OPEN ACCESS
Research Article
Volume-9 | Issue-3 | Jul-Sep-2023|

VEETHIKA-An International Interdisciplinary Research Journal
E-ISSN: 2454-342x
Double Blind Peer Reviewed Journal
URL: https://veethika.qtanalytics.in

Merger of Indian Banks: A Pathway of Economic Acceleration

Shiv Swaroop Jha[1*], Premanand[2]

[1]Research Scholar, University Department of Commerce & Management, Bhim Rao Ambedkar Bihar University, Bihar
[2] Dean, University Department of Commerce & Management, Bhim Rao Ambedkar Bihar University, Bihar
**Corresponding Author* Email: mail2shivswaroop@gmail.com

Received: 12th August, 2023 ***Accepted:*** 30th August, 2023, ***Published***: 04th September, 2023

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.

Sr No	Anchor Bank	Amalgamated Bank
1	Punjab National Bank	Oriental Bank of Commerce & United Bank of India
2	Canara Bank	Syndicate Bank
3	Union Bank of India	Andhra Bank Corporation bank
4	Indian Bank	Allahabad Bank

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

DOI: https://doi.org/10.48001/veethika.2023.09.03.001

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; Hannan and Pilloff, 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 Hernaldo (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 acquirer 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

DOI: https://doi.org/10.48001/veethika.2023.09.03.001

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.

Sr. No	Anchor Bank	Amalgamating Banks	Business Size	Bank	CBS
1	Punjab National Bank	Oriental Bank of Commerce, United Bank of India	`17.94 lakh crore	2nd Largest	Finacle
2	Canara Bank	Syndicate Bank	`15.20 lakh crore	4th Largest	iFlex
3	Union Bank of India	Andhra Bank, Corporation Bank	`14.59 lakh crore	5th Largest	Finacle
4	Indian Bank	Allahabad Bank	`8.08 lakh crore	7th Largest	BaNCS

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

	PNB	OBC	United Bank of India	Amalgamated Bank
Total Business (Cr)	11,82,224	4,04,194	2,08,106	17,94,526
Gross Advances (Cr)	5,06,194	1,71,549	73,123	7,50,867
Deposits (Cr)	6,76,030	2,32,645	1,34,983	10,43,659
CASA ratio	42.16%	29.40%	51.45%	40.52%
Domestic branches	6,992	2,390	2,055	11,437
PCR	61.72%	56.53%	51.17%	59.59%
CET-I ratio	6.21%	9.86%	10.14%	7.46%
CRAR ratio	9.73%	12.73%	13.00%	10.77%
Net NPA ratio	6.55%	5.93%	8.67%	6.61%
Employees	65,116	21,729	13,804	1,00,649

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

	Canara Bank	Syndicate Bank	Amalgamated Bank
Total Business (Cr)	10,43,249	4,77,046	15,20,295
Gross Advances (Cr)	4,44,216	2,17,149	6,61,365
Deposits (Cr)	5,99,033	2,59,897	8,58,930
CASA ratio	29.18%	32.58%	30.21%
Domestic branches	6,310	4,032	10,342
PCR	41.48%	48.83%	44.32%
CET-I ratio	8.31%	9.31%	8.62%
CRAR ratio	11.90%	14.23%	12.63%
Net NPA ratio	5.37%	6.16%	5.62%
Employees	58,350	31,535	89,885

DOI: https://doi.org/10.48001/veethika.2023.09.03.001

Source: Report published by economic times

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-1'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**

	Union Bank	Andhra Bank	Corporation Bank	Amalgamated Bank
Total Business (Cr)	7,41,307	3,98,511	3,19,616	14,59,434
Gross Advances (Cr)	3,25,392	1,78,690	1,35,048	6,39,130
Deposits (Cr)	4,15,915	2,19,821	1,84,568	8,20,304
CASA ratio	36.10%	31.39%	31.59%	33.82%
Domestic branches	4,292	2,885	2,432	9,609
PCR	58.27%	68.62%	66.60%	63.07%
CET-I ratio	8.02%	8.43%	10.39%	8.63%
CRAR ratio	11.78%	13.69%	12.30%	12.39%
Net NPA ratio	6.85%	5.73%	5.71%	6.30%
Employees	37,262	20,346	17,776	75,384

Source: Report published by economic times

The combined company would have a total of 9,609 locations, making it India's fourth-largest network and making it the fifth largest PSB overall. The three banks anticipate substantial economies of scale, with combined business growing by a factor of 2.0-4.5. The bank has lowered the CASA ratio to 33.82 percent and boosted the PCR, or provision coverage ratio. The Net NPA ratio for Union Bank has decreased to 6.30% from 6.85% (standalone), indicating an increase in asset quality. The CET I and CRAR ratios both show that the capital ratio has improved.

Operational Matrices of Merged PSBs (Stand alone as well as Amalgamated): Merger 4

	Indian Bank	Allahabad Bank	Amalgamated Bank
Total Business (Cr)	4,29,972	3,77,887	8,07,859
Gross Advances (Cr)	1,87,896	1,63,552	3,51,448
Deposits (Cr)	2,42,076	2,14,335	4,56,411
CASA ratio	34.71%	49.49%	41.65%
Domestic branches	2,875	3,229	6,104
PCR	49.13%	74.15%	66.21%
CET-I ratio	10.96%	9.65%	10.36%
CRAR ratio	13.21%	12.51%	12.89%
Net NPA ratio	3.75%	5.22%	4.39%
Employees	19,604	23,210	42,814

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.

Operational Matrices of all PSBs Combined (Pre-Merger & Post-Merger): Six-monthly Review

	March 2020	September 2020
Credit Growth	3%	4.6%
Deposit Growth		9.6%(highest in last 5 years)
Net Interest Income	13%	16.2%
Net Interest Margin	2.5%	2.7%
ROA	-0.3%	+0.3%
ROE	-4%	+4.2%
Gross NPA	10.5%	9.7%
Net NPA	4%	2.9%
CRAR Capital to Risk Weighed assets ratio	12.9%	13.5%

Source: Financial Stability Report, January 2021, pages 45-50

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 GNPA 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

DOI: https://doi.org/10.48001/veethika.2023.09.03.001

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

Abbas, Q., Hunjra, A. I., Azam, R. I., Ijaz, M. S., & Zahid, M. (2014). Financial performance of banks in Pakistan after Merger and Acquisition. Journal of Global Entrepreneurship Research, 4, 1-15.

Aik, N. C., Hassan, M. K., Hassan, T., & Mohamed, S. (2015). Productivity and Spillover effect of merger and acquisitions in Malaysia. Management Research Review, 38(3), 320-344.

Anand, M., & Singh, J. (2008). Impact of merger announcements on shareholders' wealth: Evidence from Indian private sector banks. Vikalpa, 33(1), 35-54.

Auerbach, A. J. (1987). The Tax Reform Act of 1986 and the cost of capital. Journal of Economic Perspectives, 1(1), 73-86.

Burgess, R., Pande, R., & Wong, G. (2005). Banking for the poor: Evidence from India. Journal of the European Economic Association, 3(2-3), 268-278.

Campa, J. M., & Hernando, I. (2006). M&As performance in the European financial industry. Journal of Banking & Finance, 30(12), 3367-3392.

Cumming, D., Jindal, V., Kumar, S., & Pandey, N. (2023). Mergers and acquisitions research in finance and accounting: Past, present, and future. European Financial Management.

Dilshad, M. N. (2013). Profitability analysis of mergers and acquisitions: an event study approach. Business and economic research, 3(1).

Ghosh, A. (2004). Increasing market share as a rationale for corporate acquisitions. Journal of Business Finance & Accounting, 31(1-2), 209-247.

Gupta, A., Mittal, P., Gupta, P. K., & Bansal, S. (2022). Implication of Privacy Laws and Importance of ICTs to Government Vision of the Future (pp. 383–391).

Gupta, P. K., & Mittal, P. (2022). Fuzzy bundling of corporate governance practices and performance of Indian firms. Corporate Governance (Bingley), 22(2), 257–277.

Hannan, T. H., & Pilloff, S. J. (2009). Acquisition targets and motives in the banking industry. Journal of Money, Credit and Banking, 41(6), 1167-1187.

Hawkins, J., & Mihaljek, D. (2001). The banking industry in the emerging market economies: competition, consolidation, and systemic stability: an overview. BIS papers, 4(4), 1-44.

Houston, J. F., James, C. M., & Ryngaert, M. D. (2001). Where do merger gains come from? Bank mergers from the perspective of insiders and outsiders. Journal of financial economics, 60(2-3), 285-331.

Hughes, J. P., & Mester, L. J. (1998). Bank capitalization and cost: Evidence of scale economies in risk management and signaling. Review of economics and statistics, 80(2), 314-325.

Kumar, S. (2013). Impact of bank mergers on the efficiency of banks: a study of merger of Bharat Overseas Bank with Indian Overseas Bank. International Journal of Academic Research in Business and Social Sciences, 3(12), 221.

Mandal, A., Saxena, A., & Mittal, P. (2022). Financial literacy and digital product use for financial inclusion: A GETU model to develop financial literacy. In 2022 8th International Conference on Advanced Computing and Communication Systems (ICACCS) (pp. 1614–1619).

Micu, A., & Micu, I. (2016). Mergers and acquisitions in the banking sector during the financial crisis. SEA-Practical Application of Science, 4(2), 11.

Pandey, D. K., & Kumari, V. (2020). Effects of merger and acquisition announcements on stock returns: an empirical study of banks listed on NSE & NYSE. The review of finance and banking, 12(1).

Rai, V. K., & Pandey, D. K. (2022). Does privatization of public sector banks affect stock prices? An event study approach on the Indian banking sector stocks. Asian Journal of Accounting Research, 7(1), 71-83.

Rhoades, S. A. (1998). The efficiency effects of bank mergers: An overview of case studies of nine mergers. Journal of Banking & Finance, 22(3), 273-291.

Sinha, N., Kaushik, K. P., & Chaudhary, T. (2010). Measuring post merger and acquisition performance: An investigation of select financial sector organizations in India. International journal of Economics and Finance, 2(4), 190-200.

DOI: https://doi.org/10.48001/veethika.2023.09.03.001