroda experienced a substantial improvement in profitability. Net profit increased from ₹546 crore in FY2020 to ₹19,581 crore in FY2025.
- Asset quality improved considerably. Gross NPA declined from 9.40% in FY2020 to 2.26% in FY2025, while net NPA declined from 3.13% to 0.58%.
- Return on assets improved from 0.06% in FY2020 to more than 1% during the later post-merger years. This indicates stronger utilisation of the bank's asset base for generating profits.

- Net interest margin improved considerably between FY2021 and FY2023, although it moderated subsequently. The bank nevertheless maintained a relatively strong margin during the later years of the study.
- Capital adequacy improved during the post-merger period, indicating a stronger capital position and greater capacity to support business expansion.
- Deposits and advances increased significantly, indicating that the merged institution was able to expand its business operations after the amalgamation.

The improvement in performance cannot be attributed entirely to the merger. Recovery of stressed assets, provisioning, credit-risk management, changes in the economic environment, regulatory measures and management strategies also contributed to the financial improvement.

Conclusion

The merger of Dena Bank and Vijaya Bank with Bank of Baroda was an important development in the consolidation of India's public sector banking sector. Dena Bank entered the merger with considerable financial challenges, particularly high levels of non-performing assets and persistent losses. The amalgamation transferred Dena Bank's operations into a larger banking institution with greater financial and operational capacity. The analysis of post-merger financial performance indicates substantial improvement in the financial condition of the enlarged Bank of Baroda. Profitability increased significantly, with net profit rising from ₹546 crore in FY2020 to ₹19,581 crore in FY2025. At the same time, asset quality improved considerably, with gross NPA declining from 9.40% to 2.26% and net NPA declining from 3.13% to 0.58%.

Other indicators also demonstrate improvement. Return on assets increased substantially, capital adequacy strengthened, net interest income expanded and the overall scale of deposits and advances increased. These developments suggest that the merged institution was able to improve its financial performance while expanding its business operations. Nevertheless, the results should be interpreted with caution. The financial improvement cannot be considered solely a consequence of the Dena Bank merger. The post-2019 period was characterised by several important changes in India's banking environment, including improved recovery mechanisms, declining system-wide NPAs, regulatory reforms, technological development, changes in interest rates and improved risk-management practices.

Another limitation is the absence of standalone Dena Bank financial statements after the merger. Therefore, it is not possible to decide how much of Bank of Baroda's post-merger performance resulted from former Dena Bank operations accurately. The study instead exhibits the broader financial trajectory of the banks into which Dena Bank was amalgamated. On the basis of the available financial indicators, the post-merger period was associated with considerable improvement in profitability, asset quality, capital strength and business scale at Bank of Baroda. The merger therefore provides a key case for studying the potential financial impacts of consolidation in the Indian public sector banking sector.

Future research may aim at comparing the post-merger performance of Bank of Baroda with other public sector banks that did not undergo similar mergers during the same period of time. One may make use of advanced statistical tools, such as CAMELS analysis, regression analysis and difference-in-differences methodology, could also be used to distinguish the effects of the merger from broader developments in the Indian banking sector.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of thesis paper.

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