ANALYTICAL STUDY ON ISSUES AND CHALLENGES OF MERGER OF PSU BANKS IN INDIA

Dr. S NAGA POORNIMA, NIRMALA PRIYA D, Ms. TRESSA MATHEW, B. RAJESWARI

Assistant Professor
Department of Business Management
St. Ann's College for Women (Autonomous), Hyderabad, TS
Assistant Professor
Department of Business Management
St. Ann's College for Women (Autonomous), Hyderabad, TS
Assistant Professor
Department of Business Management
St. Ann's College for Women (Autonomous), Hyderabad, TS
Research Scholar
School of Management Studies
Malla Reddy University,
Maisammaguda, Kompally,Hyderabad, TS

ABSTRACT
This study focused on issues and challenges of PSU banks in India. The objective of the researcher is going to find the suitable suggestions for this research area. Currently this topic is most needed for our country. This research work contains secondary data for achieving the aim of the researcher. The needed information collected from RBI published reports, magazines and research articles. Our country has 97621 banks with branches. So, difficult to maintain the banks' ethics and culture. Granting the loan and collecting the debt from the customers is the main task for our banks. They also promote the acceptance of bills and discounting bills from inside and outside of India. This is also creating more financial risk. Some people are not paying the due amount at the correct time and they are trying to cheat the bank officials. In this situation, the Non-Performing Assets (NPA) was created because of bad debts. The bank officials are reached bad situation for handling the banking activities. At that time the expert committee suggests merging one bank with another one to save the life of the banks. A merger is a combination of two or more organizations or banks to pool the capital after a merger occurs. The study period taken for this work were 2018 to 2020. In this period our Indian economy faced more challenges for developing the business sectors because of Covid 19. So, the researcher interest to know the reason for the merger of the banks, the problems behind the merging and the challenges for merging the PSU banks in India.

Keywords: Merge, Issues, Challenges, Financial Instruments, reason, RBI, PSU, Banks

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INTRODUCTION
In Indian financial system divided into five important parts. There are Financial Institutions, Financial Markets, Financial Regulators, Financial Instruments and Financial Services. The important division is Financial Institutions because this is the base for all. Under the Financial Institutions, the Banking sector plays a very needed role in Indian Economy system. The banking structure also divided into two major types, one is scheduled banks and another one is Non-scheduled banks. Scheduled banking system also divided into Public and Private Banks, Foreign banks and Regional Rural banks. Public Sector Banks (PSB)

contribute many financial supports to the developing economy system. The Government of India like to regulate the PSB. In 1949, The Indian Government passed 'Banking Regulation Act 1949' for their formation. This act supporting in the way of supervision and regulation. The Act provide the Reserve Bank of India (RBI) the rights to license for banks, regulate the over shareholding and Shareholder voting rights, regulate the appointment of the board members and supervise the banking operation, provide guidelines for auditors; control moratorium of the loan, liquidation, mergers, issue directives in the interests of public good and on banking policy, and impose penalties. (Bimal N. Patel 2008).

Public Sector Banks (PSB) means more than 50 percent of the shares hold by the Government. The Government appoint the officials for supervise the PSB. In recent years, the Banking system faced number of issues and challenges. The researcher like to investigate issues and challenges behind the PSB mergers. The main issue raised from Non-Performing Assets. NPA means non-payment of loan amount by the customers i.e., called as bad debts of the Banks. In this situation, the expert committee people advise to structural changes from the banks. One suggestion is amalgamating one or more banks with the shares and employees. This is create more challenges to the expert committee.

In 1960s, the concept of 'merger' from the banks were started for protect life of the banks and secure the wealth of the customers. Merger means combination of private or public and public banks for their poor performance. The concept of Public Sector Undertaking (PSU) means partly or wholly owned by the Government for welfare of the institutions. It is also called as is State-owned enterprises.

In the period 2018-2020, the Central Government announced ten number of Public sector Undertakings (PSU) banks merged with four number of banks for provide financial strengthen to the bankers. It is also encouraged to develop technology expedition, satisfy the customer’s needs, etc,

OBJECTIVES OF THE STUDY

1. To know history of mergers of PSU in India
2. To analysis the reasons for merging the PSU in India
3. To examine the issues and challenges for merger of PSU
4. To suggest suitable suggestions for Public sector undertaking the Banks in India

REVIEWS OF LITERATURE

P. R. Jeyalakshmi, A. S. Lakshmi Rani (2020), ‘Merger and Consolidation of Indian Public Sector Banks - An Analysis’, this study concludes in the way of, investors of all banks engaged with the mergers will undoubtedly be affected. Employees may feel the fear of job loss and Load due to technological deployment. Though Merger was a helpful step and would begin potency in contrast troubled regarding the impact on employees. Customer’s fear “the number of branches is going to be reduced within the name of branch rationalization. Human resources needed are going to be unostentatious, under-projected consciously to point out to the powers that be that mergers lead to savings.

J.Ishwarya (2019),She analysed amalgamation of SBI associates in case studies. It is called merger in order to bind two or more existing businesses to another entity. It only happens when the company buys over 50% of its ordinary shares and other properties. Organizations implement fusions or acquisitions to extend their activities, spread the marketing strategy, participate in new areas or raise their profitability.

Sangita Ghosh (2016), she researched on amalgamate between Oriental Bank of Commerce and Global Trust Bank. The researcher analyzed factors for merging the banks like., liquidity, efficiency, profitability and performance. The result for this study is post-merging period the oriental bank of commerce achieved more profitability and efficiency of acquire bank has improved but there was no change in liquidity position.

Sunil Gupta and Gurubaksh Singh & (2015), Both researchers studied about pre and post merging period performance evaluation of public and private sector banks with the data of last five years. The researchers used proper research tools for this study. They found that merger and acquisition have positively impacted on merged Bank.

S. Devarajapp (2012), he studied HDFC bank and Centurion Bank of Punjab banks financial performance in the period of pre-merger and post-merger. This study takes 3 years financial reports for finding the accurate results. The conclusion of this study is gross profit had increased and equity had increased but there is no change in net profit, return on capital, and operating profit.

Goyal, Krishn& Joshi, Vijay. (2011) Mergers in Banking Industry of India. This depicts that Indian rural markets have great potentials which are still unexplored and the private banks are using mergers as a strategic tool like ICICI bank which is amalgamating with local and small banks that are struggling to compete with global competitors.

STATEMENT OF THE PROBLEM

The theory of merger was one of the most discussed topics in the Indian economy in recent years, with more time devoted to journals published in newspapers, editorials, online learning resources, conversations and news channels in order to obtain recent statistical sources and cover the subject in depth. Here, the researcher interest to study about PSU mergers' issues and challenges in Indian economy. The biggest reason for merging the banks for bad loan over the year and increment in Non-Performing the Assets (NPA). The merger of banks help to minimize risk factor, life of the employees, it will help in attain growth and enhance the economy market of the India and the banking industry will be recognized at global level.

SCOPE THE STUDY

This study mainly focusses on analysing the issues and challenges in **P**ublic **S**ector **U**ndertaking (PSU) of Indian Banks. In this study focused on issues (problems) and challenges of the banks in India level specifically this study conducted from Hyderabad. Hyderabad's unorganized economic units, compared with other countries in India, are dairy, poultry, brick production, casual work, and residential support. A large part of the urban poor is those who participate in the informal economy. That's why the scientist wants to choose another for research purposes.

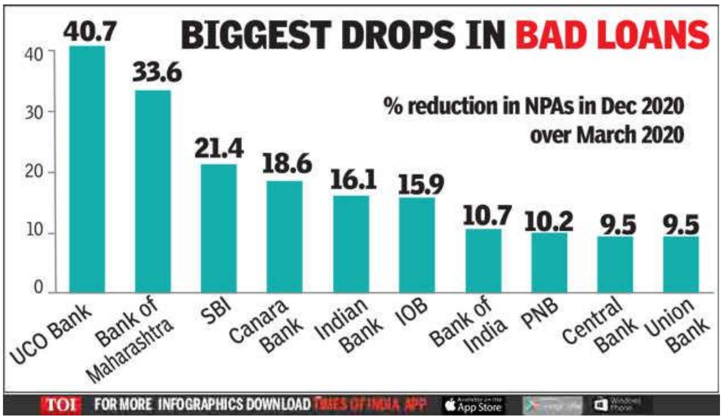
RESEARCH METHODOLOGY

In this study used secondary data for analysis the issues and challenges of PSU in India. In the year 2019, Ms.Nirmala Sitharaman, finance minister announced the merger of ten banks into four and this has come in effect from 1st April 2020. Now, there are 12 public sector banks, which are managed and controlled by the central authority i.e., the Reserve Bank of India. The secondary sources collected from magazines, press releases, government committee reports, research journals and books newsletters from various Internet websites regarding the topics of study.

PSU MERGER IN INDIA 2019-2020

The 10-public sector (PSU) banks became four mega state-owned banks in August 2019. These banks will be fused into four mega banks of PSUs. In a fusion there is an Anchor Bank and a fusion bank or banks, which combine with the latter. For instance, Vijaya Bank and Dena Bank (amalgamating banks) merged with Bank of Baroda in April 2019. (the anchor bank). Vijaya bank and Dena bank's operations were actually transferred to Bank of Baroda. Basically, retail customers of merger banks will probably become directly impacted, but anchor bank customers will likely not face a lot of changes. However, it would be necessary to affect shareholders of all consumer credit act in the mergers.

- United Bank of India and Oriental Bank of Commerce will consolidate with Punjab National Bank.
- Syndicate Bank will be merged with Canara Bank
- Allahabad Bank joint with Indian Bank.
- Andhra Bank and Corporation Bank are to be merged with Union Bank of India.



REASONS FOR PSU MERGER

1. In past few years, the banking Non-Performing Assets (NPA) increased because of due from the customers. Collecting the debt from the customers were difficult for every banker. This is main reason for amalgamate the banks.
2. To achieve the objective of corporate Governance in the way of best operating efficiency, transparent accountability and facilitate to monitoring the management.
3. To stand among the Global level competition of the banking sectors.
4. To create stronger banks with the using the better technology environment.
5. To participate in economy development of the India
6. Try to reduce the cost of the banking services
7. To encourage new entrepreneurs in all economic areas.
8. The development of global banks, the reduction of unnecessary corporate and economic overlaps, and premium economies have always been at the core of consolidation.
9. The objective was to set up next-generation banks with a strong central presence and global influence and enhanced credit capabilities for the specific important economic sectors.

CHALLENGES OF PSU MERGE

1. Managing Cultural Differences between the employees, customers and management
2. Managing Manpower i.e., motivate the employees to provide good service to the customers of both banks.
3. Branch Rationalisation
4. Technological Integration

5. Making Geographically Compatible Banks
6. Capital recovery
7. New NPA (Non-Performing Assets) cycle on the horizon
8. Major steps taken to tackle the NPA problem
9. By adopting to technology.
10. To provide more active advertising for banks with new name
11. To create faithfulness among the new and existing customers for their services

RECAPITALISATION AND GOVERNANCE REFORMS

1. In the year 2019, recapitalisation increased to Rs.55,000crore (Authorised capital Rs.70,000 crore)

2. The major block of recapitalisation will go to PNB, at Rs.16,000 crore, accompany by UB at Rs.11,700 crore- The above mentioned two banks were merger

3. The Canara Bank is set to get Capital of Rs.6500 crore and Bank of Baroda is set up with Rs.7000.

4. Sind bank and Punjab Nationa Bank will get Rs.7050 crore. UCO bank will get Rs.2100 crore and Rs.600 crore get by the Bank of Baroda.

How financials of anchor banks will change after mergers

	PNB		CANARA BANK		INDIAN BANK		UNION BANK	
	NOW	POST MERGER	NOW	POST MERGER	NOW	POST MERGER	NOW	POST MERGER
Loan book size (₹ cr)	**4,58,200**	6,84,500	**4,27,700**	6,32,800	**1,81,300**	3,23,500	**2,96,900**	5,77,000
CASA ratio (%)	**42.2**	40.5	**29.2**	30.2	**34.7**	41.6	**36.1**	33.8
Net NPL (%)	**6.6**	6.4	**5.4**	5.6	**3.7**	4.4	**6.8**	6.3
PCR (%)	**61.7**	59.7	**41.5**	44.3	**49.1**	66.2	**58.3**	63.1
Tier-1 equity (%)	**7.5**	8.3	**9.2**	9.8	**11.5**	9.8	**9.6**	10

Here, the Non-official directors of State – owned (PSU) will have to task like independent direcors of company boards.

NEXT-GEN BANKS Figures in ₹ trillion

Merged entity	Total assets	Gross NPA	No. of branches	M-cap (Aug 30)
PNB+OBC+United Bank	12.0	1.1	11437	0.5
Canara+Syndicate Bank	10.0	0.6	10342	0.2
Union+Corporation+Andhra Bank	9.6	1.0	9609	0.3
Indian Bank+Allahabad Bank	5.3	0.4	6104	0.2

All figures, except market cap, are as of March 31, 2019. Figures have been rounded off to the nearest decimal
Source: Capitaline Compiled by *BS* Research Bureau

Retail clients of the merger banks are likely to be affected, while anchor bank customers are not likely to be subject to much improvement. But shareholders of any bank that participated in the merger are constantly affected.

Reducing fresh recruitment would be a natural consequence of any merger as a senior PNB official would need to figure out the rationalization of branch operations and personnel to optimize resources." The global employment scenario is likely to be influenced.

Sl.No	Anchor Bank	Amalgamated Bank	Date of Acquistion
1	Indian Bank	Allahabad Bank	1st April 2020
2	Punjab National Bank (PNB)	Oriental Bank of Commerce (OBC)	1st April 2020
3	Punjab National Bank (PNB)	United Bank	1st April 2020
4	Union Bank of India	Andhra Bank	1st April 2020

5	Union Bank of India	Corporation Bank	1st April 2020
6	Canara Bank	Syndicate Bank	1st April 2020

Source:*RBI annual publication*

EFFECTS OF MERGER ON INDIAN BANKING SYSTEM

Ten public sector banking organizations have been consolidated into four banks with effect from 1 April 2020 with the aim of establishing banks of the next generation with strong national and global presence. Given some early hiccups, factors such as government ownership, similar pay structure and avenues of career advancement for employees and core banking solutions have enabled the mergers to become operational. Another problem that was addressed but solved before to merger was the equity market exchange rate among merged entities. The merged companies can now benefit from synergy, especially in the case of network branches across regions. The United Bank of India, for example, with its extensive presence in the Eastern area, now benefits from Punjab National Bank's broader branch network, which before merger has had a vast network in the north and center of the country. Similarly, thanks to an Allahabad Bank alliance Indian Bank can now extend its scope through central and eastern regions, with a concentrated presence in the southwestern part of society.

Table No. 1

Core Banking Solutions		
Banks	**Merged Into**	**Core Banking Solution**
Punjab National Bank Oriental bank of Commerce United Bank of India	Punjab National Bank	Finacle
Syndicate Bank Canara Bank	Canara Bank	iFLex Cube (OFSS)
Andhra BankUnion Bank of IndiaCorporation Bank	Union Bank of India	Finacle
Allahabad BankIndian Bank	BaNCS	

Source:*RBI annual publication*

Table 2: Share Swap Ratios	
Punjab National Bank	• Every 1000 shares of Rs.10 each of OBC received from PNB of 1150 equity shares of Rs.2 each. • Every 1000 equity shares of Rs10 each of UBN received from PNB of 121 equity shares of Rs.2.
Canara Bank	• Every 1000 equity shares of Rs.10 each from Syndicade bank received from Canara Bank of 158 equity shares of Rs.10 each.
Union Bank of India	• Every 1,000 equity shares of ₹10 each of Andhra Bank received from UBI of 325 equity shares of Rs.10 each. • Every 1,000 equity shares of Rs.2 each of Corporation Bankreceived 330 equity shares of ₹10 each of Union Bank of India.
Indian Bank	• Every 1000 equity shares of Allahabad bank gets 115 equity shares from IB.

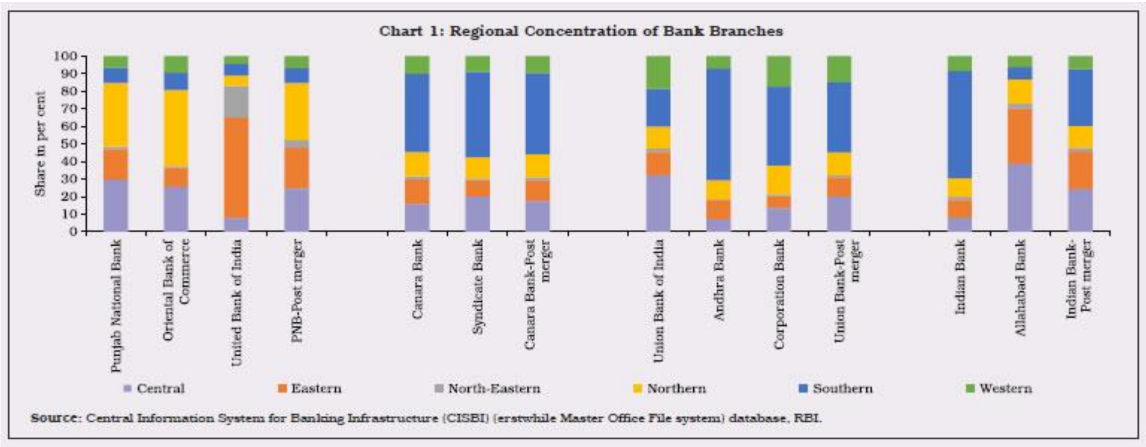
Source:*RBI annual publication*

Merger helped strengthen the capital buffers of banks that were facing challenges in meeting regulatory requirements.

Table 3: CRAR of Banks: Pre- and Post-Merger		
		(Per cent)
Punjab National Bank March 31, 2020 (Pre-Merger)June 30, 2020 (Post-Merger)	14.14	12.63

Oriental Bank of Commerce	11.55	
United Bank	5.56	
Canara Bank	13.65	12.77
Syndicate Bank	11.52	
Union Bank of India	12.81	11.62
Andhra Bank	11.12	
Corporation Bank	11.53	
Indian Bank	14.12	13.45
Allahabad Bank	12.01	

Source:*RBI annual publication*



Source:RBI annual publication

Table 4: NNPA Ratio		
		(Per cent)
	March 31, 2020 (Pre-Merger)	**June 30, 2020 (Post-Merger)**
Punjab National Bank	5.80	
Oriental Bank of Commerce	5.00	5.39
United Bank	4.88	
Canara Bank	4.18	4.08
Syndicate Bank	4.61	
Union Bank of India	5.49	
Andhra Bank	4.92	4.75
Corporation Bank	5.14	
Indian Bank	3.13	3.76

Allahabad Bank	5.66	

***Source*:**RBI annual publication

Table 5: Provision Coverage Ratio (Without write-off adjusted, in per cent)		
	March 31, 2020 (Pre-Merger)	**June 30, 2020 (Post-Merger)**
Punjab National Bank	62.39	64.47
Oriental Bank of Commerce	62.84	
United Bank	66.86	
Canara Bank	50.20	56.27
Syndicate Bank	63.44	
Union Bank of India	64.37	69.61
Andhra Bank	72.80	
Corporation Bank	66.26	
Indian Bank	53.11	66.92
Allahabad Bank	70.18	

Source:*RBI annual publication*

The above-mentioned steps are helps to reduce the NPA but it's not avoid the NPA.The amalgamation may have also helped improve the operating profit per employee across banks.

FINDINGS OF THE STUDY

1. After the mergers of PSU banks, the lending capacity will be increase and their financial position also developed in post –merger period.
2. The PSU banks were able to complete globally and increase their operational efficiency
3. The Indian economy also developed through PSU merging process
4. The usage of technology also developed in this situation
5. The employees are educating to know the situation for merging the PSU
6. The burden of Government should be centralised and the method of handling the problems in smooth way
7. The experienced employees are worked together for reducing the Banks' NPA.

SUGGESTIONS OF THE STUDY

1. The PSU banks needed to concentrate the advertisement process
2. To frame the financial planning in the way finding the customers, mapping the requirement os customers, organisation of banks product and offerings, competent services and workout the technology architecture and finally integrated the marketing communication channels
3. The banks creating more awareness among the existing customers for maintaining the loyalty
4. To try to reduce the customers switchover between the banks

5. To encourage the employees for adopting the new working environment and try to avoid the fearless about the job security
6. To provide more training programmes for employees for new technology and creating better understanding the customers
7. To create more customers, connect point between the banks
8. To understand the competitor’s strength and weakness in the market

CONCLUSION

Nowadays, the Banks are the big strength for Indian Economy development. Mainly, a technologically growth, transparent and efficient banking strategy is the need some time for the growing economy like India. Our Government system needs to avoid corruption, reduce NPA and increase the Globalisation.The need for analytical banking often exceeds conservative economic or financial theory, as financial inclusion remains a faraway hope. As well as conventional service provision, many social roles refer to financial inclusion and sustainable development in the banking sector. It's high time that the Government and the banking industry take a widely proposed of their policies and systems before they reach the goal of faster and integrated growth. Here, the researcher like to conclude in the way of PSU banks merger system has more issues and challenges, at the same time everyone asked to understand the need of banks merger and consolidation for our economic growth.

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