

Public Sector Banking Mergers In India: A Brief Overview

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Abstract:

Matsyanyaya is the ancient Indian philosophy where the big fishes end up consuming the small fishes, in a social system that is competitive and cutthroat. Today, parallels of such cutthroat environments can be drawn to the modern day banking industry that has grown ripe with incredible competition from both government and private players. As few businesses have grown in stature and in business volume, numerous of their counterparts have fallen behind gasping for business and good financial health. Large, unruly infrastructure with little planned organization or management of resources have left some of these businesses unprofitable and vulnerable to difficult financial situations.

With time, mergers have developed as a singular biggest problem solving technique of protecting infrastructure concerned with dying banks. Mergers are built upon the fundamental concept that a weak bank or a financially unhealthy bank misuses the large, unwieldy infrastructure that has been made available to them. Mergers not only help safeguard the interests of the customers of such weakened banks but can also employ the human resources for better usage at stronger banks. As mergers have effectively grown in prevalence, there are also a great many challenges at hand like bad loans, outdated technology, and so on.

This article attempts to highlight some of the facts and facets of mergers and acquisitions from an Indian perspective. The aim is to study in detail what these terms signify, the state of the banking industry in India, and how the frameworks are built concerning the mergers and acquisitions in India. The attempt is to also study the rationale behind banking mergers from an Indian perspective, so as to assert why such mergers are necessary and how the odds are stacked up against the mergers in terms of merits and challenges. The article shall end with a detailed observation of the timeline of the banking mergers in India and what trends the data shows regarding the trend of mergers in India and also their effectiveness.

Keywords

Bank Mergers, Stakeholders, investments, acquisitions, business entities, banking system

Introduction:

Banking sectors occupy a significant part of any economy and in India, it has time and again proven to be one of the fastest growing sectors. Recent developments in the banking sectors have led us to focus our discussion on the structural and strategic changes that the banks have undergone over the decade. The changing environment has led to the adoption of varied strategies that have helped the sector remain efficient and one of these strategies is the consolidation of banks (Susan Mathew, 2020). Such means of consolidation include Mergers and Acquisitions.

What Are Mergers & Acquisitions?

The preliminary questions are to be dealt with first: **What are mergers and Acquisitions and why do banks merge?** An attempt to define the terms shall make the discussion comparatively lucid.

What is a Merger? A merger is the kind of financial activity that involves two entities combining into a single entity with business advantages as a focal point, wherein either one company closes down and gets absorbed into the bigger and more successful company, or when two companies merge together to form a new company that is functional in its

domain of business. Mergers are characterized by transactions where the compensation for the exchange is not money but shares or participation in another company that exists or is created for this purpose.(Mylonakis, 2006)

Simply put, mergers are financial situations where steps are taken to save unhealthy banks and thereby merge them with other healthy banks. This helps in reduction of ongoing damages, ensuring better regulation so that customer services are not hampered or public money is not lost as well as to ensure that the existing infrastructure is put to better usage (Whitfield, D. 2001).

What is an Acquisition?

Often confused with mergers, acquisitions are fundamentally different in principle with mergers. While in mergers, either or both the business entities get dissolved (mergers or amalgamations respectively), acquisitions involve only the financial takeover of one company (or bank) by another company. This means that both the companies can coexist, only the ownership changes hands to a different owner. Many banking institutions that are inclined to merge or acquire others, since that is the market trend, do so from fear of being vulnerable to acquisition deals due to their small size.(Mylonakis, 2006).

Acquisitions typically are a corporate forte, usually implemented when a corporate bank takes over other banks in its sector, or subsidiary businesses that act as a filler to the main businesses. Mergers and acquisitions have both structural and cultural differences between them, when it comes to implementation and purpose. Acquisitions have often been used to bolster and consolidate business power-houses while use of mergers can often be attributed to the increase of organizational efficiency . Thus, it can be concluded that acquisitions are mostly derived from positions of authority , while mergers may be used to improve the financial unhealthy situation in the existing structure(Gomes, Angwin, Peter, Mellahi,2012). Hence, mergers have been predominantly used to deal with the difficulties in the Indian Banking sector.

Issues Faced by Indian Banks:

As India opted for its Economic Liberalization Policy in 1991, the market expanded to private and foreign investments alike. Yet, India stands to be one of the under-banked nations when considering the big global economies.(India Infoline, 2012).

This meant that the existing national banks had to face a tremendous increase in stiff competition from private players and Fintech Corporations who were looking forward to capturing large parts of the banking sector (Aizenman, J. 2019). Coupled with usual issues close to the banking sector, the financial situation grew tougher for the state-owned banks as they faced loss of customers, decreased profitability and required immediate assistance from the state apparatus.

Several of these Indian banking issues are listed below:

Immense competition from the corporate players: The corporate banks that have cropped up since post-1991, offer stiff competition to the nationalized banks and have been very aggressive with it because of their profitable business model. This is because low salaries, higher interest rates and cash recuperation rates increase profitability of these private banks to gain a competitive advantage over the nationalized banks.

Issues with the Bureaucracy: Public sector banks in India are operated as a government to people service which hinders the quick decision-making processes of data analysts. As a result, processes are stuck for the want of signatures, red-tapes, budgets etc.

Large Number of branches: Compared to the number of customers in the region, the public sector banks have an excruciatingly large number of branches compared to its private counterparts. Although such methods were adopted due to ease of access in the times of poor transportation connectivity, a number of branches are redundant and keep adding on the expenditure tabs. In the present day of excellent transportation services, several of these branches might not be required if the banks can try to optimize these unwieldy numbers.

Political Interference: Public sector banks aren't free in their operations as they are an important part of the state apparatus. Moreover with the federal structure of India, both the central and state governments exert political pressure on the bank administration to favour their needs. That might include large loans with extremely low rates of interest, unpaid loans as well as mismanagement of public funds that can potentially harm the integrity of the banks.

Advent of Non-Performing Assets: The Indian Banking System suffered a very difficult problem post 2004. As the economy of India entered a booming phase, industrial development grew exponentially. To facilitate economic growth, aggressive steps were undertaken favoring relaxation of credit norms and reduced rates of interest and Special Economic Zones (Mohan, R. 2005). Thus, a lot of money was lent out to the industrial domains with no analysis of the credit risk and the ability to repay the loans. However, due to different environmental concerns and government measures, most of the industries faced an acute shortage in their procurement operation thus putting to halt a lot of industries. This facilitated an inability to repay the big loans back to the banks. And mortgages had already devalued, which meant they could not be used to recover the money. Thus, these loans and mortgaged industries became non-performing assets for the banks, i.e., assets from which the banks could not earn any profits. This posed a major destabilization risk in the Indian banking sector as well as the 2009 global recession.

Rural Banking System: Lack of lucrative cash-incentive schemes and inability to reach interior regions has fueled a very low presence in rural regions with potential.

Loan Waivers: At different points of time throughout the post-liberalization period, the government has facilitated chalking off large amounts of loans. At times it was the corporate loans waived to increase the decreasing trends of investment; while at other times farmer loans and loans to rural cooperatives were waived leading to depleting bank coffers.

Rationale Behind the Mergers from An Indian Perspective:

Public sector banks constitute a fairly large part of the Indian banking ecosystem. In spite of the increasing foreign investments in private banking players as well as their contemporary Indian counterparts, the public sector banks as well as the public undertaking banks are extremely important in terms of the service they provide to the wide sections of the Indian mass. The former finance minister Mr P. Chidambaram had advocated for the merger of a few public sector banks on the grounds of improving efficiency and making the sector stronger (Ghose, 2013).

Reasons in favour of bank mergers and acquisitions have included taking advantage of economies of scale and scope, combination and more effective utilisation of assets, increase of market share, exceeding penetrating obstacles, competition, obliteration of reduced efficiency of target bank, reduction of exceeding liquidity of buyer bank, as well as managerial arrogance in the buying bank. (Mylonakis, 2006)

Whether it is cooperatives that pull out loans to operate local businesses, or medium and small-scale industries that draw investments from these banks at low return to investment rates or the general public that trust the public sector banks to be the ultimate safe haven for their hard-earned money, the public banking system in India has been ever present in each domain, and has done it quite successfully. M&A as value creation, efficiency improvements as explanations for synergies and produced evidence that suggest mergers generate gains by improving resource allocation rather than by reducing tax payment or increasing the market power of the combined firm. (Devos, Kadapkkam and Krishnamurty, 2008).

This provides a rationale to the government and its administrative systems to use mergers and acquisitions to protect the banks from disturbing the financial ecosystem of the country (Nelson, T. 2018). The rationale behind merger of public sector banks will be made clear through the following logical sequence:

Increased risk of contagion: Contagion is defined as the spreading of a harmful idea or practice. Here, the harmful practices referred to may include financial downfall, recurring bad debts, corruption in the banking process and the like. Therefore, in lieu of the public sector banks, the optimal definition of risk of contagion should be the tendency of spreading of bad financial behavior among financial entities that are closely related, that could percolate to a central bank or a number of different banks working in tandem. This would ultimately lead to a collapse in the banking structure as a whole and the general public might feel a mass resentment against the public banks.

Although these risks of contagion can be extremely difficult to quantify, whenever these risks are identified, financial authorities must move early to solve the issue before it creeps in too deep. Therefore mergers have been historically proved as viable options to put a check on such poor operations.

Risk posed to the system: Protecting the financial system at all costs is imperative for the government. Systemic risk is perceived in the banking system when common sources of risk observed with respect to a single bank are thought to be potent enough to plague the entire system.

For example: Bank A has a pending cash transaction with bank B, or has a fund consolidation strategy with bank C and D. If Bank A loses money under certain unforeseen circumstances such as a loan bubble, it will fail to make its transactions with the banks B, C and D. As a result, all the banks will suffer from an acute cash flow that slowly percolates into the system itself, destroying the very structure of banking.

As more and more banks might fall to this plague in sort of a chain reaction, public resentment might grow uncontrollably. The disturbance might not even stay within the boundaries of the banking sector, as numerous other sectors are dependent on the banking structure for their financial well-being and might fall into deep trouble, thus disturbing the country's system at large. This is the perspective of systemic risk associated with merger.

“Too large to fail” banking problem: This phrase is typically used for the banks with the largest share in the banking industry of India. When the entire financial structure depends on certain banks and their healthy functioning, the prerogative of the financial administration is to ensure that such banks never fail or never go out of business. Primarily it is imperative that regulations are set up to divide the financial sector into a number of big players, such that no bank becomes too big to fail. However, in reality when it happens, the administration must save the bank at all costs, even by sacrificing smaller healthy banks in a merger.

Although the Indian rationale has a fair few points in the favour of mergers to maintain the desired balance in the financial sector, there are potential problems with implementing mergers from an Indian perspective. It is the duty of the central banks as well as the financial administration to step in whenever there is a need to save banks from failing. However this raises certain concerns within the purview of banking business.

Often small banks are saved by merging them with the bigger banks or vice versa. This can be perceived as a partial attitude with respect to certain banks. If healthier banks have to take on the burden of weaker banks it renders them significantly weaker at times. With respect to competitive neutrality as put forth by the Banks Act in India, bank mergers must only be used as a last resort effort and should not become a popular fix to all banking problems in the country.

Challenges With The Mergers:

Rationally thinking, mergers may be beneficial in the Indian banking industry. However, mergers aren't simple technical or management decisions that can easily be undertaken. Mergers have a detailed process associated with them that also put forth certain challenges:

Ascertaining actual valuation of the merger: In case of financially unhealthy institutions, the actual valuation of the business remains unwieldy and misunderstood. This might have a drastic impact on disturbing the valuation of the healthy business, i.e., the entity that is taking over post-

merger. This leads to confusion and distrust in the market about the organization. The situation might also worsen from the investor perspective, leading to widespread resentment even among the investors and shareholders thus disrupting the equity of the organization.

Excess Burden on a healthy bank: Mergers have time and again been used to prevent financial institutions from failing or going down. Although this might provide help and support for the weaker banks, the burdens of poor finances, mismanaged debts, bad loans are brought upon on the stronger banks. Coupled with already existing financial situations, this can prove to be a burden too big to handle for the healthy bank, leading to further challenges on the mergers.

Restructuring the shareholders: Every financial institution has their respective set of shareholders that have a hand in the financial proceedings of the bank. When a merger occurs between two such financial entities, the government faces a crucial decision of restructuring the two sets of shareholders. This might pose a big enough administrative problem, as a majority shareholder of the weaker bank might lose his importance, compared to a minority shareholder of the dominant bank in the merger. This might result in the shareholder completely pulling himself off the business.

Cultural Differences: When entities from different business areas and different regions merge with each other, the fundamental problem that emerges from the merger is the widespread differences in the operation and service culture of the two businesses. Employees and management of either entity might have a hard time coping up with the change in the working culture. 109 employees of two Sri Lankan banks that had undergone an extension merger and a collaborative merger were reviewed and it was found that employee perceptions were affected because they were dissatisfied with the collaborative merger. (Wickramasinghe, Chandana, 2009)

Customer Dissatisfaction: An important step in a merger is to convince the customers as well as the stakeholders about the bigger picture. A study was conducted to review customer

perception on service quality in retail banking in Qatar, that covered a sample size of 120 including 18 parameters, chosen on the basis of convenience from four banks. The study concluded that customer's perception reported best in tangible areas and poorly in the matter of competence (Hossain, Leo, 2009) Customers might feel alienated with sudden merger decisions, as well as developing trust issues with the organization. Unless such situations are well managed, the resultant consequences can be grim.

Potential Data Breach: Mergers of banks isn't just a signing of paperwork and restructuring of shares. Extremely large quantities of data including customer databases, transaction records, loans and pension documents, electronic footprint records have to be stored in an orderly manner to ascertain a seamless transition of the merger. This huge and cumbersome process can sometimes be the ideal breeding ground of data security issues and potential data breaches. Any data breach that occurs during an ongoing merger will only end up disturbing the process and further increasing stakeholder resentment to the decision (Murer, S., & Bonati, B. 2010).

Job crunch: it is often noticed that, there exist multiple branches of two banks in one location, within a very small radius. The merged bank might decide to close down excess branches post-merger that would be rendered useless as a part of the merger. This will lead to a large number of employees, who cannot be accommodated in the limited number of branches post-merger. This will lead to unfortunate laying off of employees, who could have proven useful to the merged entity. Such human resource problems must be prevented at all costs.

Merits Of The Merger:

Mergers have substantial challenges associated with them, in terms of planning, communications, integration of infrastructures and so on (Cartwright, S., & Cooper, C. L. 2012). However, the decisive figures need to be observed which reveal how popular the mergers have become in the banking industry nowadays. Obviously, there must be profound merits associated with the mergers that have made it so viable in face of changing financial environments.

Some of the merits attributed to mergers and acquisitions are:

Increased Scope: For banks to keep growing into bigger and bigger entities, regular influxes of customers have to be maintained at all costs. However, with banks cropping up in nooks and corners of India, the customer base is widely distributed amidst various public and private banks. Mergers of public banks facilitate a consolidated customer base, hence increasing the scope of business.

Increased business access: Not just human resources, another singular point of attraction working in favour of the mergers are the huge scope of up-scalability. Mergers boosts the scale of business, due to the following factors:

1. Access to larger infrastructure, from a technological point of view.
2. Access to increased amounts of capital.
3. Access to increased power of bargaining with the distributors.
4. Higher volumes of operations lead to reduced costs.

Consolidation of debt: A large number of bank mergers are enacted to reduce the incredible amounts of debts that have been incurred upon by unhealthy banks. Debt consolidation is a very useful tactic in financial markets, to reduce the interest amounts of two entities by combining the debts upon mergers. This is another reason why mergers are so prevalent.

Increased number of branches: Not just in the banking sector, the financial upsides of increased number of branches diversified across cities and localities have a huge attraction in every sector of the business. This is another area, where the economy of scale comes into play. When two large banks act on a merger, the consolidated numbers of branches greatly increase the financial viability of the merged entity.

Ease of Regulation: Banking health and compliance to financial regulations are monitored by federal agencies. With a large number of banks in the system, the tracking of compliance can always be extremely difficult. This difficulty in tracking can often be an ideal breeding ground of financial corruption,

bad loan grants motivated by greed and unplanned debts and investments. Mergers help reduce the number of banks, thereby increasing the powers of regulation.

Reduction of operational costs: Banking institutions have to repeatedly go through with technological advancement processes, training operations, etc. Carrying out such processes for different banks at different instances will lead to incurring repetitive costs. However, when these entities are merged, such operational costs can be optimized leading to reduction of costs.

Decrease in inter-banking competition, increase in intra-banking competition: We'll investigate an example here. Say 3 banks get merged. That is 2 competitors reduced for the merged entity or the majority shareholder, competition that would have given the bank a difficult time with regard to their financial viability. However, the new entity will have a larger combined workforce, which would increase competition for places and promotions within the competition (Jayadev, M., & Sensarma, R. 2007).

Decrease in operational risks: Poorly run banks tend to give out bad loans, invest in an unplanned manner as well as house incessant corruption within the bank. This brings about loss of money as well as loss of trust among stakeholders, which are deemed as immense risks when it comes to operating a successful institution. A merger reduces this unwieldy nature of organizations, consolidates the cash reserves and pacifies the stakeholders.

A comprehensive look into the stakeholders' perception touched upon in the last point shall clear matters further.

Stakeholder Perception About The Mergers:

Bank mergers are not just about the shifting and transferring of resources, restructuring the companies or reimagining the organization from a technological point of view. Mergers and acquisitions majorly impact the people associated with the banks, more precisely the human resources and the people who accept services from the banks.

But who are these stakeholders and what makes them so integral to the process of banking mergers? Put simply, a stakeholder in a bank is any person who is associated with the day-to-day functioning of a bank. This includes everybody from the employees, management, customers, investors, realtors, creditors and even society at large. The external stakeholders account for the outer circle of the bank who are impacted by the functioning of the bank such as the customers, realtors and the society while the stakeholders on the inside can be referred to as the officials, employees, management and the investors who are directly related or concerned with the actual functioning and internal operations of the bank.

The natural question that gets prompted next is that while the shareholders own the company and have their monetary interests associated with the company, why are the stakeholders so important in decisive decisions of a financial institution? It is popular knowledge that a bank is as good as its service and its customer base. A large and stable customer base not just helps a banking business stay sustainable but also helps the banking business accumulate profits and maintain a healthy cash flow. But to serve a substantially large customer base, a bank will also want to have an organized, loyal and efficient employee base that can keep up the goodwill of the organization's banking service. This is why both stakeholders are integral when it comes to a critical decision-making process (Svendsen, A. 1998). This makes it even more important to keep these stakeholders informed and help them maintain a perceived loyalty towards the organization.

A gaze at the popular studies will reveal facts regarding stakeholder perception and control regarding mergers and acquisitions:

A study explored the role of both the internal and external stakeholders in the process of banking mergers and how it is imperative that the stakeholders be kept in the loop while taking important decisions concerned with the banks, whether they are restructuring decisions, management changes or even drastic ones such as takeovers, mergers and acquisitions. (Williams, Henry; He, Wei; Connors, Susan E., 2018) Key findings of the study suggest that there is conclusive evidence

that perceptive control can play a decisive role in establishing stakeholder loyalty in crucial situations, where difficult decisions are being taken related to the banks. Situations such as mergers and acquisitions need stable transitions on all fronts, to avoid haphazard environments and pave the way for future well-being of the entity.

The gaps in communication across the different levels among stakeholders were examined and introduced as an important factor in a study.(Nelissen and Van Selm, 2008). Studies in this area of concern have repeatedly shed light on the fact that, only effective and organization communication through definite channels can keep stakeholders in the loop while extraordinary decisions are being enacted upon. The studies show that the onus is on the organizations that they facilitate the setting up of such communication channels that ensure that the stakeholders sense their perception of control, as well as information about the merger from the organization itself and not from secondary sources.

Timeline Of Mergers In The Indian Banking Sector:

Contrary to general perception, India is not new to banking mergers. Globally the mergers started somewhere around the 1880s to the 1890s, while India was still a colony. However, post-independence, the first merger in the banking industry could only be carried out in 1969 (Singh, P. 2009). A comprehensive look into the various mergers that were carried on in India at different junctures of time shall reveal trends of data:

TABLE 1: BANKING MERGERS IN INDIA SINCE 1969

Merged Bank	Merged with	Year
Bank of Bihar	State Bank of India	1969
National Bank of Lahore Ltd	State Bank of India	1970
Miraj State Bank Ltd	Union Bank of India	1985

Lakshmi Commercial Bank Limited	Canara Bank	1985
Bank of Cochin Ltd	State Bank of India	1985
Hindustan Commercial Bank Ltd	Punjab National Bank	1986
United Industrial Bank Ltd	Allahabad Bank	1989
Bank of Thanjavur Ltd	Indian Bank	1990
New Bank of India	Punjab National Bank	1993
Bank of Karad Ltd	Bank of India	1994
Kashinath State Bank Ltd	State Bank of India	1995
Punjab Cooperative Bank Ltd	Oriental Bank of Commerce	1996
Sikkim Bank Ltd	Union Bank of India	1999
Bareilly Corporation Bank Ltd	Bank of Baroda	1999
Times Bank Ltd	HDFC Bank Ltd	2000
Bank of Madurai Ltd	ICICI Bank	2000
Benares State Bank Ltd	Bank of Baroda	2002
ICICI Ltd	ICICI Bank	2002
Nedungadi Bank Ltd	Punjab National Bank	2003
Global Trust Bank	Oriental Bank of Commerce	2004
Centurion Bank	Bank of Punjab (POB)	2005
United Western Bank	IDBI Ltd	2006

Bharat Overseas Bank	Indian Overseas Bank	2007
Centurion Bank of Punjab	HDFC Bank	2008
Bank of Rajasthan Ltd	ICICI Bank	2010
Ing Vyasa Bank	Kotak Mahindra Bank	2014
State Bank of Travancore(SBT)	State Bank of India	2017
State Bank of Bikaner and Jaipur(SBBJ)	State Bank of India	2017
State Bank of Hyderabad(SBH)	State Bank of India	2017
State Bank of Mysore(SBM)	State Bank of India	2017
State Bank of Patiala(SBP)	State Bank of India	2017
Bharatiya Mahila Bank	State Bank of India	2017
Vijaya Bank	Bank of Baroda	2019
Dena Bank	Bank of Baroda	2019
Allahabad Bank	Indian Bank	2020
Andhra Bank and Corporation Bank	Union Bank of India	2020
Syndicate Bank	Canara Bank	2020
Oriental Bank of Commerce	Punjab National Bank	2020
United Bank of India	Punjab National Bank	2020

What Does Data Speak About The Efficiency Of Mergers?

Today there are 12 nationalized banks that have been repeatedly participating in the mergers throughout the last decade. These public sector banks are: Punjab National Bank, State Bank of India, Union Bank of India, Bank of Baroda, Indian Bank, Canara Bank, Indian Overseas Bank, UCO Bank, Bank of Maharashtra, Punjab and Sind Bank, Central Bank of India and Bank of India.

From when the mergers started in 1969, State Bank of India has absorbed the most number of banks in itself which is 10 banks. A detailed picture of the number of banks absorbed by these individual public sector banks are as follows:

TABLE 2: DATA ABOUT INDIVIDUAL BANKS ABSORBED BY PUBLIC SECTOR BANKS TILL DATE.

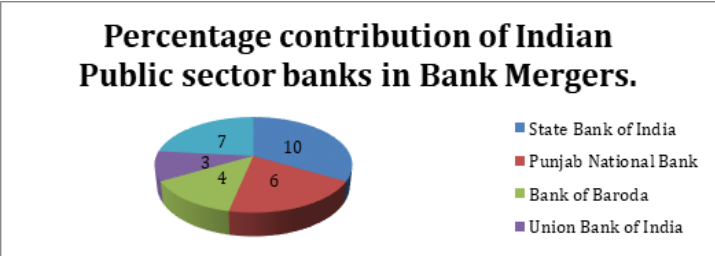
Name Of The Bank	No. Of Banks Absorbed
State Bank Of India	10
Punjab National Bank	5 + 1 (Merger Enacted By Oriental Commerce Bank)
Bank Of Baroda	4
Union Bank Of India	3
Canara Bank	2
Indian Bank	2
Allahabad Bank	1
Indian Overseas Bank	1
Bank Of India	1

The data reveals following observations:

No. of mergers that the nationalized banks of today have participated in : 30

The share of each bank in the total number of mergers can be understood from the following graph:

FIGURE 1: Percentage Contribution Of Indian Public Sector Banks In Bank Mergers



An understanding of the valuation of these banks today shall show if the mergers have really helped these banks to stay ahead of the competition or if they have facilitated downfall in these banks. The variable of study here shall be the market capitalization value of the banks (Laulajainen, R. 2003). The valuations of the public sector banks are given as follows:

TABLE 3: BANK VALUATION OF PUBLIC SECTOR BANKS BASED ON MARKET CAPITALIZATION

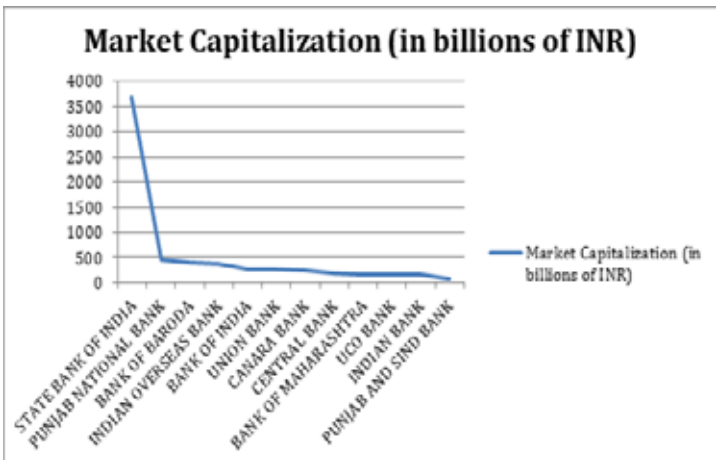
NAME OF BANK	Market Capitalization (in billions of INR)
STATE BANK OF INDIA	3684.08
PUNJAB NATIONAL BANK	445.4
BANK OF BARODA	415.26
INDIAN OVERSEAS BANK	373.22
BANK OF INDIA	280.32
UNION BANK	257.34
CANARA BANK	242.56

CENTRAL BANK	175.36
BANK OF MAHARASHTRA	164.66
UCO BANK	162.96
INDIAN BANK	156.36
PUNJAB AND SIND BANK	77.61

(Source: Www.Statista.Com/Statistics)

The data can be visualized better in a chart as follows:

Chart 2: Market Capitalization In Billion Indian Rupees of Indian Public Sector Banks



It is easily observed from the graph that the State Bank of India enjoys being the largest public sector bank by some distance, followed by the Punjab National Bank and the Bank of Baroda. As illustrated in Figure 1, State Bank of India had the most number of mergers, with Punjab National Bank and Bank of Baroda coming 2nd and 3rd respectively. The same trend is maintained here. Thus, it can be said with some confidence that these banks haven't faced the grunts of

mergers. Whether they have benefited from it requires more intense and detailed analysis, but they certainly appear to be well off from their counterparts regarding business valuation simply based on a comparative study from Figures 1 and 2.

If popular conception about mergers in the banking sector were to be believed, an obvious observation is that mergers are widely looked at as a positive approach in dealing with banking problems. In a study titled 'Mergers in Banking Sector in India: An Analysis of Pre & Post Merger Performance', it was found out that productivity of a large bank like SBI greatly increased in the post-merger period. It was also observed that except the profits in the post-merger years that kept stable, key performance metrics showed increasing trends after the merger. Significant other works regarding mergers in the public sector corroborate with the fact that mergers surely help in the betterment of the banks in India, even if it does not skyrocket the profitability.

Conclusion

Merger in general is considered as a strategic tool for the participants in merger activity for gaining certain synergies. India being a huge country has a very intricate banking structure where the public sector banks and Indian private as well as foreign corporate banks coexist. However, the public banks have been steadily losing ground due to a large variety of reasons. Mergers emerging as the singular most effective solution to deal with the emergent problems tells a lot about the changing economic scenario for domestic banking sectors. However, the demerits of the entire M&A system are too grave to be overlooked completely, for the sake of a quick fix.

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