The Impact of Indian Banking Sector- A Comparative Study of Public and Private Sector Merged Banks- A Study

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***Abstract*: - Indian economy is known for its perseverance, over the years it has faced continuous fluctuation, global economic depressions and recent reforms of the Government with ease. The Indian Banking sector has its own reputation in the international level for maintaining its stability, even though the global economic environment and the emerging trends in financial sector pose challenges. A merger is simply the combining of two business entities to form a larger one but with no explicit change in ownership. This is in contrast to an acquisition where one business entity takes ownership control over another by paying for the ownership privilege in cash, stock, or other means. In the case of state owned banks that are being merged now, where the government is the majority shareholder, there will be no change in ownership but merely a restructuring of how these banks how these banks are organized.**

Today, the Banking industry is counted among the rapidly growing industries in India. It has transformed itself from a sluggish business entity to a dynamic industry. The growth rate in this sector is remarkable and therefore, it has become the most preferred banking destinations for international investors. A relatively new dimension in the Indian banking industry is accelerated through mergers and acquisitions. It will enable banks to achieve world class status and throw greater value to the stakeholders. The main objective of this paper is to analyze whether the bank has achieved financial performance efficiency during the post merger & acquisition period specifically in the areas of profitability, leverage, liquidity, and capital market standards. This study is testing the impact of merger and acquisition of banks and provides insights about their role in performance.

***Key words:* Public sector banks, NPA's, Merger & acquisition etc.**

I. INTRODUCTION

The Merger is part of the government's efforts to consolidate the banking Industry with an eye on overcoming the bad loan crises. Merger is an attempt by the governments to help stem the rise of the bad loans or NPA at a time when corporate demand is weak. Merger of the Banks are one way of managing the problem and therefore cannot be totally discounted. However, the track lies in ensuring that the merger fallout is managed prudently. The proposal by Nirmala Sitaraman is a part of a broader move to consolidate the banking system and reduce pressure of the national exchequer.

Creating globally stronger banks, doing away with needless overlaps in operations and infrastructure, and ushering in economies of scale to bring down costs have always been at the heart of any consolidation drive. Sadly, none of these compelling reasons have led to the mega public sector bank mergers announced by the Centre, which have brought down the tally of PSBs to 12 from 18. The shotgun weddings brokered by the Centre appear to have been triggered by one reason to ease the Centre's burden of massive capital infusion into ailing PSU banks. Recent half-hearted attempts at consolidation have also delivered far from desirable outcomes. SBI's bad loan problems only grew bigger after the merger of its five associate banks two years ago. Significant write-offs and persisting slippages have been eating into SBI's profit and capital, impeding credit growth.

There are 10 PSU banks under RBI's prompt Corrective Action (PCA) framework. They are–Dena Bank, Allahabad Bank, United Bank of India, Corporation Bank, IDBI Bank, UCO Bank, Central Bank, Indian Overseas Bank, Oriental Bank of Commerce, Bank of Maharashtra and Bank of India with NPA's ranging from 15 % to 31 %.

II. OBJECTIVES

1. To study the impact on the Productivity and Profitability of the Sampled Banks in India.
2. To examine the strength and weakness of the merged banks in India and find out the Improvements faced by the beneficiaries.
3. To understand the purpose of mergers and acquisitions.
4. To know about the benefits of mergers and acquisitions
5. To examine the effects of merger
6. To study recommendations of expertise.
7. To recognize banking awareness regarding mergers and acquisitions in general.

III. RESEARCH METHODLOGY

Primary and secondary data collection tools are used for the study. In the primary data collection direct observation has been used. Various web sites have been observed and studied and in the secondary data collection various study material and research works which have been done on mergers and acquisitions have been studied. Important and related data has been gathered and used for this research work. For the purpose of evaluation, investigation data is collected from Merger and Acquisitions (M&A's) of the Indian banking industry. The financial and accounting data of banks is collected from companies Annual Report to examine the impact of M&A's on the performance of banks. Financial data has been collected from Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Securities and Exchange Board of India (SEBI), Money control for the study and other websites.

IV. NEED OF THE STUDY

Since the early 1990s, the structure of the banking sector has significantly changed due to the deregulation and liberalization, accompanied by divestment of public sector banks, entry of foreign banks and merger of many banks in India and in the world. In the post reform period about 25 bank mergers took place in India. These mergers have important implication on the performance and profitability in the banking system. Therefore from the point of view of both managerial and policy interests, it is extremely important to know the impact of these merges on the efficiency levels of banks and their temporal behavior so as to understand how the banking industry has been reacting to these emerging challenges and which banks are performing better than others in this period of transition.

V. REVIEW OF LITERATURE

1. India- Ratings:(2018) revealed that asset-liability mismatch of the smaller banks such as Vijaya & Dena banks can be better addressed at the consolidated advantage. Merger could bring about material operating efficiencies over time reducing combined operating cots, lower funding cost and strengthened risk management practices on a consolidated basis and may set as a roadmap for further consolidations in the public sector banking space.
2. Jyothi H. Lahotia (2016) opined that merger and acquisitions are important corporate strategy actions that aid the firm in external growth and provide it competitive advantage. Mergers and acquisitions (M&A) are being increasingly used in today's globalized economy, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and Geographic's and capturing on economics of scale. Etc.,
3. Jayashree R Kotanal (2016) Mergers and Acquisition is a useful tool for the growth and expansion in any industries and the Indian banking sector is no exception. It is helpful for the survival of the weak banks by merging in to the larger bank. This study shows the impact of Mergers and Acquisitions in the Indian Banking sector.
4. A.N. Tamragundi, Devarajappa .S(2016) examined the impact of mergers on performance of selected commercial banks in India. The impact of mergers on performance of the Banks has been evaluated from three perspectives. There is significant improvement in Deposits, Advances, Business and Number of employees of all selected banks. Therefore, this result indicates that mergers can help commercial banks to achieve commercial performance.
5. M. Jayadev, Rudra Sensarma (2007) analyzed some critical issues of consolidation in Indian banking with particular emphasis on shareholders and managers. This study revealed that in case of forced mergers, neither the bidder nor the target banks shareholders have benefited. This study strongly supported that Indian Financial system requires very large banks to absorb various risks emanating from operating in domestic and global environments.
6. Prashanta Athma, A. Bhavani (2012) focused on the pre and post merger performance of SBI and HDFC Banks, during the period between 1991-2017 in total twenty two mergers have taken place in Indian Banking sector. During the post merger period, all the key parameters displayed an increasing trend excepting Number of Employees and profits in case of SBI and Number of Employees in Case of HDFC Bank.
7. Gurbaskh singh, Sunil Gupta (2015) compared pre and post merger performance of the selected banks after 1990 and collected the data and Information. The impact of merger changes in profitability Ie. Return of capital employed, Return of net worth, Operating profit margin, and other financial ratio is compared.

VI. BIG SCENERIO OF BANKS MERGER

The fiscal year 2016-17 was one of the challenging years for all public sector banks, with their collective net loss of Rs. 11,865 Crore. Also, it was the year when the gross and net non-performing loans of the Banks were at historical peak. The government is now serious for consideration of reducing the number of Public sector banks from 21 to 12 with a view of creating 3-4 Large global sized banks. This move will add to the operational strength of the PSU Banks.

The aim of RBI in bank merger is merging weak banks with strong banks to prevent loss depositors and building strong banking sector. This is done on the basis of evaluation found in the Inspection report conducted according to sec. 35 of the Indian banking Regulation Act, 1949. According to financial services secretary Rajiv Kumar, the two guiding principles for merger is-

1. To create a healthy with large in size.

2. To have an entity that had a strong brand, Technology and a good reach.

To give the analytical data we have to show the public bank details which are smaller size with high NPA’s.

Table-1. Public Sector Banks: Smaller In Size But High Npa’s.

SNo.	Bank Name	Gross NPA (%) 2017.	Gross NPA (%) 2018.
1.	Bank of India	13.05	16.66
2.	Bank of Maharashtra	18.59	21.18
3.	Central Bank of India	18.23	22.17
4.	Dena Bank	17.37	22.69
5.	Indian Overseas Bank	23.60	25.64
6.	Oriental Bank of Commerce	14.83	17.89
7.	UCO Bank	19.87	25.71
8.	Union Bank of India	12.63	16.00
9.	United Bank of India.	17.17	22.73.

Source: The Hindu Paper 22.7.2019. RBI Report.

Bank Merger Proposals 2019: The government proposed the merger of these three Banks aimed at creating the countries third biggest lender. Bank of Baroda is the biggest of the three with Rs. 10.29 Laks crore of Total Business followed by Vijaya Bank and Dena bank. In this merger context, the government found the right fit. Dena bank has a strong current Account and Savings Account (CASA) base with a good retail and MSME presence. Vijaya Bank was sensible in its lending, while Bank of Baroda offers a good international presence, a strong brand and good technical platform will result in a massive cosy rationalization.

Bank of Baroda, Vijaya Bank, and Dena Bank: The most recent one is the trio of Bank of Baroda, Vijaya Bank and Dena Bank. The government proposed the merger of these three banks aimed at creating the countries third biggest lender. Bank of Baroda is the biggest of the three with Rs. 10.29 lacks core of total business, followed by vijaya Bank and Dena bank. In this merger, the government found the right fit. Dena Bank has a strong current Account and Savings Account (CASA) base with a good retail & MSME programs, a strong brand and a good tech. platform will result in a massive cost rationalization.

Table-2. Overall Financial standing of the three banks and their combined entity

S.No.	Parameters	Bankof Baroda	Vijaya bank	Dena bank	Merged Entity.
1.	Total Business(InLacs Crores)	10.29	2.79	1.72	14.82
2.	Total deposits (In Lac Crores)	5.81	1.57	1.03	8.41
3.	Gross Advances (In lkh crs)	4.48	1.22	0.69	6.40
4.	Net NPA’s	5.4	4.1	11.04	5.71
5.	CRAR (%)	12.13	13.91	10.6	12.25
6.	Branches	5,502	2,129	1,858	9,490
7.	Employees	56,361	15,874	13,440	85,675
8.	Net Profits/loss (in crs)	528 Cr. profit	144 cr. profit	-721 cr. loss	--

Sources: Economic times. Com

The finance ministry stated that the provision coverage ratio (PCR) of the proposed amalgamative entity will be 67.5% well above the average of the public sector Banks (PSB’s) at 63.7%. The capital adequacy ratio of the combined entity would be at 12.25% significantly above the regulatory of 10.875%. One of the reasons for choosing these 3 Banks was that the two stronger ones will absorb the weaker entity.

State bank of India and its Associate banks:

The union cabinet decided to merge the five associate banks of state bank of India group with state Bank of India on April 01, 2017. With this merger, the total customer base of the bank has reached to 37 crs with branch network of around 24,000 and nearly 60,000 ATM’s across the country. This has placed state bank of India among the top 50 Banks in the world.

S.No.	Name of the Banks.	Depositors(Crs)	Gross Advances	Gross NPAs(%)	Net Profit/Loss
1.	State Bank of Bikaner and Jaipur (SBBJ)	1,03,662	68,774	15.5	-1,368
2.	State Bank of India (SBH)	1,42,995	87,715	20.7	-2,760
3.	State Bank of Patiala (SBP)	1,00,507	77,100	23.1	-3,579
4.	State Bank of Travancore (SBT)	1,14,323	52,506	16.8	-2,152
5.	State Bank of Mysore (SBM)	77,769	38,608	25.1	-2,0006
6.	Bharatiya Mahila Bank (BMB)				

Source: SBI Annual Report 2016-17.

VII. MAJOR CHALLENGES

1. Many Banks focus on regional banking requirements. with the merger the very purpose of establishing the bank to cater the regional needs is lost. The Large global banks had collapsed during the global financial crisis such as Deutsche, while smaller one had survived the crises due to their strengths and focus on micro aspects.
2. The weakness of the small banks is transferred to the bigger bank in the current merger. It will be difficult for the entire banking system to sustain. The state Bank of India, which merged five of its associates and Bharitiya Mahila bank (BMB) with itself, last year, has been struggling with losses for the last three successive quarters (QIFY 19 Loss was 4,875 crore.)
3. Forced mergers make little business sense for the stronger banks as they are unlikely to solve the bad loan crisis that has gripped the banking system as a whole.
4. Technology integration in theory is easy to achieve but in practice it will require a lot of hard work like just getting a new account code for all customers and communicating that will not be a simple thing. Replacement of cheque books, RTGS, NEFT details and net banking interface will create confusion among customers.
5. Another major concern was the possible reduction in the employment, which has corrupted opposition from the employees/unions about the possible fall out of such merger and the impact of these on their job security, service conditions and career progressions in their respective banks.

Purpose of Mergers And Acquisitions: The purpose for an offer or company for acquiring another company shall be reflected in the corporate objectives. It has to decide the specific objectives to be achieved through acquisition. The basic purpose of merger or business combination is to achieve faster growth of the corporate business. Faster growth may be had through product improvement and competitive position. Other possible purposes for acquisition are short listed below: -

- Procurement of supplies:
- Revamping production facilities:
- Market expansion and strategy:
- Financial strength:
- General gains:
- Own developmental plans:
- Strategic purpose
- Corporate friendliness

Benefits Of Mergers And Acquisitions:

Growth or diversification: Companies that desire rapid growth in size or market share or diversification in the range of their products may find that a merger can be used to fulfill the objective instead of going through the tome consuming process of internal growth or diversification. The firm may achieve the same objective in a short period of time by merging with an existing firm. In addition such a strategy is often less costly than the alternative of developing the necessary production capability and capacity.

Access to larger customer base: A Bank merger helps a bank to scale up quickly and gain a large number of new customers Instantly. Customer will now have more number of Branches and ATM's to access their accounts. Another advantage for the customers is the charges on cross bank ATM usage would reduce considerably.

Fill up Technology gaps: Bank mergers and acquisitions will help the banks to fill product or technology gaps. From technology angle, acquisition of a small bank by a larger bank might allow the smaller bank to upgrade its technology platform significantly.

Better control of RBI: Better control on the system and implementation of policies will be seen from RBI. Since, it is convenient for RBI to regulate few banks from regulatory perspectives, monitoring and control of less number of banks will be easier.

Reduce scale of efficiency: With the large scale expertise available in every sphere of banking operation, the scale of inefficiency which is more in case of small banks, will be minimized. The system could be better off if the banks are consolidated in to fewer but healthier banks.

Better management of Human resources: The human capital in the banks will be better managed, better integration of the workforce, centralized transfer system, uniformity in pay scales, and uniformity in terms of employment policy etc., Consolidation will also increase capital efficiency, apart from improving the ability of banks to recover bad loans which are rising.

Greater recognition of Indian Banking: In the global market, the Indian Banks will gain greater recognition and higher rating. The consolidation will help create a strong competitive bank with economies of scale and enable realization of wide ranging synergies.

Synergism: The nature of synergism is very simple. Synergism exists whenever the value of the combination is greater than the sum of the values of its parts. In other words, synergism is “2+2=5”. But identifying synergy on evaluating it may be difficult; in fact sometimes its implementations may be very subtle. As broadly defined to include any incremental value resulting from business combination, synergism is the basic economic justification of merger. The incremental value may derive from increase in either operational or financial efficiency.

Increased Managerial Skills or Technology:

Occasionally a firm with good potential finds it unable to develop fully because of deficiencies in certain areas of management or an absence of needed product or production technology. If the firm cannot hire the management or the technology it needs, it might combine with a compatible firm that has needed managerial, personnel or technical expertise. Of course, any merger, regardless of specific motive for it, should contribute to the maximization of owner. Acquiring new technology –To stay competitive, companies need to stay on top of technological developments and their business applications. By buying a smaller company with unique technologies, a large company can maintain or develop a competitive edge.

VIII. RECOMMENDATIONS

1. It stressed on the use of merger of banks, to enhance size as well as operational strength for each of the banks.
2. It made a recommendation for the merger of the large banks in India, with an attempt to make them stronger, so they stand mighty fine in international trade.
3. It recommended speeding up of computerization in the Public Sector Banks.
4. It established that the legal framework must be strengthened, in order to aim for credit recovery.
5. It suggested that there be 2 to 3 banks in India that be oriented internationally, 8-10 national banks and a vast network of local banks to help the system reach the remote corners of India.
6. It lay stressed that bank mergers must take place among entities of similar size. This implies that weak banks merge with the weak ones while large banks with the larger and competitive ones.
7. It also suggested the confinement of local banking network to the boundaries of states or a few districts.

IX. CONCLUSION

Merging two financial Institutions is cumbersome and not an easy task in terms of consolidating the accounts, infrastructure, management and marketing polices etc., of merging the Banks. It will take a lot of perseverance to complete the merging process. Considering the above facts through this is good idea for governance, but the consolidation of banks cannot be successful until and unless issues of corporate governance, structural issues related to them are resolved. The largest merger of Dena bank and vijaya Bank with the Bank of Baroda is seen as a rescue mission for Dena bank. The consequences have to be seen in near future. The largest merger of SBI with its associate banks had to contend with depressed performance. But the move of consolidation and merger of banks motivated by the words with long term gains.

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