Available online at http://afca.apeejay.edu

ENVISION – *International Journal of Commerce and Management*

ISSN: 0973-5976 (Print), 2456-4575 (Online)

VOL-14, 2020

Recent Amalgamation in Public Sector Banks: A Case Study

[*] Dr. Monika Mogla, [**] Shikha Kakkar

ABSTRACT

In this research paper, an attempt has been made to know the impact of amalgamation of Indian Public sector banks on the operational synergies of the merged banks. It is an effort to find the chances of this merger giving real acceleration to the economic growth rate of India. The benefits to merging banks have been analyzed in terms of various ratios like CASA ratio, CRAR ratio, CET I ratio and on the basis of advances and deposits size. The asset quality has also been analyzed by tracking Net NPA ratio. The merger of 10 public sector banks into 4 is a move towards creating bigger banks to attain synergies of scale and geographical dispersion. The merger has certainly increased the size of the combined entity and thus brought benefits in terms of low cost of operations and bigger funds deposited by large number of customers. The mergers have given strength to balance sheets of ailing banks and enabled them to improve their financials. It has helped to infuse capital into ailing state-owned banks, which will boost lending and support the economy.

Keywords: ***Merger, Operational Synergies, CRAR Ratio, CASA Ratio, CET I Ratio, Geographical Dispersion.***

1. Introduction

Banking sector is considered as one of the main financial pillars of the economy. This sector is witnessing revolutionary changes and is developing at an electrifying speed. Despite the significant performance of Indian public sector banks (PSBs) since the nationalization, they have been suffering from many challenges posed due to severe competition from foreign banks. On the counter part, both public and private banks are also facing strong competition among themselves to expand their market and reach the targeted audience. The worrying factor is Non-performing assets which are also increasing simultaneously with the core business. As a remedy to this problem of NPAs, more and more mergers in the Indian banking sector are taking place. The largest merger in the history of banking industry took place on April 1, 2017 i.e., State bank of India and its associates banks. And now the Government of India has announced India's biggest and largest Mega banks merger on August 30, 2019, i.e., merging of 10 public sector banks into 4 large banks. The Cabinet approval for the amalgamation of 10 public sector banks into 4 came into effect from April 1, 2020. After the merger, the number of PSBs has reduced from 27 to 12.

[*] Assistant Professor, Apeejay College of Fine Arts, Jalandhar

[**] Assistant Professor, Apeejay College of Fine Arts, Jalandhar

PSBs getting Merged with effect from April 1, 2020

Sr.	Anchor bank	Amalgamated banks
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

In this process of merger, banks which have fulfilled most of the banking fundamentals are declared as the Anchor banks (4) and the other PSBs are declared as the Amalgamated banks (6). This big bank merger will be a good move from the central govt. to reach the target of $5 trillion economy in next 5 years. This merger will help to give some boost to the Indian economy, which is suffering with high rate of NPAs. The Government would infuse ₹55,250 crores rupees of capital in these 10 big banks for their credit growth and regulatory compliance to boost the economy.

Swap Ratio

PNB amalgamated with OBC and UBI. According to media, 1,150 equity shares of PNB were exchanged for every 1,000 equity shares of Oriental Bank of Commerce, while 121 equity shares of PNB were swapped for every 1,000 equity shares of UBI. Andhra Bank and Corporation Bank merged into Union Bank of India. Union Bank also approved the equity share swap ratio of 330 shares in Union Bank for every 1,000 equity shares in Corporation Bank and 325 equity shares of Union Bank of India for every 1,000 shares in Andhra Bank. For Syndicate Bank's merger with Canara Bank, the exchange ratio was fixed at 158 equity shares of Canara Bank for every 1,000 equity shares of Syndicate Bank. Allahabad Bank which amalgamated with Indian Bank announced a share swap ratio which includes 115 equity shares of Indian Bank for every 1,000 equity shares of Allahabad Bank.

Synergies from the merger

Various committees have supported the idea of merging of public sector banks including Narasimham committee (1991 and 1998), Khan committee in 1997 and Verma committee (1999). These committees pointed out that consolidation will lead to pooling of strengths and lead to overall reduction in cost of operations. As a result of merger, a large capital base would be formed that would help the acquirer banks to offer a large loan amount and enhance its loan portfolio. Also, the need of recapitalising the banks by the government will get reduced with time. The customers will be benefitted as they will have a wide array of products like mutual funds and insurance to choose from, in addition to the traditional loans and deposits. Various other benefits like technological up gradation and improved service delivery can also be expected as a result of these mergers. The objective of creating next generation banks with strong national and global presence can be achieved with the help of these mergers.The lending will no longer be fragmented. The scale of operations is likely to improve. The combination of banks is possible due to the similarity of operations and the ease with which these can be combined.

Ranking of the Merged Banks on the basis of Size

Sr.	Anchor Bank	Amalgamating Banks	Business Size	Rank	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 merged entities can now reap benefits of synergy. This effect is highly visible so far as branch network presence across regions is considered. For example, United Bank of India, which had a significant hold in the eastern region, will now benefit from the more diversified branch network of Punjab National Bank which had vast network of branches in the northern and central region before the merger. Similarly, Indian Bank – with high presence in the southern part of the country – can now expand its reach in central and eastern parts due to its alliance with Allahabad Bank. Banks were under pressure to meet capital adequacy limits and merger has definitely benefitted them in improving the same.

Operational Efficiency of Banks

Some parameters of operational efficiency have been considered in the study to assess the impact of mergers. It includes the change in the size of the total business and advances made by the bank, the change in the size of deposits made, CASA ratio (CASA ratio of a bank is the ratio that defines the proportion of deposits in current and savings accounts as compared to the total deposits of the bank), PCR (Provisioning Coverage Ratio that prescribes the percentage of funds to be set aside by banks for covering probable losses due to bad loans), CET I(Common Equity Tier I) Ratio that covers the equities a bank holds. It compares a bank capital against its assets and thus measures bank's solvency. CRAR ratio Capital to Risk weighted assets ratio that measures protection available to depositors and Net NPA which is Gross NPA minus provision for unpaid debts. By analysing these parameters, operational efficiency of the merged banks will be assessed.

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

The merged entity would be the 2nd largest PSB with Rs 18 lakh crore business. The network of the amalgamated bank would also increase with 11, 437 branches across India. The merger would lead to a high Current and Savings Account (CASA) ratio and a high lending capacity. The merged entity has huge potential for growth due to the availability of sufficient funds to invest in large projects. The best products and services of the integrated banks are now available to the customers. The CET ratio represents the capital a bank has and it has improved to 7.46% which means banks solvency has improved. The proportion of capital to risk adjusted assets has also improved as CRAR has shown an improvement.

Also, the government's decision to infuse INR160bn in PNB and INR16 billion in United Bank has improved the capital ratios. As all the three banks operate on the same platform which is Finacle CBS platform, integration of the back-end technology is relatively smooth.

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

Source: Report published by economic times

The merged entity will be the fourth largest PSB with Rs 15.2 lakh crore business. It will have the third largest network with 10342 branches and enhanced lending capacity. The decision to merge Canara Bank and Syndicate Bank is quite viable as both have a similar culture and fit in well. Both these banks operate on the same platform which is iFlex CBS platform and thus can have smooth integration.

The merged entity will become the fourth largest lender in the country. The combined entity will have a CASA ratio of 30.21% (v/s 29.18% for Canara Bank alone). On the asset quality front, the merged bank's NNPA (Net Non Performing assets) ratio has reduced slightly and stood at 5.62%.

Capital ratios also seem to improve slightly with CET-1 improving to 8.62% (v/s 8.31% standalone).

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 merged entity would be the fifth largest PSB with Rs 14.6 lakh crore business and fourth largest network with 9,609 branches in India. Strong scale benefits to all three are expected with business becoming 2 to 4.5 times that of individual bank. CASA ratio has declined to 33.82% and bank has increased the PCR i.e. Provision Coverage ratio. Asset quality has improved as the Net NPA ratio has declined to 6.30 % from 6.85% (standalone for Union Bank). Capital ratio has improved as reflected by CET I and CRAR ratios.

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 merged entity to be the 7th seventh largest PSB with around Rs 8.08 lakh crore business. The deposits as well as gross advances have considerably improved in the amalgamated entity. But asset quality has not improved as NPA ratio of Indian bank (as standalone) has increased from 3.75% to 4.39% (as combined). Even the capital availability has not improved. Thus, synergies of merger are not seen in this particular case.

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

The total assets of the amalgamated banks when added together, they constitute about 90% of total assets of all the Indian Pubic Sector Banks. So, if we analyse the data about the amalgamated banks which are part of our case study, the above analysis can be generalised for the whole Indian public sector bank segment. Also it gives an affirmation that PSBs have shown positive response to the mergers. RBI released the Indian Financial Stability Report in January 2021. As per the report, so far as Indian PSBs are concerned, credit growth has improved from 3.0% in March 2020 to 4.6% in September 2020. The other important parameter to signify operational efficiency i.e. deposits growth of all banks was buoyant at 10.3% (y-o-y), precautionary savings can be one of the reasons. PSBs recorded a deposit growth rate of 9.6% which was the highest in the last five years.

The earnings data i.e.net interest income (NII) has also shown an improvement as it has increased to 16.2% in September 2020 (from 13.0% in March 2020). Another important profitability measure which is Earnings before provisions and taxes (EBPT) of PSBs has also grown by 17.6%. Due to decreasing rates of interest, a decline in cost of funds can be seen. Thus, profit parameters of merged banks have improved significantly in 2021.

Asset Quality and Capital Adequacy

The gross non-performing assets (GNPA) and net NPA (NNPA) ratios of all PSBs declined significantly to 7.5% and 2.1%, respectively in September 2020. The other parameter to improve the fiscal health is improvement in the capital to risk-weighted assets ratio (CRAR). During the six months, this ratio of all the banks has improved considerably by 110 bps from 14.7% in March 2020 to 15.8% in September 2020. Mergers have also strengthened the capital adequacy ratio of banks that is also the regularity requirement.

Conclusion

Merger of PSBs is a strategic decision of the government to reduce the number of PSBs from 27 to 12 and to increase the size of the banks so as to gain the benefits of operating and financial synergies. Consolidation is a huge instrument that can be employed to maintain liquidity, ensure transparency in business and effective administration. The reports published by media and government so far are evidence that banks in the public sector have showed improvement in their credit growth along with decline in non-performing assets and improvement in profitability. The capital adequacy ratios have improved as well due to the bigger size of the combined entities. Though, it is a very short term to assess the changes in the performance of the merged entities, still a good start has been made by the combined entities and it is expected the customers as well as economy as a whole will be benefitted from this. Thus the PSBs, which contribute to more than 60% of total bank business in India, would surely play their role in realisation of $ 5 trillion Indian economy thus leading to national growth.

References:

- Bharath and Soundararajan, (2019) "Pre and Post Merger Profit Analysis of State Bank of India and it's Associates Banks" JETIR, Volume 6, Issue 6
- CMA Jai Bansal and Dr. Gurudutt Kakkar (2018), "A Research on the Analysis of merger of SBI with its 5 associated banks and Bharathiya Mahila Bank" International Journal of Science Technology and Management, Vol. 7, issue 12
- D. Sreemati & Dr. A. Tharmalingam, (2018) " A Study on Financial Position of SBI after Merger of Associates Banks" , International Journal of Multidisciplinary Research and Modern Education , vol. 4, issue 2, pg. 1-5.
- Manoj Anand & Singh Jagandeep, (2008). Impact of Merger Announcements on Shareholders' Wealth: Evidence from Indian Private Sector Banks. Vikalpa: Journal for Decision Makers, January-March, Vol. 33, No. 1, pp. 35-54.
- Kuriakose, Sony & Gireesh Kumar G. S (2010), "Assessing the Strategic and Financial Similarities of Merged Banks: Evidence from Voluntary Amalgamations in Indian Banking Sector", Science & Society, Vol. 8, No. 1.
- Azeem Ahmed Khan (2011), "Mergers and Acquisitions in Indian Banking Sector in Post Liberalization Regime", International Journal of Contemporary Business Studies, Vol. 2, No: 11.
- Devarajappa S, IRJC (2012), "Mergers in Indian Banks: A Study on Mergers of HDFC Bank Ltd and Centurion Bank of Punjab Ltd", International Journal of Marketing, Financial Services & Management Research Vol. 1 Issue 9
- Kotnaljaya Shree (2016), "The economic impact of Merger and Acquisitions on profitability of SBI".
- Kaleichelvan, "Efficacy of Merger and Acquisition in Indian Banking Industry" (A Study with Reference to Select Merged Banks in India).