ABSTRACT: In this study, we look at how merging Indian public sector banks has affected their ability to work together more efficiently. The purpose of this study is to determine whether this merger would really speed up India's economic development. Bank merger advantages have been analysed using many metrics, including CASA ratio, CRAR ratio, CET I ratio, and advance and deposit size. Net nonperforming asset ratios have also been monitored in order to assess asset quality. The consolidation of 10 public sector banks into 4 is an attempt to achieve size and geographic diversity via consolidation. The merger has unquestionably enhanced the merged entity's size, which has resulted in advantages such as lower operating costs and larger money placed by a greater number of consumers. Insolvent banks have been able to strengthen their financial footing and stability as a result of mergers. Capital has been injected into struggling state-owned banks, which will increase lending and buoy the economy.

KEYWORDS: Merger, Synergy, Operational Efficiency, Indian Banks

1. INTRODUCTION
The banking industry is widely recognized as a crucial support system for the economy. This industry is undergoing seismic shifts and advancing at lightning speed. Although Indian PSBs have made great strides since nationalization, they still face numerous difficulties because of fierce competition from international banks. In contrast, public and private banks are engaged in fierce rivalry with one another in an effort to broaden their customer base and attract more of their ideal clients (Gupta and Mittal, 2022). Non-performing assets are a cause for concern since their growth has paralleled that of the company's fundamental operations. There is a growing trend of bank mergers in India as a means of addressing the country's nonperforming loans (NPAs). On April 1, 2017, State Bank of India and its affiliate banks completed the biggest merger in the banking industry's history. The government of India has stated that the country's ten largest public sector banks would combine into four megabanks on August 30, 2019. The consolidation of 10 public sector banks into 4 was approved by the Cabinet and will take effect on April 1, 2020. As a result of the consolidation, there are now just 12 PSBs, down from 27 before. With effect from April 1, 2020, the following Public Sector Undertaking Banks have merged.

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Anchor Bank</th>
<th>Amalgamated Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Punjab National Bank</td>
<td>Oriental Bank of Commerce &amp; United Bank of India</td>
</tr>
<tr>
<td>2</td>
<td>Canara Bank</td>
<td>Syndicate Bank</td>
</tr>
<tr>
<td>3</td>
<td>Union Bank of India</td>
<td>Andhra Bank Corporation Bank</td>
</tr>
<tr>
<td>4</td>
<td>Indian Bank</td>
<td>Allahabad Bank</td>
</tr>
</tbody>
</table>

Banks that have met the majority of banking basics requirements are designated as Anchor Banks (4) and the remaining PSBs are designated as Amalgamated Banks (6) in this merger process. The federal government is making a smart move by merging these two large banks in order to accomplish their economic goal of $5 trillion within the next five years. For an Indian economy struggling with a high
nonperforming asset (NPA) rate, this merger would be a
welcome boost. The government plans to inject 55,250
billion rupees into 10 major banks to encourage lending and
ensure they are in line with rules and regulations.

2. REVIEW OF LITERATURE

According to the findings of many studies (Kumar et al.,
2013; Hannon and Pilillo, 2009; Pandey, 2005), banking
sector integration is imminent since it lessens competition
by removing weak banks and increases market share. Some
research (Anand and Singh, 2008) suggests that the key
incentives for banks to implement M&A strategies are
synergy advantages and improvements in the combined
bank's efficiency. Multiple authors, including Campa and
Hermaldo (2006), Houston (2001), Furlong (1994), and
Hughes and Mester (1998), have suggested that mergers and
acquisitions (M&A) in the banking sector can reduce costs
thanks to economies of scale and boost bank revenues,
thereby increasing bank value. Horizontal consolidation
mergers are common in the banking industry since both
parties already operate in the same market (Alexandra and
Ion, 2016, Gupta et al., 2022). Other research (Rhoades,
1998, Mandal et al., 2022) suggests that government
regulations may be to blame for the recent uptick in bank
mergers and acquisitions.

Dilshad (2013) said that the regulatory environment in the
United Kingdom and the United States contributed to
several instances of consolidation. Government initiatives
designed to stabilize the banking and financial sector in
emerging nations have led to mergers and acquisitions in the
banking industry (Hawkins and Mihaljek, 2001). The ability
to deduct business expenses from taxable income is another
incentive for these types of transactions (Auerbachand
Reishus, 1987; Ghosh, 2004). Eventually, however,
corporations saw the value in strategic consolidation and
began engaging in such mergers as a means to an end (Zahid
and Shah, 2014). The banking and financial services
industry in India has undergone extensive reorganization in
the previous two decades, and the reasons for this are similar
to those listed above. The advantages that banks get from
M&A agreements are another key area of study, alongside
the causes of the boom in M&A activity in the banking
industry. Banks' benefits from these mergers have been the
subject of several studies, with researchers analyzing both
financial and stock performance. However, the conclusions
of these studies have been inconsistent (Aik et al., 2015). While
Pautler (2001) said that acquiring parties do not benefit
from M&A agreements, and empirical research involving
the performance of banks are contradictory, Sinha et al.
(2010) found that M&A deals are advantageous for all
parties involved.

3. OBJECTIVE

Objective of this research study is.

1. To know about the procedure of merger of Public
Sector Banks in India
2. To get insight into various synergies, operational
efficiencies, credit growth & profitability, asset quality
& capital adequacy of banks after their merger

4. METHODOLOGY

This study entirely relies on secondary sources. These
secondary sources on Merger & Acquisition in the Indian
Banking Industries are from journals, publications, articles,
reports & newspapers as well as academic literature. The
study's goals need a descriptive method of research.

5. EXPLANATION FOR OBJECTIVE 1 &
OBJECTIVE 2

The following steps for merging Indian public sector banks
may be deduced from a survey of relevant literature and the
instructions issued by regulatory agencies in India.

1. Initiation of the merger proposal. Any one of the
participating banks' boards of directors, the Reserve
Bank of India (RBI), or the government might propose
the merger.

2. Preliminary evaluation of the proposal. When a
merger plan is first proposed, the RBI and the relevant
banks conduct an initial assessment. The financial health
of both banks, the complementary nature of their
businesses, and the regulatory and legal constraints on
the merger are all factors to be considered.

3. Drafting of the scheme of merger. If the first
assessment is favorable, the participating financial
institutions will begin planning the merger. The plan of
merger is a legal document that details the merger,
including the parties involved, the assets and liabilities
being combined, the number of shares being exchanged
for each, and the new bank's management structure.

4. Approval of the scheme of merger by the boards
of directors of the banks involved. The merger plan needs
the backing of the boards of directors of both
institutions. The shareholders of the bank must approve
the transaction by passing a special resolution with a
vote total of at least 75%.

5. Approval of the scheme of merger by the RBI. The
merging proposal also has to be authorized by the Reserve
Bank of India. After a thorough examination of
the proposal, the RBI grants clearance if it determines
that the merger is in the best interests of the banks and
their depositors.

6. Publication of the scheme of merger in the Official
Gazette. The merger plan is published in the Official
Gazette after it has been authorized by the RBI. In order
for the merger to go through, this condition must be met.

7. Completion of the merger. As of the date set out in
the merger plan, the merger has taken place. All assets
and liabilities of the two banks will be combined into the
amalgamated bank on this day. Shares in the combined
bank are distributed to the shareholders of the two
merging banks in return for their shares in the two banks
being merged.

Key considerations that are considered during the
merger of Indian public sector banks

1. Financial condition of the banks involved: The
banks' respective financial health is a major

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consideration throughout the merger process. The financial stability and profitability of the banks should be ensured.

2. **Strategic fit between the banks:** Strategic compatibility between the banks is also a crucial factor. The merging banks should balance each other out and be able to reap benefits from working together.

3. **Regulatory and legal requirements:** All laws and regulations in effect at the time of the merger must be followed. All required authorizations from the RBI and other relevant regulatory bodies must be obtained by the participating banks.

## Synergies From the Merger

The Narasimhan committee (1991 and 1998), the Khan committee (1997), and the Verma committee (1999) have all advocated for the consolidation of public sector banks. These panels argued that merging resources would allow for greater efficiency and cost savings. If two banks were to combine, the resulting huge capital base would allow the merged institution to expand its loan offerings and improve the quality of its loan portfolio. The government's need to recapitalize the banks will also diminish over time. Customers will benefit from the expanded product offerings at the bank, which will include mutual funds and insurance in addition to the standard banking services of loans and deposits. These mergers will also lead to technology advancements and better service for customers. The goal of these mergers is to create banks of the next generation that have a significant national and worldwide footprint. There will be less disjointedness in the loan process. It's expected that activities would expand in scope. Banks may be merged since their activities are so similar and can be easily streamlined.

### Ranking of the Merged Banks based on Size.

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Anchor Bank</th>
<th>Amalgamating Banks</th>
<th>Business Size</th>
<th>Bank Size</th>
<th>CBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Punjab National Bank</td>
<td>Oriental Bank of Commerce, United Bank of India</td>
<td>17.94 lakh crore</td>
<td>2nd Largest</td>
<td>Finacle</td>
</tr>
<tr>
<td>2</td>
<td>Canara Bank</td>
<td>Syndicate Bank</td>
<td>15.20 lakh crore</td>
<td>4th Largest</td>
<td>Flex</td>
</tr>
<tr>
<td>3</td>
<td>Union Bank of India</td>
<td>Andhra Bank, Corporation Bank</td>
<td>14.59 lakh crore</td>
<td>5th Largest</td>
<td>Finacle</td>
</tr>
<tr>
<td>4</td>
<td>Indian Bank</td>
<td>Allahabad Bank</td>
<td>8.00 lakh crore</td>
<td>7th Largest</td>
<td>BaNCS</td>
</tr>
</tbody>
</table>

The united organizations may now enjoy synergy's advantages. When looking at branch network presence across areas, this impact is quite clear. By merging with Punjab National Bank, which had a large branch network in the north and central India, United Bank of India (which had a stronghold in the east) would have access to a more geographically diverse clientele. Similarly, Indian Bank's partnership with Allahabad Bank allows it to extend its footprint beyond the south into the country's centre and eastern regions. There was pressure on banks to maintain certain levels of capital, and mergers have helped them do so.

## Operational Efficiency of Banks

The research evaluates the effects of mergers by considering certain operational efficiency metrics. The number of deposits deposited, the size of the bank's overall operation, and the magnitude of any loans given are all factors. Provisioning Coverage Ratio (PCR), which defines the proportion of funds to be set aside by banks for covering probable losses due to bad loans, and Common Equity Tier I Ratio (CET I) Ratio, which defines the proportion of deposits in current and savings accounts relative to the total deposits of the bank. The soundness of a bank may be determined by comparing its capital to its total assets. Depositor security is measured by the capital to risk-weighted assets ratio (CRAR). After deducting the bad loan provision from the gross NPA, the result is the net NPA. The amalgamated banks' operational efficiency will be evaluated based on the analysis of these metrics.

### Operational Matrices of Merged PSBs (Stand alone as well as Amalgamated): Merger 1

| Source: Report published by economic times |

With combined assets of Rs 18 lakh crore, the amalgamated organization will rank as the world's second largest PSB. There will be a total of 11,437 branches of the merged bank across India. As a result of the merger, the CASA ratio and lending capacity would both increase significantly. The capacity to invest in massive projects gives the combined firm enormous growth potential. Customers may now access the top-tier offerings from all of the consolidated institutions. Since capital, as measured by the CET ratio, has increased to 7.46%, bank solvency has also improved. As CRAR has gone up, so has the ratio of capital to risk-adjusted assets.

The capital ratios have also increased as a result of the government's decision to inject INR160bn into PNB and INR16bn into United Bank. Due to the fact that all three banks use the Finacle CBS platform, back-end technology integration has been quite simple.

### Operational Matrices of Merged PSBs (Stand alone as well as Amalgamated): Merger 2
The combined company’s revenue of Rs 15.2 lakh crore makes it the fourth biggest PSB in the country. With 10342 branches, it will have the third-largest network and increased lending capability. Canara Bank and Syndicate Bank have a good cultural match, thus their merger makes sense. Because they share a common platform—the iFlex CBS platform—these two banks can easily work together.

The combined company will strengthen its position as the nation’s fourth biggest lender. The merged organization’s CASA ratio will be 30.21%, up from Canara Bank’s current 29.18%. The combined bank’s NNPA (Net Non-Performing Assets) ratio is marginally lower than it was before the merger, standing at 5.62%.

CET-I’s capital ratio rises to 8.62% (from 8.31% when used alone), suggesting a small improvement.

### Operational Matrices of Merged PSBs (Stand alone as well as Amalgamated): Merger 3

<table>
<thead>
<tr>
<th></th>
<th>Union Bank</th>
<th>Allied Bank</th>
<th>Corporation Bank</th>
<th>Amalgamated Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Business (Cr)</td>
<td>7,41,307</td>
<td>3,98,511</td>
<td>3,19,616</td>
<td>14.59,434</td>
</tr>
<tr>
<td>Gross Advances (Cr)</td>
<td>3,25,192</td>
<td>1,78,690</td>
<td>1,35,648</td>
<td>6,39,130</td>
</tr>
<tr>
<td>Deposits (Cr)</td>
<td>4,15,915</td>
<td>2,19,821</td>
<td>1,84,568</td>
<td>8,20,394</td>
</tr>
<tr>
<td>CASA ratio</td>
<td>36.10%</td>
<td>31.39%</td>
<td>31.59%</td>
<td>33.82%</td>
</tr>
<tr>
<td>Domestic branches</td>
<td>4,292</td>
<td>2,885</td>
<td>2,432</td>
<td>9,600</td>
</tr>
<tr>
<td>PCR</td>
<td>58.27%</td>
<td>68.62%</td>
<td>66.09%</td>
<td>65.07%</td>
</tr>
<tr>
<td>CET I ratio</td>
<td>8.02%</td>
<td>8.43%</td>
<td>10.39%</td>
<td>8.65%</td>
</tr>
<tr>
<td>CRAR ratio</td>
<td>11.78%</td>
<td>13.69%</td>
<td>12.30%</td>
<td>12.39%</td>
</tr>
<tr>
<td>Net NPA ratio</td>
<td>6.85%</td>
<td>5.73%</td>
<td>5.71%</td>
<td>6.30%</td>
</tr>
<tr>
<td>Employees</td>
<td>37,262</td>
<td>20,346</td>
<td>17,776</td>
<td>75,384</td>
</tr>
</tbody>
</table>

Source: Report published by economic times

The combined company would have a market capitalization of around Rs 8.08 lakh crore, making it the ninth biggest PSB. In the merged organization, both deposits and gross advances have increased significantly. However, asset quality has worsened as the nonperforming asset ratio of Indian banks has risen from 3.75 percent to 4.39 percent. The availability of capital has not changed, either. As a result, we do not anticipate any merger synergies in this scenario.

### Credit Growth and Profitability

When all of the assets of the merged banks are tallied together, they account for almost 90% of the total assets of the Indian public sector banks. Therefore, the research may be generalized for the whole Indian public sector bank segment if we analyse the data about the merged banks that are part of our case study. In addition, it demonstrates that PSBs have responded well to the consolidations. The first Indian Financial Stability Report was published by RBI that year (2021). From 3.0% in March 2020 to 4.6% in September 2020, loan growth has increased at Indian PSBs, according to the research. The rise of deposits at all banks was robust at 10.3% (year over year), which may be attributable to cautious saves. The 9.6 percent increase in deposits made by PSBs was the greatest in the preceding five years.

Net interest income (NII) is another indicator of profits that has improved, showing 16.2% growth from March 2020’s 13.0% to September 2020’s 16.2%. Earnings before provisions and taxes (EBPT) of PSBs, another key profitability metric, has also increased by 17.6%. The cost of financing has been going down as interest rates have been going down. Therefore, in 2021, combined banks have much better profit characteristics.

### Asset Quality and Capital Adequacy

In September of 2020, the GNPAs and NNPA ratios for all PSBs fell dramatically to 7.5% and 2.1%, respectively. Enhancing the capital to risk-weighted assets ratio (CRAR) is another metric for better fiscal health. From March 2020 (at 14.7%) to September 2020 (at 15.8%), this percentage for all banks has increased by 110 basis points. Banks’ capital adequacy ratios, which double as a kind of regularity, have improved as a result of mergers.

6. CONCLUSION

Reducing the number of PSBs from 27 to 12 and increasing the size of the banks to capture the advantages of operational and financial synergy is a strategic choice made by the government. To keep cash on hand, guarantee openness in corporate dealings, and run an efficient government, consolidation is a powerful tool that may be
used. Public sector banks' lending growth, non-performing asset drop, and profitability have all improved, according to reports provided by the media and the government thus far. Because of the larger size, capital adequacy ratios have also increased because of the merger. Although it is too early to tell how the combined businesses will perform in the long run, they have gotten off to a promising start, which bodes well for both their consumers and the economy. Consequently, the PSBs, which account for more than 60% of total bank activity in India, would undoubtedly contribute to the successful attainment of India's goal of a $5 trillion economy.

REFERENCES

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