

Mergers of Banks in Economy – Indian Scenario

Patil Jaya Lakshmi Reddy, Mahesh Chandra



Abstract: Banking area possesses a significant spot in each economy and is one of the quickest developing sectors in India. The challenge is very high and tough from the worldwide player's i.e. International banks. On the counter part, both public and private banks are also facing strong competition among themselves to reach the targeted audience. But the worrying factor is Non performing assets are also increasing simultaneously with core business. The result is mergers in the banking sector in order to reduce the NPA. The most recent and 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 govt. of India announces India's biggest and largest mega banks merger on August 30, 2019, i.e., merging of 10 public sector banks into 4 large banks. These banks are oriental bank of commerce and united bank of India merging with Punjab national bank; Syndicate bank with Canara bank; Andhra bank and corporation bank merging with Union bank of India; and Allahabad bank merging with Indian bank; This merger will bring nearly a half yearly of all outstanding loans in Indian's banking sector. This big bank merger will be a good move from the central govt. to reach \$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 NPA'S. In this research paper an attempt is made to know the impact of banks performance after merger will really give acceleration to the economic growth rate or not.

Keywords: Mergers, Non Performing Assets, Banking Sector, Performance, 5 trillion Economy.

I. INTRODUCTION

A merger is an understanding that joins two existing organizations into one new organization. These are a few sorts of mergers and furthermore a few reasons why organizations complete mergers. M&A are generally done to extend an organization's span, venture into new fragments or addition piece of the pie and develop incomes and increment benefits. These are done to expand investors esteem. Frequently during a merger, organizations have a no shop statement to forestall buys or mergers by extra organizations. A merger is the intentional combination of two organizations on extensively equivalent things into another legitimate substance. The organizations consent to merger are generally equivalent as far as size, clients, size of activities and so on consequently, the term 'merger of equivalents' is utilized. The following are the main reasons for merger of banks in India.

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1. To create fewer and stronger global sized lenders as it looks to boost economic growth.
2. To decrease unhealthy competition among public sector banks.
3. To take the step will sync in with the vision to transform India into a \$5 trillion economy.
4. After merging of oriental bank of commerce and united bank of India with Punjab national bank, the new bank i.e., PNB (new bank) will become second largest public sector bank in the country with Rs.18 lakhs crore.
5. Merging of syndicate bank with canara bank, the canara bank (new bank) will become fourth largest public sector bank with Rs.15.2 lakhs crore, post merging.
6. Merging of Andhra bank and corporation bank with union bank of India, the UBI(new bank) will be fifth largest public sector bank with Rs.14.6 lakhs crore business.
7. After merging of Allahabad bank with Indian bank the new bank i.e, Indian bank (new bank) will become seventh largest public sector bank with Rs.8.08 lakhs crore businesses.
8. They can be better focus on defaulters. Many people had availed multiple finances. With merger they can be brought into less than one roof which makes recovery easier.

II. REVIEW OF LITERATURE

Under this study, the researcher evaluated different article papers to give a top to bottom into the business related to mergers and acquisitions. In the wake of experiencing the different accessible pertinent articles on mergers and acquisitions and it comes to know the parcel of work done featured the effect of mergers and acquisitions on different parts of the associations. A firm can accomplish development both inside and remotely. Inside development can be accomplished by expansion of its exercises or consolidating new branches and outside development might be as mergers and acquisitions, takeover, joint endeavors, and amalgamation and so on... Just gander at, how the merger and acquisitions will show the effect on Indian economy with converging of large bank merger i.e., converging of nationalized banks.

CMA Jai Bansal and Dr. Gurudatt Kakkar (2018): conducted study on "A research on the analysis of merger of SBI with its 5 associated banks and bhartiya mahila bank", the researcher used various strategic aspects that concluded, it had positive affects as their profitability. The study investigates the detail of merger and acquisitions with greater focus in Indian banking sector. However the journey to 'international banks' was still far as there had been a few mergers in the Indian banking space.

Kotnal Jaya Shree (2016) expressed in her paper titled “The economic impact of merger and acquisitions on profitability of SBI” various motives of merger in Indian banking industry. It was also compares pre and post merger financial performance of merging banks with the help of financial parameters like gross profit margin, net profit margin, operating profit margin, return on equity and debt equity ratio.

Finally it expresses that banks have been affected positively but the overall development and financial illness of the banks can't solved through mergers and acquisitions.

S. Devarajappa (2012): The study destined in identifying the various reasons for mergers and acquisitions in India. It also focused on pre and post merger performance of banks from the view pint of ROI, ROCE, ROE.

Azeem Ahmed Khan (2011): In this study, the authors focused on explain the various motives for mergers and acquisitions in India. The results of this study witnessed that mergers and acquisitions helped in declaration of dividends to equity share holders.

III. RESEARCH GAP

It is seen that, the majority of the works have been finished on new patterns, rules, approaches and their detailing , human viewpoints which is important to be examined , while profitability and money related investigation of the mergers have not give due essentials. The present examination provides for research profoundly about merger and procurement occurred in oriental bank of business and joined bank of India with PNB; Syndicate with Canara bank; Andhra bank and organization keep money with Union bank of India; and Allahabad save money with Indian bank. The exploration and furthermore talk about the pre and post merger execution of nationalized banks. An endeavor is made to anticipate the eventual fate of the present merger and securing based on execution of nationalized banks.

IV. OBJECTIVES

The sole objective of the study is to study the post merger scenario of banks in terms of their performance improvement, decrease in nonperforming assets and value creation and contribution to Indian Economy. The proposed study is important in order to solve the following issues

1. To measure post merger performance of Punjab National Bank and its impact on Indian economy
2. To measure post merger performance of Canara Bank and its impact on Indian economy
3. To measure post merger performance of Union Bank of India and its impact on Indian economy
4. To measure post merger performance of Indian Bank and its impact on Indian economy

V. METHODOLOGY

Secondary data was used for the purpose of research. The financial and accounting information was gathered from various published sources like, reports of RBI, magazines, news papers etc. to examine the effect of mergers and acquisitions on the performance of banks as sample.

VI. RESULTS AND DISCUSSION

Table-1: Punjab National Bank (Pre –Merger)

Particulars	Business [In rupees]
Total business (in lakhs crores)	11,82,224
Gross advances(in lakhs crores)	5,06,194
Deposits (in lakhs crores)	6, 76,030
CASA Ratio	42.16%
Home branches	6,992
PCR	61.72%
CET-1 (Ratio)	6.21%
CRAR Ratio	9.73%
Net NPA Ratio	6.55%
Employees	65,116

(Source: - compiled by author)

Interpretation: The above table shows the pre -merger financial information of Punjab National Bank and its business. In total pre-merger business is amounting to Rs. 11,82,224 lakhs crores.

Table-2: Oriental Bank of Commerce (Pre-Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	4,04,194
Gross advances (in lakhs crores)	1,71,549
Deposits (in lakhs crores)	2,32,645
CASA Ratio	29.40%
Home Branches	2,390
PCR	56.53%
CET-1 Ratio	9.86%
CRAR Ratio	12.73%
Net NPA Ratio	5.93%
Employees	21,729

(Source: - compiled by author)

Interpretation: The above table shows the pre-merger financial information of oriental bank of commerce and its business. The total business of this bank pre-merger was Rs. 4,04,194 lakhs crores.

Table -3: United bank of India (Pre –Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	2,08,106
Gross advances (in lakhs crores)	73,123
Deposits (in lakhs crores)	1,34,983
CASA Ratio	51.45%
Home Branches	2,055
PCR	51.17%
CET-1 Ratio	10.14%
CRAR Ratio	13.00%
Net NPA Ratio	8.67%
Employees	13,804

(Source: - compiled by author)

Interpretation: The above shows the pre-merger financial information of united bank of India and its business. Its total pre-merger business was Rs. 2,08,106 lakhs rupees.

Table-4: Punjab national bank (PNB+OBC+UBI) Post Merger

Particulars	Business (in rupees)
Total business(in lakhs crores)	17,94,526
Gross advances (in lakhs crores)	7,50,867
Deposits (in lakhs crores)	10,43,659
CASA Ratio	40.52%
Home Branches	11,437
PCR	59.59%
CET-1 Ratio	7.46%
CRAR Ratio	10.77%
Net NPA Ratio	6.61%
Employees	1,00,649

(Source: - Economictimes.com)

Interpretation: The above table shows the post- merger financial information of Oriental Bank of Commerce + United Bank of India + with Punjab National Bank and its business. The total post-merger business was Rs. 17,94,526 lakhs crores.

Table-5: Canara Bank (Pre-Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	10,43,249
Gross advances (in lakhs crores)	4,44,216
Deposits (in lakhs crores)	5,99,033
CASA Ratio	29.16%
Home Branches	6,310
PCR	41.48%
CET-1 Ratio	8.31%
CRAR Ratio	11.90%
Net NPA Ratio	5.37%
Employees	58,350

(Source: - compiled by author)

Interpretation: This table shows the pre-merger financial information of canara bank and its business. The total pre-merger business of this bank was Rs. 10,43,249 lakhs crores.

Table-6: Syndicate Bank (Pre-Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	4,77,046
Gross advances (in lakhs crores)	2,17,149
Deposits (in lakhs crores)	2,59,897
CASA Ratio	32.58%
Home Branches	4,032
PCR	48.33%
CET-1 Ratio	9.31%
CRAR Ratio	14.23%
Net NPA Ratio	6.16%
Employees	31,535

(Source: - compiled by author)

Interpretation: The above table shows the pre-merger financial information of syndicate bank and its business. The total pre-merger business of this bank was Rs. 4,77,046 lakhs rupees.

Table -7: Canara Bank(CB+SB) Post Merger

Particulars	Business (in rupees)
Total business(in lakhs crores)	15,20,295
Gross advances (in lakhs crores)	6,61,365
Deposits (in lakhs crores)	8,58,930
CASA Ratio	30.21%
Home Branches	10,342
PCR	44.32%
CET-1 Ratio	8.62%
CRAR Ratio	12.63%
Net NPA Ratio	5.62%
Employees	89,885

(Source:- Economictimes.com)

Interpretation: The above table shows the post-merger financial analysis of syndicate bank with Canara bank and its business. The total post-merger business of these bank was Rs. 15,20,295 lakhs crores.

Table -8: Union Bank of India (Pre-Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	7,41,307
Gross advances (in lakhs crores)	3,25,392
Deposits (in lakhs crores)	4,15,915
CASA Ratio	36.10%
Home Branches	4,292
PCR	58.72%
CET-1 Ratio	8.02%
CRAR Ratio	11.78%
Net NPA Ratio	6.85%
Employees	37,262

(Source:- compiled by author)

Interpretation: The above table shows that the pre-merger financial information of union bank of India and its business. The total pre-merger business of union bank of India was Rs. 7,41,307 lakhs crores.

Table-9: Andhra Bank (Pre-Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	3,98,511
Gross advances (in lakhs crores)	1,78,690
Deposits (in lakhs crores)	2,19,821
CASA Ratio	31.39%
Home Branches	2,885
PCR	68.62%
CET-1 Ratio	8.43%
CRAR Ratio	13.69%
Net NPA Ratio	5.73%
Employees	20,346

(Source:-compiled by author)

Interpretation: The above table shows the pre-merger financial parameters of andhra bank and its business. The total business of andhra bank was Rs. 3,98,511 lakhs crores.

Table-10: Corporation Bank (Pre-Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	3,19,616
Gross advances (in lakhs crores)	1,35,048
Deposits (in lakhs crores)	1,84,568
CASA Ratio	31.59%
Home Branches	2,432
PCR	66.60%
CET-1 Ratio	10.39%
CRAR Ratio	12.30%
Net NPA Ratio	5.71%
Employees	17,776

(Source:- compiled by author)

Interpretation: The above table shows the pre-merger information of corporation bank and its business. The total pre-merger business of this bank was Rs. 3,19,616 lakhs crores.

Table-11: Union bank of India (UBI+AB+CB) Post Merger

Particulars	Business (in rupees)
Total business(in lakhs crores)	14,59,434
Gross advances (in lakhs crores)	6,39,130
Deposits (in lakhs crores)	8,20,304
CASA Ratio	33.82%
Home Branches	9,609
PCR	63.07%
CET-1 Ratio	8.63%
CRAR Ratio	12.39%
Net NPA Ratio	6.30%
Employees	75,384

(Source:- Economictimes.com)

Interpretation: The above table shows that the post-merger financial analysis of Andhra bank, corporation bank with union bank of india and its business. Its total post-merger business was Rs. 14,59,434 lakhs crores.

Table-12: Indian Bank (Pre-Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	4,29,972
Gross advances (in lakhs crores)	1,87,896
Deposits (in lakhs crores)	2,42,076
CASA Ratio	34.71%
Home Branches	2,875
PCR	49.16%

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CET-1 Ratio	10.96%
CRAR Ratio	13.21%
Net NPA Ratio	3.75%
Employees	19,604

(Source:- compiled by author)

Interpretation: The above table shows about the pre-merger financial parameters of Indian banks and its business. The total pre-merger business of this bank was Rs. 4,29,972 lakhs crores.

Table-13: Allahabad Bank (Pre-Merger)

Particulars	Business (in rupees)
Total business(in lakhs crores)	3,77,887
Gross advances (in lakhs crores)	1,63,552
Deposits (in lakhs crores)	2,14,335
CASA Ratio	49.49%
Home Branches	3,229
PCR	74.15%
CET-1 Ratio	9.65%
CRAR Ratio	12.51%
Net NPA Ratio	5.22%
Employees	23,210

(Source:- compiled by author)

Interpretation: This table speaks about the pre-merger financial information of Allahabad Bank and its business. The total pre-merger business of this bank was Rs.3,77,887 lakhs crores.

Table-14: Indian Bank (IB+AB) Post Merger

Particulars	Business (in rupees)
Total business(in lakhs crores)	8,07,859
Gross advances (in lakhs crores)	3,51,448
Deposits (in lakhs crores)	4,56,411
CASA Ratio	41.65%
Home Branches	6,104
PCR	66.21%
CET-1 Ratio	10.36%
CRAR Ratio	12.89%
Net NPA Ratio	4.39%
Employees	42,814

(Source:- Economicstimes.com)

Interpretation: This table speaks about the post-merger financial analysis of Allahabad Bank merging with Indian Bank and its business. The total post-merger business of these banks was Rs.8,07,859 lakhs crores.

Table-15: Top 10 largest banks in India (including PSB's and Private Sector Banks) New sequence order (according to business size March 2019)

BANKS	BUSINESS (Rs. Lakhs crores)	MARKET SHARE (%)
SBI	52.05	22.5
(PNB+OBC+UBI)	17.94	7.7
HDFC	17.50	7.6
BOB	16.13	7.0
(CB+SB)	15.20	6.6
(UBI+AB+CB)	14.59	6.3
ICICI	12.72	5.5
AXIS	10.60	4.6
BOI	9.03	3.9
(IB+AB)	8.08	3.5

(Source:-mbauniverse.com TOI dated Aug 31, 2019)

Interpretation: This table explains about the top 10 largest banks in India (including public sector banks and private sector banks) according to business size and market share March 2019. In this order State Bank of India got the no.1 position in public sector banks and Punjab National Bank got no.2 position (after merging with OBC+UBI) and HDFC

got the no.3 position (no.1 position from private sector banks). In no.10 position was taken by Indian Bank (Allahabad Bank, Indian Bank) post merging.

VII. CONCLUSION

According to the govt. objectives consolidation has been aimed as an instrument of producing world size banks irrespective of the challenges that have been posed. When initially incorporated as a provision in the banking regulation act 1949; the major goal was to create a mechanism so that weak banks could be promoted from serious effects of liquidation and dissolution. Failing of one bank would lead to failure of the banking industry and for this caution; RBI was entrusted with the power to compulsorily merge the weak banks with the healthy ones in order to remove losses and liabilities. But as witness from the case studies, M&A in banking is being sought for some other reasons. No doubt, consolidation is a huge instrument in maintain liquidity, ensuring transparency in business and effective administration, but the fact that a single bank would be exposed to instable and unexpected system risk. The conclusion is that after the merger, the new banks net profit will be reduced and the stability of banks is questionable. So the new banks have to look after these factors to increase their profit and stability which leads to increase in share value in future period of time.

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