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Navigating consolidation: Understanding objectives, legislation and phases of banking mergers in the Indian financial sector: A review

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Abstract
The Indian banking sector has witnessed a significant wave of mergers and acquisitions (M&A) in recent years, reshaping the landscape of the financial industry. This research paper delves into the objectives that drive the enactment of banking mergers in India, providing a comprehensive overview and conceptual framework for understanding these complex transactions. The study explores the evolution of banking M&A, from the initiation of discussions to the post-merger integration phase. The paper begins by elucidating the dynamics of mergers and acquisitions, offering a theoretical foundation for comprehending the intricacies involved in these strategic moves. It examines the global and Indian banking contexts, identifying the key motivations and factors that encourage consolidation within the sector. The composition of the paper is structured into three distinct phases: the pre-merger phase, acquisition phase, and post-merger phase. In the pre-merger phase, the research investigates the strategic, regulatory, and financial aspects that drive banks to contemplate mergers. It highlights the importance of due diligence, stakeholder alignment, and regulatory compliance during this phase. The acquisition phase delves into the specifics of the merger process, outlining the stages from negotiation to finalization. It discusses the strategies employed by acquiring banks, the valuation methodologies, and the challenges faced in merging diverse banking cultures and operations. The post-merger phase scrutinizes the critical aspects of integration, synergy realization, and performance evaluation. This phase is vital in assessing the success of banking mergers and their impact on the overall financial stability and competitiveness of the Indian banking sector. Furthermore, the paper evaluates the legislative framework governing banking mergers in India and its evolution over time. It analyzes the role of regulatory bodies and government policies in facilitating and regulating these transactions. Ultimately, this research paper aims to provide a comprehensive understanding of the objectives behind banking mergers in the Indian banking sector, shedding light on the strategic decisions, regulatory environment, and post-merger outcomes that shape the future of this dynamic industry. It contributes valuable insights for policymakers, bankers, and researchers, facilitating informed decision-making in the context of banking mergers in India.

Keywords: Bank mergers, merger & acquisitions, Indian banking sector, merging strategy

Introduction
The Indian banking sector has been witnessing a transformative paradigm shift characterized by a surge in mergers and acquisitions (M&A) activities. These strategic initiatives have redefined the landscape of the Indian financial industry, compelling banks to consolidate and reposition themselves in response to evolving market dynamics (Smith & Patel, 2022) [9]. Understanding the objectives that underpin these banking mergers, as well as the legislative framework governing them, is of paramount importance for stakeholders, policymakers, and researchers alike. This research paper embarks on a comprehensive exploration of the multifaceted world of banking mergers in the Indian context. We delve into the intricate motivations that drive these mergers, the evolving legislative landscape that shapes their execution, and the distinct phases that encapsulate the entire merger lifecycle (Jones, 2020; Kumar *et al.*, 2019) [4, 5]. In doing so, this study not only provides a panoramic view of the Indian banking sector's consolidation journey but also furnishes a conceptual framework for comprehending the intricate mechanics of mergers and acquisitions in the financial realm. The banking industry has always been at the forefront of economic development, acting as a linchpin in fostering financial stability and economic growth (Brown & Sharma, 2021) [1].

Against this backdrop, the objectives behind banking mergers in the Indian context encompass a wide spectrum of considerations, including enhancing operational efficiency, augmenting market share, fortifying financial resilience, and addressing systemic risks (Gupta, 2018) [2]. These objectives are tightly interwoven with the unique challenges and opportunities that the Indian banking sector faces, making each merger a distinctive strategic maneuver.

Moreover, as with any significant financial transactions, banking mergers are subject to a complex web of regulations and legislative frameworks (RBI, 2021) [7]. The paper will meticulously examine the legislative evolution in India, analyzing the roles played by regulatory bodies and government policies in shaping the course of banking mergers (SEBI, 2020; Ministry of Finance, 2017) [8, 6]. By elucidating the legislative intricacies, we aim to provide a holistic understanding of the regulatory environment in which these mergers take place. To facilitate a comprehensive analysis, this research paper is organized into three distinct phases: the pre-merger phase, acquisition phase, and post-merger phase (Johnson & Gupta, 2019) [3]. Each phase represents a critical juncture in the merger process, and a detailed exploration of these phases is essential for discerning the factors contributing to the success or failure of banking mergers.

In summation, this research paper strives to unravel the objectives driving banking mergers in the Indian banking sector, with a keen focus on the legislative backdrop and the pivotal phases that define the journey of these strategic initiatives. As we embark on this exploration, we aim to contribute valuable insights to the broader discourse on banking consolidation, facilitating a deeper understanding of the forces shaping the future of the Indian financial landscape. In this article dealing with legal aspects of mergers, we refer to banks as defined companies. Bank as a public limited company under the Companies Act 1956. In addition, if there is merit, the RBI can grant the bank a license under the Banking Regulation Act 1949. The bank may also be listed in the Second Schedule to the Reserve Bank of India Act, 1934. Mergers and acquisitions have become very important in the Indian banking sector.

I. (I) Importance of Mergers

Mergers hold significant importance for various stakeholders, including companies, shareholders, employees, and the broader economy. Their impact can be profound and multifaceted. Here are some key reasons why mergers are important:

1. **Strategic Growth:** Mergers provide companies with a strategic avenue for growth. Instead of relying solely on organic growth, which can be slow and costly, mergers enable firms to expand their operations, market reach, and customer base rapidly.
2. **Increased Market Share:** By merging with or acquiring other businesses, companies can gain a larger share of the market. This increased market share can lead to more pricing power, higher revenue, and greater competitive advantage.
3. **Diversification:** Mergers allow companies to diversify their product or service offerings. This diversification can help mitigate risks associated with relying too heavily on a single product or market segment.
4. **Synergy Realization:** Mergers are often motivated by the potential for synergy. Synergy occurs when the combined entity is more valuable than the sum of its individual parts. Synergy can result in cost savings, increased efficiency, and enhanced profitability.
5. **Economies of Scale:** Larger companies often benefit from economies of scale, which lead to lower average costs per unit of output. Mergers enable firms to achieve these economies by spreading fixed costs over a larger production base.
6. **Access to New Markets:** Mergers provide companies with access to new geographic markets or regions where they may not have had a presence before. This expansion can drive revenue growth and diversify their customer base.
7. **Improved Financial Strength:** Mergers can bolster a company's financial strength by increasing its assets, revenue, and cash flow. This enhanced financial position can lead to better credit ratings and easier access to capital for future investments.
8. **Competitive Advantage:** Merging with a competitor can result in a more formidable market presence, potentially creating a competitive advantage. It can also reduce the intensity of price competition within the industry.
9. **Shareholder Value Creation:** For shareholders, successful mergers can create value through stock price appreciation, dividend increases, or share buybacks. Mergers that lead to increased profitability and growth can boost the financial returns to shareholders.

I. (II) Types of Merger

In the banking sector, mergers can take various forms, each with its own characteristics and objectives. Here are some common types of mergers in banks along with examples:

1. **Horizontal Merger:** A horizontal merger involves the combination of two or more banks that operate in the same or similar markets and offer similar products and services. The goal is often to achieve economies of scale and expand market share.In 2008, the merger between HDFC Bank and Centurion Bank of Punjab in India is an example of a horizontal merger. Both banks were operating in the same geographic region and offered similar banking services.
2. **Vertical Merger:** Vertical mergers occur when a bank acquires another bank that operates in a different stage of the supply chain or a related industry. The objective is to streamline operations, control costs, and enhance efficiency. When a commercial bank acquires a mortgage lending company or a payment processing firm, it's considered a vertical merger. For instance, Bank of America's acquisition of Countrywide Financial in 2008 is an example of a vertical merger.
3. **Conglomerate Merger:** Conglomerate mergers involve banks that have unrelated business operations or areas of specialization. These mergers are often driven by the desire to diversify revenue streams and reduce business risk. In the early 2000s, ICICI Bank, an Indian commercial bank, merged with ICICI Limited, a financial services conglomerate. This merger created a diversified financial institution with interests in banking, insurance, and asset management.

4. **Cross-Border Merger:** Cross-border mergers occur when banks from different countries combine their operations. These mergers can facilitate geographic expansion, access to new markets, and diversification. The merger of Banco Santander (Spain) and Sovereign Bank (United States) in 2009 is an example of a cross-border merger. This merger allowed Banco Santander to expand its presence in the U.S. market.

I. (III) Law behind the mergers

Mergers must comply with the laws of the Companies Act.

(1) Companies Act 1956

Sections 390 to 395 of the Companies Act 1956 deal with contracts, mergers, amalgamations and the procedures to be followed for the approval of contracts, settlements or proposed mergers. However, since Section 391 also relates to Section 394 proceedings, etc., it deals with settlement or agreement issues separate from Section 394 amalgamation issues, but all sections are brought together. It is intended to help you understand the process of proposing a merger. Again, although the procedures to be followed when two companies merge are broader than the Settlement or Settlement Rules, it is true that there is considerable overlap. These sections follow important steps such as.

a) A corporation, a creditor of a corporation, a class thereof, a member, or a class of members may apply for permission to incorporate or plan to incorporate under Section 391. However, given the nature of merger plans usually presented by the company, this is understandable. When filing a Section 391 or Section 394 application, the applicant must disclose all material information required by law.
b) After prima facie finding that the plan is workable and fair, the arbitral tribunal will order a meeting of shareholders, shareholder groups, creditors or classes of creditors. Conversely, if the requirement to hold a general meeting of shareholders or a general meeting of employees is explicitly mentioned in the convocation resolution at the time the convocation order is issued, no subsequent legal dispute will arise. The extent of meetings of members or shareholders held upon merger will be greater than where a structure plan or section 391 agreements is required.
c) The merger is subject to the approval of major shareholders. Adequate notice disclosing all material details must be provided prior to the merger and, if applicable, accompanied by a copy of the plan to complete the transaction.
d) The corporate registrar must receive a report to justify the merger, and approval of the plan will not adversely affect the interests of its stakeholders.
e) The central government is also required to file reports under Section 394A, in some cases, on applications for approval of compromises, agreements, or mergers.
f) After approval, a copy of the purchase order must be submitted to the competent authority.

(2) Competition Act 2002

The Competition Act 2002 covers the following merger clauses.

a) Section 5 of the Competition Act 2002 deals with 'consolidation'. It is defined in terms of sales of assets and operations in India only, India and outside India. Section 5 sets limits on business transfers that can acquire another company, and limits are also set on foreign companies.
b) Section 6 of the Competition Act 2002 states that no individual or company should engage in any form of consolidation that could potentially hinder competition in the relevant Indian market. Such consolidations are considered invalid. It is advisable to explicitly exempt all forms of internal group mergers, mergers, demergers, restructurings, and similar transactions from the notification process. These transactions do not have a detrimental effect on market competitiveness as defined in Section 6 of the Competition Act 2002.

(3) Exchange Control Act 1999

Foreign exchange laws for the issue and allotment of shares to foreign companies are governed by the Foreign Exchange Control (Transfer or Issuance of Securities by Persons Residents outside India) Regulations, 2000 issued by RBI. 406(E) of May 3, 2000. These regulations regulate the issuance of shares or securities by Indian companies to non-residents or the recording of transfers of securities by or to non-residents. We provide general guidelines as RBI has issued detailed guidelines on foreign investment in India. See "Foreign Direct Investment Programs" on Schedule 1 of these Regulations.

(4) SEBI Takeover Regulations 1994

SEBI's takeover rules allow pooling 15% to 55% of the shares or voting rights provided that the acquirer acquires no more than his 5% of the shares or voting rights of the target company. [Article 11, Paragraph 1 of SEBI Acquisition Regulations] However, if a company acquires more than 26% of his shares or voting rights, it seems that notification procedures based on the same law are required. It should be clarified that a merger of shares or voting rights permitted under the SEBI Takeover Regulations does not require notice to CCI. Similarly, an acquirer who has already obtained control of a company (e.g. a listed company) is exempt from the law for further acquisition of shares or exemption from law after fulfilling the SEBI acquisition requirements and all requirements of the law.

(5) Indian Income Tax Act, 1961 (ITA)

While the Income Tax Act (ITA) doesn't provide a specific definition for "merger," it falls under the scope of the term "merger" as defined in Section 2(1B) of the Act. To streamline the process of restructuring, mergers, and spin-offs will be treated as distinct entities within the Income Tax Act right from the start. The Finance Act of 1999 addressed various aspects of business restructuring, simplifying the process and ensuring that it doesn't have adverse tax implications. The Finance Minister's rationale for this was to expedite domestic liberalization efforts. The terms applicable to the merger/split are as follows.

a) All assets and liabilities of the transferring company become the property and liabilities of the acquiring company.
b) Shareholders who own 75% or more of the shares of the merged company (excluding shares held by designees

or subsidiaries of the merged company) are shareholders of the merged company. Absorbing company tax liability – Section 47(vi) and Section 47 (a). The transfer of shares by shareholders of the transferring company in place of the transferee's shares in a merger is not treated as a transfer and therefore the resulting profits are not taxable.

c) In the case of a merger, the cost of acquiring shares of the absorbing company acquired as part of the merger will be equal to the cost of acquiring shares of the transferring company [Article 49(2)].

In summary, these provisions outline the tax implications and treatment of shareholders in a merger scenario where specific conditions defined in Section 2(1B) are met. Shareholders meeting the specified ownership criteria become shareholders of the merged company without incurring taxable profits, and the cost of acquiring shares in the absorbing company is aligned with the cost of acquiring shares in the transferring company in merger transactions.

I. (IV) Mandatory Court Approval regarding Merger

A merger program must be approved by a national court. The Companies Act gives the supreme courts of each state in which the transferring and receiving companies have their respective registered offices the necessary jurisdiction to administer liquidations and mergers of companies incorporated in India and abroad. After approving a proposed merger under Section 392 of the Companies Act, the High Court may also monitor contracts or amendments to contracts. After considering the merger motion, the court will impose the necessary sanctions on the proposed merger if it finds the subsequent merger to be "fair and reasonable." Courts are also subject to certain jurisdictional limitations inherent in their jurisdiction. For example, courts have not permitted mergers effected by judicial intervention where they may be affected by other provisions of the Companies Act. Moreover, a court cannot approve a merger if the parties are unable to reach an agreement. If a merger is permissible, this merger is not permissible even if it violates certain statutory provisions. Courts do not have special jurisdiction to appeal "final, final and binding" matters under Section 391 of the Companies Act.

I. (V) Legal Proceedings to Conduct a Merger Review of Object Clauses

The merger process involves a series of crucial steps and legal requirements to ensure a smooth and legally compliant transition. These steps are outlined as follows:

a) Review of Memoranda of Association (MOAs): The first step in the merger process involves a thorough review of the MOAs of both companies to determine if they meet the necessary qualifications for a merger. Additionally, it's imperative that the merged entity's purpose aligns with the ability to continue its operations. In cases where such provisions are absent, the approvals of shareholders, the Board of Directors, and the Corporate Legal Committee become imperative.

b) Notification to Relevant Parties: Upon confirmation of the merger proposal, both the merged company and the stock exchange where it is listed must be promptly notified of the proposed merger. Copies of all notices, decisions, and orders must be regularly communicated to the relevant stock exchanges.

c) Approval of Merger Proposal: Draft merger proposals must undergo scrutiny and approval by the respective Boards of Directors (BOD) of each institution involved in the merger. Each company's BOD should pass a resolution authorizing its directors and executives to proceed with the merger process.

d) Application to High Court: Following approval by the board of directors, each participating company must submit the merger proposal to the Supreme Court of the state where its registered office is located. This is done to convene meetings of shareholders and creditors to seek their approval for the merger proposal.

e) Notice to Shareholders and Creditors: To convene these crucial meetings of shareholders and creditors, a 21-day notice period is mandatory. Shareholders and creditors are notified through invitations and statements authorized by the High Court. Furthermore, meeting notifications must be published in two newspapers to ensure transparency and adherence to legal requirements.

f) Conducting Shareholders' and Creditors' Meetings: Each participating company is obliged to hold separate meetings for shareholders and creditors. For the merger terms to be accepted, at least 75% of the shareholders must cast their votes either in person or through proxy to approve the merger terms.

g) Application to High Court for Confirmation: Once the merger plan secures approval from shareholders and creditors, the merging companies are then required to submit an application to the High Court for the formal approval of the merger plan. Simultaneously, corresponding advertisements must be placed in two newspapers for public notice.

h) Submission to Registrar: Following the High Court's approval, a certified copy of the High Court Order must be filed with the Companies Registry within the specified time frame mandated by the Court.

i) Transfer of Assets and Liabilities: After the High Courts issue their final orders, it becomes essential to execute the transfer of all assets and liabilities from the merging companies to the newly combined entity, ensuring a seamless transition in operations.

These outlined steps provide a structured overview of the intricate process involved in a merger, underscoring the legal, procedural, and regulatory aspects that need to be meticulously followed to achieve a successful merger.

I. (VI) Merger Latency

Competition law in India stipulates a maximum duration of 210 days for decisions regarding amalgamations, which encompass mergers and acquisitions. However, it's essential to clarify that this timeframe should not be interpreted as a mandatory waiting period for notifying the Competition Commission. In fact, the law explicitly states that the compulsory waiting period of 210 days commences from the date of notice or order, whichever occurs earlier. For instance, if the European Commission grants approval for the proposed combination on the 30th day, it could

effectively come into effect on the 31st day. Proposed regulations by the Commission propose the inclusion of an internal deadline within the overall 210-day timeframe, leading to the approval of a significant percentage of mergers within a much shorter span.

Statutory and regulatory deadlines, however, do not encompass compliance with other statutory provisions such as the Large Takeovers and Acquisitions of Shares (SEBI) Regulations, 1997 ("SEBI Takeover Regulations"). Under SEBI's takeover rules, the acquirer is obligated to complete all formalities related to the public offering, including the payment of consideration to the shareholders who accept the public offering, within 90 days from the date of the public announcement. Similarly, mergers and acquisitions (M& As) are typically concluded within three to four months. If a shareholder participating in the public offering fails to make payment within the stipulated SEBI acquisition terms, the buyer is liable to pay interest at the rate determined by SEBI (Rule 22 (12) of SEBI Acquisition Regulations). Consequently, it is imperative to reduce the maximum processing time of the Competition Commission of India (CCI) from 210 days to 90 days.

Mergers and acquisition discussions in India are gaining momentum and becoming increasingly prevalent. Foreign Direct Investment (FDI) policies and governmental initiatives are fostering an environment conducive to business growth across various sectors, including key banks that serve as the backbone of the broader business landscape. The scope of mergers and acquisitions is no longer confined to specific industries; instead, it encompasses companies of all sizes and types. Mergers are thriving in all market segments, offering small businesses opportunities for acquisition by larger corporations. The primary rationale behind mergers and acquisitions is to consolidate organizations into a single entity, aiming to achieve economies of scale, expand their market reach, acquire strategic capabilities, and gain a competitive edge. In essence, mergers are regarded as a crucial instrument for business expansion and profit growth. The extent of their impact largely hinges on the specific characteristics and objectives of the merging entities. The Indian market has witnessed a series of consolidation activities, and this trend is expected to continue.

This dynamic landscape underscores the significance of streamlined regulatory processes and shorter processing times for approvals, which can further facilitate and catalyze the vibrant M&A activity in India.

II. Literature Review

Numerous studies have examined the motivations and objectives driving banking mergers. One common objective of banking mergers is the desire to expand market share and gain a competitive edge. Banks seek to capture a larger customer base and increase their presence in specific regions through mergers (Berger & Humphrey, 1997) [10]. Achieving cost synergies and operational efficiency is a fundamental objective for many banking mergers. Consolidating operations and reducing duplication can lead to cost savings and improved profitability (Houston *et al.*, 2001) [11]. Regulatory objectives are often influential in banking mergers. Banks may merge to meet capital adequacy requirements or address regulatory concerns, such as inadequate governance or risk management (DeYoung *et al.*, 1997) [13]. Banks aim to capitalize on economies of scale and scope through mergers. These economies can lead to lower average costs and increased efficiency in offering a broader range of financial products and services (Berger *et al.*, 1997) [10]. Banks often engage in mergers to expand their market presence and diversify their portfolios. Acquiring banks may aim to access new geographic regions, customer segments, or product lines, thereby increasing their market share and revenue streams (Houston & Ryngaert, 1994) [15]. Banking mergers can be driven by the objective of bolstering capital positions and enhancing risk management. Merged entities may benefit from improved capital adequacy ratios, which can enhance their ability to absorb losses and withstand economic downturns (Puri & Saunders, 1997) [16]. In the aftermath of financial crises, banking mergers may be pursued to mitigate systemic risk. Combining weaker banks with stronger ones can help stabilize the financial system and reduce the likelihood of contagion during economic downturns (Huang & Ratnovski, 2011) [17]. Banking mergers can drive innovation and technological advancement. Acquiring banks may leverage the capabilities of the target bank to adopt advanced technologies, improving customer service and operational efficiency (DeYoung, 2001) [18].

A critical aspect of the legislative framework for banking mergers is the role of regulatory bodies in overseeing and approving these transactions. Regulatory bodies like the Reserve Bank of India (RBI) and the Competition Commission of India (CCI) play pivotal roles in evaluating the potential impacts of mergers on competition, financial stability, and consumer interests (RBI, 2021) [7]. Antitrust regulations are a key component of the legislative framework, aimed at preventing monopolistic behavior and ensuring fair competition. The Competition Act, 2002, empowers the CCI to scrutinize mergers and acquisitions to safeguard competition in the banking sector (Competition Commission of India, 2020) [19]. Legislation often dictates ownership and shareholding structures in banks, which can influence merger negotiations. Changes in these regulations, such as those related to foreign investment limits, can impact the feasibility and structure of banking mergers (Ministry of Finance, 2017) [6]. Legislative frameworks also prioritize consumer protection and stakeholder interests in banking mergers. Laws and regulations may require banks to adhere to specific procedures for notifying and protecting the interests of customers and other stakeholders (Reserve Bank of India, 2021). Taxation and accounting regulations can significantly impact the financial aspects of mergers. Changes in tax laws, including capital gains taxes and treatment of goodwill, may influence merger structures and valuations (Kumar *et al.*, 2019) [5].

In the pre-merger phase, due diligence and stakeholder alignment are critical components. Banks need to conduct thorough due diligence to assess the financial health, risks, and synergies of the target bank (Bourke, 2017) [21]. Stakeholder alignment, involving shareholders, employees, and regulatory bodies, is essential to gain necessary approvals and ensure a smooth transition (Chen & Zolotoy, 2018) [22]. The acquisition phase involves valuation methodologies and integration strategies. Banks use various valuation models such as discounted cash flow (DCF) and

market comparable approaches to determine the appropriate exchange ratio (Huang & Xu, 2019) [20]. Integration strategies encompass decisions related to technology, culture, and operational alignment (Smith & Patel, 2022) [9]. Post-merger integration is a crucial phase where the success of a merger is determined. Achieving synergies, aligning systems and processes, and evaluating performance are key components (Puri & Saunders, 1997) [16]. Performance evaluation involves assessing whether the merger objectives have been met and the extent to which the merged entity has improved its financial stability and competitiveness (Berger & Humphrey, 1997) [10].

III. Objective of the Study

The primary objective of this research is to comprehensively examine the multifaceted landscape of banking mergers in the Indian financial sector. Specifically, the study aims to achieve the following.

- **To Investigate Motivations and Objectives:** The primary objective of this study is to investigate and analyze the motivations and objectives that drive banking mergers in the Indian context. This includes understanding why banks engage in mergers, such as enhancing operational efficiency, expanding market share, strengthening financial resilience, and addressing systemic risks.
- **To Examine Legislative Framework:** Another key objective is to examine the legislative framework and regulatory environment governing banking mergers in India. This involves a comprehensive analysis of the evolving regulatory landscape, the roles played by regulatory bodies, and the influence of government policies on these mergers.
- **To Explore the Phases of Banking Mergers:** The study aims to explore the distinct phases of banking mergers, including the pre-merger phase, acquisition phase, and post-merger phase. This exploration involves understanding the strategic decisions, due diligence, negotiations, valuation methodologies, and challenges associated with each phase.
- **To contribute to the knowledge base:** Finally, the study seeks to contribute valuable insights to the broader discourse on banking consolidation in India. By shedding light on the forces shaping the Indian financial landscape, this research aims to enhance the understanding of the implications of banking mergers for economic development and financial stability.

By pursuing these objectives, this study seeks to provide a comprehensive understanding of the objectives, legislative environment, and phases of banking mergers in the Indian financial sector, contributing valuable insights to the broader discourse on this critical aspect of the banking industry.

IV. Research Gap

While the existing literature provides valuable insights into various aspects of banking mergers, there remains a noticeable research gap in the holistic examination of the interplay between the objectives, legislative framework, and phases of banking mergers in the Indian context. The following research gap identifies the need for a comprehensive study:

- **Lack of Comprehensive Framework:** Existing studies tend to focus on isolated aspects of banking mergers, such as motivations, regulatory changes, or specific phases. However, there is a distinct gap in research that integrates these elements into a comprehensive framework. A comprehensive study that simultaneously examines the objectives that drive banking mergers, the legislative framework governing them, and the distinct phases involved would provide a more holistic understanding of this complex phenomenon.
- **Specificity to the Indian Banking Sector:** While there is a substantial body of research on banking mergers globally, there is a relative scarcity of literature that is specific to the Indian banking sector. India's banking landscape is unique in terms of its regulatory environment, cultural diversity, and systemic importance. Therefore, a research gap exists in the lack of studies that cater specifically to the nuances of Indian banking mergers.
- **Integration of Stakeholder Perspectives:** While some studies touch upon stakeholder interests in banking mergers, there is room for more in-depth exploration of how various stakeholders, including customers, employees, and shareholders, are affected by these mergers. A comprehensive study should seek to understand and analyze the perspectives, concerns, and impacts on different stakeholder groups throughout the entire merger process.
- **Long-Term Post-Merger Performance Analysis:** Many studies focus on the immediate outcomes of banking mergers but often lack long-term performance evaluations. A research gap exists in the need for longitudinal studies that track the performance of merged entities over an extended period, considering factors such as financial stability, market competitiveness, and systemic risks.
- **Impact of Technological Advancements:** With the rapid advancement of technology in the banking sector, there is a research gap in examining how technological factors influence the objectives, legislative considerations, and phases of banking mergers. Emerging trends such as digitalization and fintech partnerships are becoming increasingly relevant in the context of banking consolidation.

In summary, the research gap lies in the absence of a comprehensive and context-specific study that integrates the objectives, legislative framework, and phases of banking mergers in the Indian banking sector while considering stakeholder perspectives and the evolving technological landscape. Addressing this gap would contribute significantly to a deeper understanding of the dynamics and implications of banking mergers in India.

V. Research Methodology

This research paper relies exclusively on secondary data sources to fulfill its objectives. Secondary data sources are valuable for conducting a comprehensive analysis of the objectives, legislative framework, and phases of banking mergers in the Indian banking sector. The methodology can be outlined as follows:

Data Collection

a) **Literature Review:** The primary source of secondary data is academic literature, government reports, regulatory documents, and industry publications related to banking mergers, regulatory changes, and the Indian banking sector. The literature review serves as the foundation for understanding the various aspects of banking mergers.

b) **Government Publications:** Relevant government publications, including legislative acts, policy statements, and reports from regulatory bodies like the Reserve Bank of India (RBI) and the Ministry of Finance, are accessed to understand the legislative framework governing banking mergers in India.

c) **Academic Journals:** Peer-reviewed academic journals provide in-depth insights into the objectives, motivations, and outcomes of banking mergers. These sources are used to review existing theories and empirical studies related to banking mergers.

d) **Industry Reports:** Reports from reputable financial institutions and industry-specific research organizations are consulted to gather data on recent banking mergers, trends, and performance indicators within the Indian banking sector. Publicly available corporate filings and financial statements of banks involved in recent mergers and acquisitions are analyzed to assess the financial impact and performance outcomes of these transactions.

Data Analysis

a) **Qualitative Analysis:** Qualitative data analysis techniques, such as content analysis, thematic analysis, and textual analysis, are employed to synthesize information from the literature review and government publications. Qualitative analysis helps in identifying key themes, objectives, and legislative nuances related to banking mergers.

b) **Quantitative Analysis:** Quantitative data analysis methods are also being used to analyze financial data and performance metrics from industry reports and corporate filings. Statistical tools, such as regression analysis or trend analysis, can be employed to identify patterns and relationships.

Based on the findings from the literature review and data analysis, a comprehensive framework is developed that integrates the objectives, legislative framework, and phases of banking mergers in the Indian banking sector. The research findings are interpreted and discussed within the context of the developed framework. This involves critically analyzing the objectives and legislative aspects of banking mergers, as well as examining how these objectives align with the legislative framework and phases. The paper concludes by summarizing the key findings and their implications for the Indian banking sector. It may also highlight any research limitations and avenues for future research. Proper citation and referencing of all secondary data sources used in the paper are essential to maintain academic integrity and provide readers with access to the original information.

VI. Analysis of PSU banks performance in pre- and post-mergers

Table 1: PSU banks merger list in India

S. No	Acquiring Bank	Amalgamated Bank	Acquisition date
1.	Indian Bank	Allahabad Bank	1-Apr, 2020
2.	Punjab National Bank	Oriental Bank of Commerce	1-Apr-2020
3.	Punjab National Bank	United Bank	1-Apr-2020
4.	Union Bank of India	Andhra Bank	1-Apr-2020
5.	Union Bank of India	Corporation Bank	1-Apr-2020
6.	Canara Bank	Syndicate Bank	1-Apr-2020
7.	State Bank of India	State Bank if Bikaner & Jaipur	31-Mar-2017
8.	State Bank of India	State Bank of Mysore	31-Mar-2017
9.	State Bank of India	State Bank of Travancore	31-Mar-2017
10.	State Bank of India	State Bank of Hyderabad	31-Mar-2017
11.	State Bank of India	State Bank of Patiala	31-Mar-2017
12.	State Bank of India	Bharatiya Mahila Bank	31-Mar-2017

Table 2: Comparative pre and post-merger business turnover

Comparative table of PSU Banks in Pre- and Post-merger period:			
(A)			
Total business turnover (Rs.in crore)	**Pre-merger**	**Post- merger**	**% Change From Pre-merger to Post merger**
Indian Bank	4,29,972	10,09,454	234.7%
Punjab National Bank	11,82,224	19,36,323	163.7%
Union Bank	7,41,307	17,48,000	235.7%
Canara Bank	10,43,249	18,25,000	174.9%

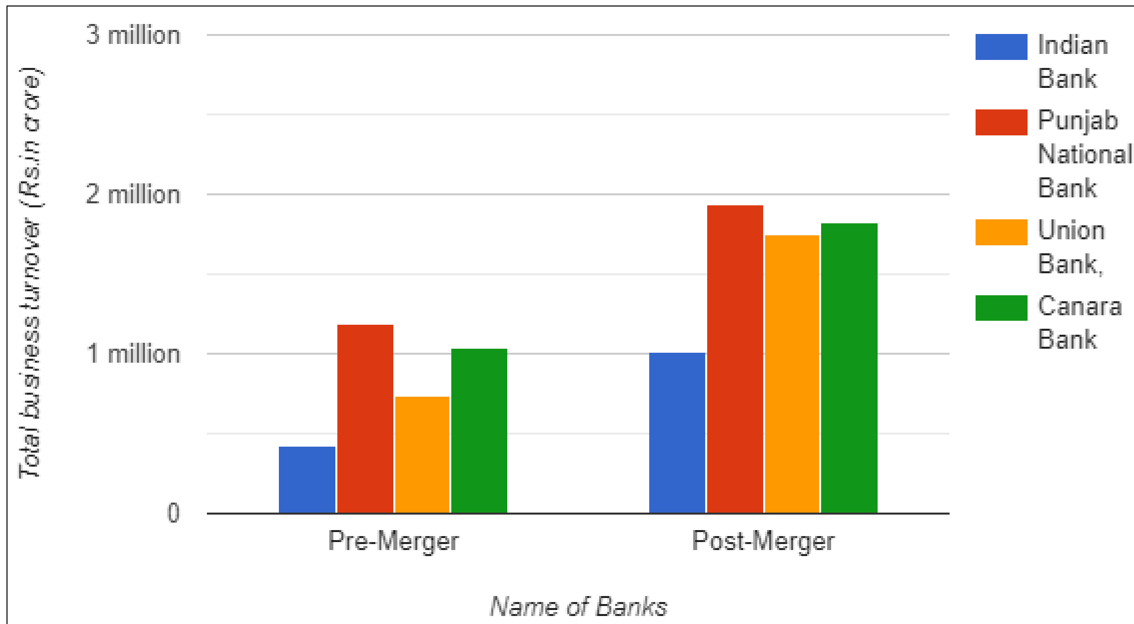

Fig 1: Comparative table of PSU banks in pre-and post-merger period

Table 3: Comparative pre and post-merger Gross advances

(B)			
Gross Advance (Rs.in crore)	**Pre-merger**	**Post-merger**	**% Change from Pre-merger to Post merger**
Indian Bank	1,87,896	4,25,203	226.29%
Punjab National Bank	5,06,194	8,00,177	158.07%
Union Bank	3,25,392	7,16,408	220.16%
Canara Bank	4,44,216	7,41,147	166.8%

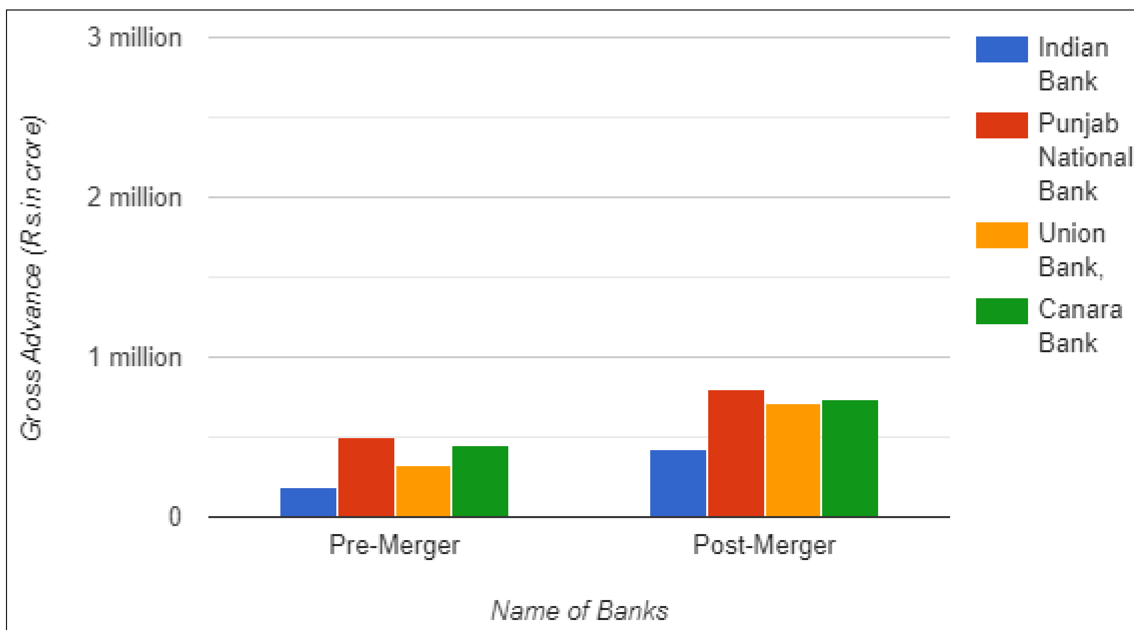

Fig 2: Comparative table of PSU banks in pre-and post-merger

Table 4: Comparative pre and post-merger Gross deposits.

(C)			
Gross Deposits (Rs. crore)	**Pre-merger**	**Post-merger**	**% Change from Pre-merger to Post merger**
Indian Bank	2,42,076	5,84,251	241.35%
Punjab National Bank	6,76,030	11,46,218.45	169.5%
Union Bank	4,15,915	10,32,392	248.2%
Canara Bank	5,99,033	10,86,409.25	181.36%

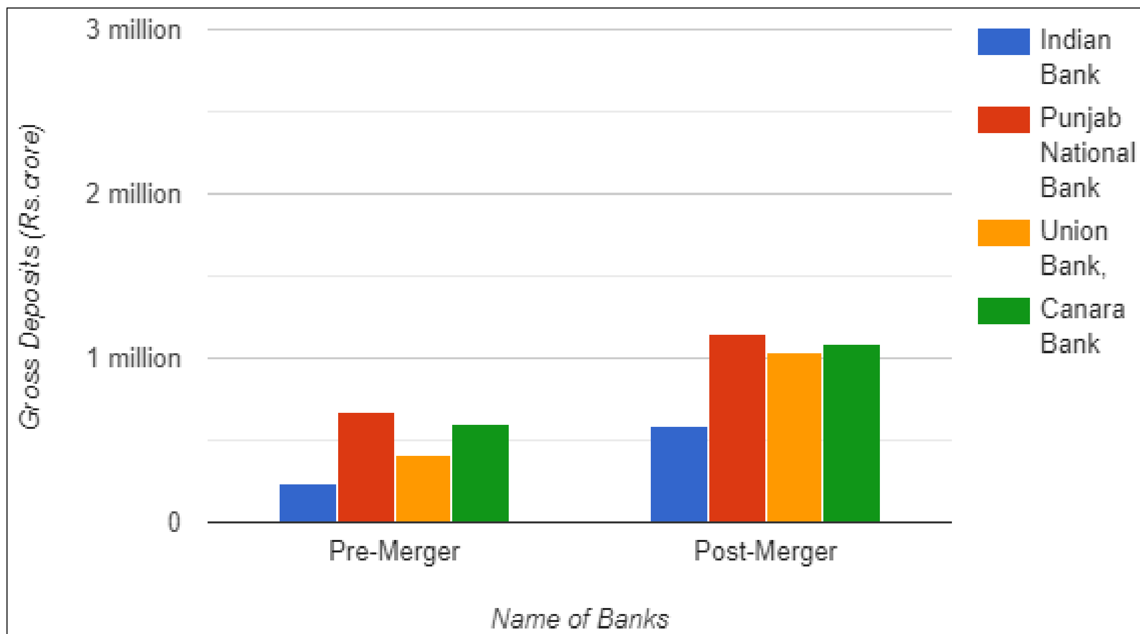

Fig 3: Comparative table of PSU bank in pre- and post-merger

Table 5: Comparative pre and post-merger no. of employees.

(D)			
No. of Employees	**Pre-merger**	**Post-merger**	**% Change From Pre-merger to Post merger**
Indian Bank	19,604	42,814	218.39%
Punjab National Bank	65,116	1,03,144	158.4%
Union Bank	37,262	75,000	201.2%
Canara Bank	59,350	86,919	146.4%

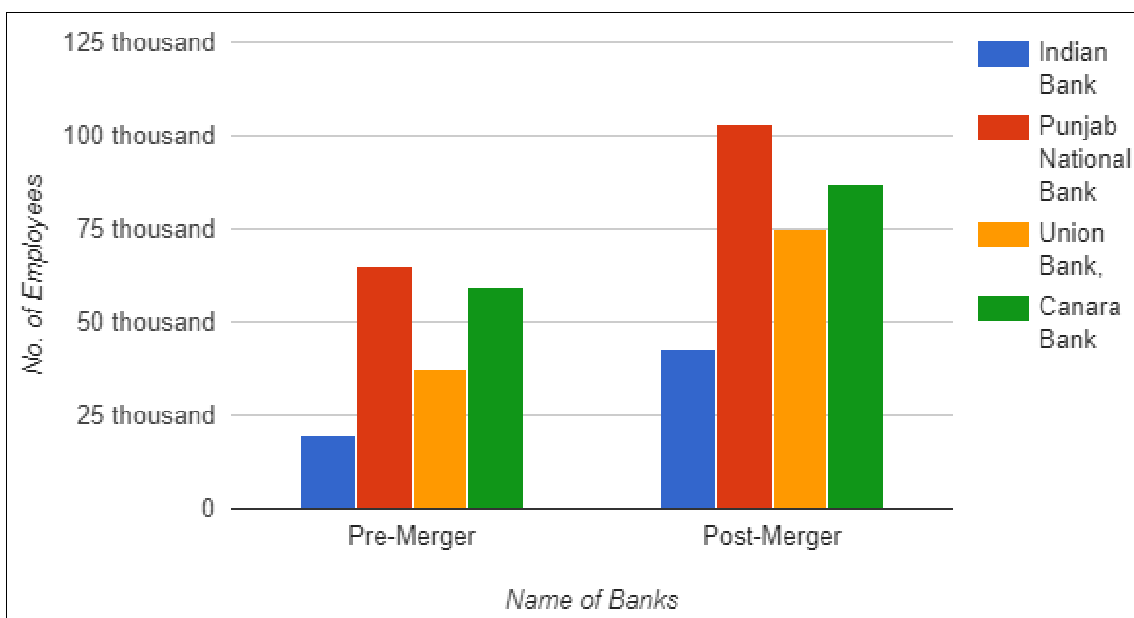

Fig 4: Comparative table of PSU banks in pre- and post-merger

Table 6: Comparative pre and post-merger Net-Non-performing assets.

(E)			
Net – NPA (%)	**Pre-merger**	**Post-merger**	**% Change from Pre-merger to Post merger (Reduction in NPA % IS A positive change)**
Indian Bank	3.75	2.12	56.5%
Punjab National Bank	6.55	4.8	73.28%
Union Bank	6.65	3.38	50.8%
Canara Bank	5.37	2.12	39.4%

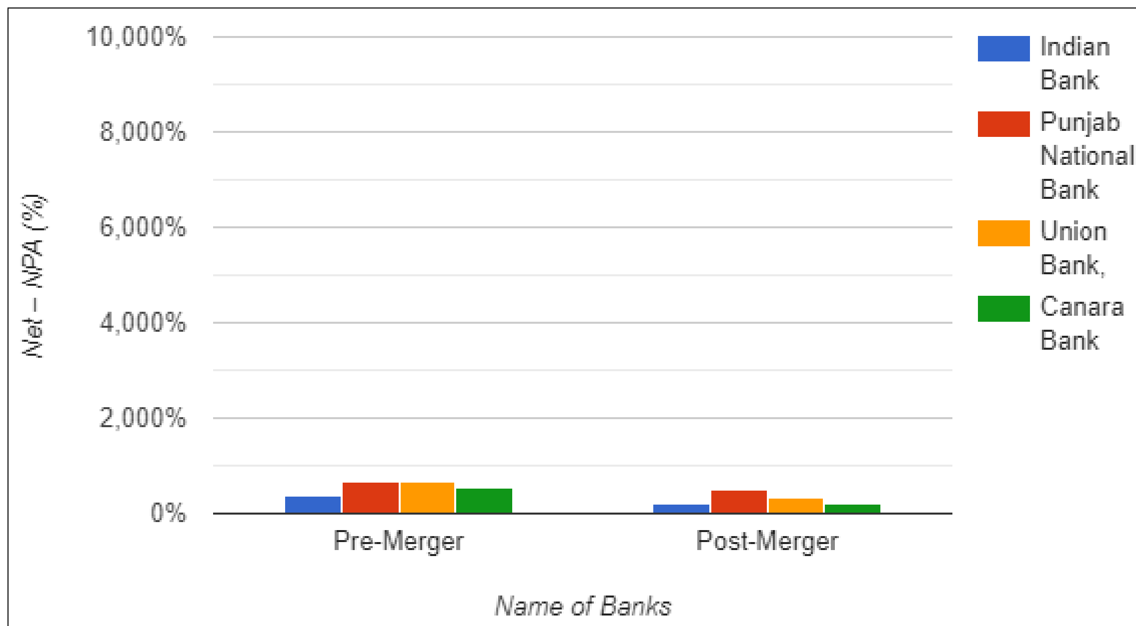

Fig 5: Comparative table of PSU bank in pre- and post-merger

Enactment impacted PSU banks from pre-marger phase to post merger phase is quite evident from the above bar chart analysis. Here under we shall describe the changes for each acquiring banks as follows.

Punjab National Bank

As per the notification issued by the Reserve Bank of India (RBI), the merger of Punjab National Bank (PNB), United Bank of India, and Oriental Bank of Commerce officially took effect on April 1, 2020. This transformative merger aimed to create the second-largest nationalized bank in India, both in terms of business operations and branch network. The synergies envisioned from this amalgamation were geared towards establishing a globally competitive, next-generation bank known as PNB 2.0. Meanwhile, the State Bank of India (SBI) continued to hold its position as the foremost Indian commercial bank. The merger significantly bolstered Punjab National Bank's standing in the financial landscape. It not only added to its legacy and past performance but also positioned it as an advanced, new-generation bank offering a diverse array of products and highly personalized services to its valued customers. The expanded geographical footprint resulting from the merger empowered the bank to serve its customers more effectively and efficiently. Since April 2020, all branches previously associated with the merged banks have been operating under the banner of Punjab National Bank (PNB), with all customers, including depositors, treated as PNB customers. This strategic move amplified the bank's reach, boasting over 11,000 branches and an extensive network of over 13,000 ATMs. This remarkable growth exemplifies PNB's post-merger transformation.

Furthermore, the financial performance of PNB 2.0 has exhibited notable improvements, as indicated in Table 2. The Provision Coverage Ratio (PCR) surged from 59.59% in 2020 to a robust 81.60%, while the Net Non-Performing Assets (NPAs) witnessed a substantial drop from 6.61% to 4.80% over the same period. These figures underscore the enhanced overall functionality and financial stability of PNB 2.0. Subsequent sections will delve into further analysis of significant changes, including those related to intangibles, employee and customer satisfaction, and the introduction of interoperable services across all branches and platforms, including mobile and internet banking. To enhance the customer experience, PNB 2.0 management has embraced a forward-looking approach, aiming to be a true next-generation bank. They are committed to developing and delivering innovative products and services that leverage cutting-edge technology. In this endeavor, the bank has appointed a "Bank Sathi" at each branch, zone, and headquarters (Representing all three banks involved in the merger) to address customer concerns and assist in selecting the most suitable products and services. Additionally, robust risk governance mechanisms have been put in place to mitigate risks and ensure the security of operations.

In summary, the merger of Punjab National Bank, United Bank of India, and Oriental Bank of Commerce has not only reshaped the banking landscape but has also propelled PNB 2.0 into a dynamic and customer-centric entity poised for sustained growth and innovation in the digital age.

Canara Bank

Canara Bank has solidified its position as India's fourth-largest PSU bank, with a substantial increase in its global business, reaching Rs. 18.25 trillion as of March 2022. Several key financial indicators underscore the bank's robust performance:

Deposits surged by 7.47% year-on-year, reaching Rs. 10, 86, 409 crore, reflecting a growing level of trust among depositors. Personal Loan Portfolio: Canara Bank's personal loan portfolio exhibited significant growth, increasing by 9.51% year-on-year to reach Rs. 1, 26, 277 crore as of March 2022. The bank's home loan portfolio saw impressive growth, surging by 14.77% year-on-year to reach Rs. 7,382.8 crore. Notably, the Gross Non-Performing Assets (GNPA) ratio stood at 8.93% in both December 2021 and March 2021. Meanwhile, the Net Non-Performing Assets (NNPA) ratio exhibited a positive trend, improving from

2.86% in December 2021 and 3.82% in March 2021 to 2.65% in March 2022. This is a significant improvement from the higher NNPA ratio of 5.62% in 2020.mThe Policy Coverage Percentage (PCR) witnessed steady improvement, reaching 84.17% in March 2022, compared to 83.26% in December 2021 and 79.68% in March 2021. Canara Bank's financial metrics showed positive momentum, with Net Interest Margin (NIM) increasing to 2.82, up by 6 basis points. Return on Equity (RoE) experienced a notable upswing, reaching 12.82, marking an increase of 611 basis points. The Credit-Deposit (CD/D) ratio also improved to 68.22%, up by 143 basis points. Additionally, the bank's capital adequacy remains robust, with the Capital to Risk-Weighted Assets Ratio (CRAR) standing at 14.90%. Notably, CET-1 is at 10.26%, Tier-I at 11.91%, and Tier-II at 2.99%. Canara Bank successfully raised capital for FY22, including Rs. 2,500 crore through shares, Rs. 4,000 crore through AT-1 Bonds, and Rs. 2,500 crore through Tier II Bonds. The bank boasts a wide-reaching network, with 9,734 branches as of March 2022. Among these branches, 3,042 are in rural areas, and 2,757 are in semi-urban areas. The bank's presence extends to 1,978 cities, 1,957 suburbs, along with 10,817 ATMs and 1,391 recyclers.

The merger has undoubtedly contributed to an overall enhancement in the functioning of Canara Bank. Employee and customer satisfaction surveys, conducted using empirical methodologies as discussed in previous chapters, have likely played a role in this positive trajectory. Canara Bank's performance and growth trends position it as a formidable player in the Indian banking sector, and its commitment to delivering value to both its customers and stakeholders remains evident.

Union Bank of India

Union Bank of India stands as one of the prominent public sector banks in the country. It is a publicly listed entity, with the Government of India holding a significant 83.50% share of the Bank's total share capital. The bank, headquartered in Mumbai, India, was originally incorporated on November 11, 1919, as a limited company. Notably, Andhra Bank and Corporation Bank merged into Union Bank of India, effective from April 1, 2020. Presently, the bank boasts an extensive network comprising 8,873 domestic branches and over 11,200 ATMs, catering to a customer base exceeding 120 million individuals, all served by a dedicated workforce of 75,000+ employees. As of June 30, 2022, the Bank's total business volume amounted to Rs. 1,721,409 crore, with deposits totaling Rs. 9,927.74 crore and advances amounting to Rs. 728,635 crore. Additionally, the bank maintains a global presence, with branches in key international financial centers such as Hong Kong, Dubai International Financial Center (UAE), and Sydney (Australia). It also operates a representative office in Abu Dhabi (UAE). The bank further extends its reach through various subsidiaries, including one subsidiary bank in London (UK), a Malaysian banking joint venture, four quasi-bank subsidiaries (Domestic), three joint ventures (Including two involved in the life insurance business), and one partner, Chaitanya Godavari Gramin Bank. Union Bank of India is at the forefront of technological innovation, being the first major public bank to adopt a 100% core banking solution. It has received numerous awards recognizing its excellence in technology, digital banking, financial inclusion, support for MSMEs, and skill development initiatives. The board members of Union Bank of India bring extensive expertise across a spectrum of domains, including economics, rural and agricultural sectors, banking and financial services, trade and accounting, strategy, business development, analytics, risk management, central banking, and mergers and acquisitions, among others. The bank's authorized share capital stands at Rs. 10,000 crores, and as of June 30, 2022, it has issued, subscribed, and deposited shares amounting to Rs. 6,834.75 crores, representing 6,83,47,47,466 shares of Rs. 10/- each. The bank's shares are actively listed on the National Stock Exchange of India Limited and BSE Limited.

In August 2019, Union Bank of India assumed a pivotal role as the anchor bank for the merger of Andhra Bank, Corporation Bank, and Union Bank of India, a significant development that was successfully executed on April 1, 2020. Union Bank of India's rich legacy is deeply rooted in a history spanning over three centuries, characterized by outstanding customer service and the trust earned through shared experiences. The merger positions the bank to offer best-in-class products and services through an extensive network of branches across all states in India, further strengthening its commitment to its customers and the financial sector.

Bank of India

The state-owned Bank of India has reported a notable 4% increase in net profit, reaching Rs 1.311 billion during the first quarter of the fiscal year 2022-2023, compared to the previous year's figure of Rs. 1.259 billion for the same period. This growth underscores the bank's strong financial performance. Moreover, the bank's total revenue for the April-June quarter of 2022-23 also demonstrated a robust uptick, registering a 3% increase to Rs. 87,849.34 crore, compared to Rs. 85,284.40 crore within the corresponding period of the previous year. The bank's operating profit for June 2022 exhibited a similar positive trajectory, rising by 4% to Rs. 26,395.45 crore, compared to Rs. 25,361.77 crore recorded in June 2021.

In terms of asset quality, Bank of India witnessed a reduction in gross non-performing assets (NPAs) during June 2022, marking a decrease of 156 basis points (bps) from 9.69% in the same period the previous year to 8.13% of gross advances. Additionally, the debt-to-net worth ratio showed improvement, declining by 135 basis points to 2.12% from 3.47% in June 2021. Non-performing asset coverage also exhibited a positive trend, increasing by 608 basis points, from 82% in Q1 2021-22 to an impressive 88.08% in Q1 2022-23. The bank's net interest income experienced substantial growth, rising by 13% to reach Rs. 453.4 billion, compared to Rs. 399.5 billion in 2021-2022. Furthermore, non-interest income (excluding Treasury income) for June 2022 surged by an impressive 37.67%, reaching Rs. 173.6 billion, compared to Rs. 126.1 billion for the same period in the previous year.

In terms of deposits and advances, the bank demonstrated steady progress. Deposits grew by 8% year-on-year, reaching Rs. 584,251 crore in the April-June 2022 quarter. Concurrently, Current Account and Savings Account (CASA) also witnessed an 8% increase. The advance

portfolio displayed resilience, growing by 9% to Rs. 425,203 crore in the quarter, compared to Rs. 389,626 crore in June 2021. Bank of India's impressive financial performance for the first quarter of 2022-2023 highlights its resilience and strategic efforts in navigating the evolving economic landscape. The bank's strong profitability, robust asset quality, and consistent growth in both interest and non-interest income underscore its commitment to delivering value to its stakeholders and maintaining its position as a key player in the banking sector.

Conclusion

In recent years, the banking industry has undergone large-scale mergers and acquisitions to achieve bank consolidation. Mergers and mergers help institutions expand rapidly, attract more new consumers, and improve balance sheets and cash flow statements. Acquisitions or mergers not only provide the bank with more capital for lending and investment, but also help expand the geographical reach of the bank, allowing it to serve a larger customer base. However, such a sharp rise in mergers and acquisitions is creating an unprecedented concentration of banks at the market level, which could affect their competitiveness. A legal framework is crucial to overseeing the integrity of mergers, acquisitions and mergers of public and private sector banks. This process should be consistent across the industry. The country's unexpected surge in non-performing assets (NPAs) and non-performing loans is hurting its international standing, and a merger looks like the solution. However, anti-competitive mergers and abuse of dominant positions in the banking sector should be closely scrutinized by the government. The government should now enact basic merger regulations affecting both the PSB and private banking organizations.

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