



(RESEARCH ARTICLE)



Mergers in the Indian Banking Sector: A Selective study of public sector banks

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Abstract

This research investigates the impact of mergers and acquisitions (M&A) in the Indian banking sector, with a focus on the 2020 consolidation of ten public sector banks into four major entities: Punjab National Bank, Canara Bank, Union Bank of India, and Indian Bank. The study explores the strategic motivations, financial performance, and competitive implications of these mergers through a mixed-method approach. It involves quantitative analysis of financial metrics, including profitability, liquidity, and solvency, alongside qualitative case studies of the merged banks. The research assesses pre- and post-merger performance to evaluate sustainability and efficiency gains, examines the dynamics of financial outcomes post-2019 mergers, and analyzes market share expansion and regulatory frameworks. Data were sourced from annual reports and the Reserve Bank of India's database, covering financial years 2018-19 to 2022-23. The study identifies key drivers such as economies of scale, market expansion, and operational synergies, while also addressing challenges like integration hurdles and workforce dynamics. It provides insights into how government ownership and standardized systems facilitated smoother transitions. The research offers guidance for stakeholders by highlighting the importance of optimized integration strategies, cost management, and digital transformation to enhance competitiveness. By synthesizing financial and strategic perspectives, this study contributes to understanding the evolving landscape of banking M&A in India, offering a roadmap for navigating opportunities and challenges in creating robust, globally competitive financial institutions.

Keywords: Mergers and Acquisitions; Indian Banking Sector; Public Sector Banks; Private Sector Banks; Financial Performance; Market Share

1. Introduction

The Indian banking sector has transformed significantly due to globalization, technological advancements, and intense competition, with mergers and acquisitions (M&A) emerging as a key strategy for banks to achieve economies of scale, expand market reach, and boost efficiency. Despite potential benefits, concerns persist about their long-term impact on financial performance and market position.

The Reserve Bank of India (RBI) has fostered a stable financial environment through regulatory reforms and initiatives like Pradhan Mantri Jan Dhan Yojana (PMJDY) for financial inclusion and Open Banking for technological innovation. The entry of new private banks and widespread adoption of digital tools like mobile banking and AI have intensified competition, pushing banks to innovate to maintain market share and profitability.

Consolidation, especially among public sector banks (PSBs), has been a major trend, driven by the need for scale, risk diversification, and market expansion. The 2020 mega-mergers of PSBs created four larger, more resilient banks with expanded reach and financial strength.

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The sector's diversity, with public and private banks differing in ownership, governance, and risk profiles, complicates M&A outcomes. PSBs face challenges from government ownership and social obligations, while private banks prioritize agility and profitability, requiring a nuanced analysis of M&A impacts.

2. Literature review

Mergers and acquisitions (M&A) have become pivotal strategies for banks in India, particularly post-liberalization, to achieve growth, efficiency, and competitive advantage. The Indian banking sector has witnessed significant consolidation, driven by the need for survival, market expansion, and operational synergies. This literature review synthesizes key studies from 2011 to 2020, examining the financial, shareholder, and employee-related impacts of M&A in the Indian banking context. The review identifies recurring themes, evaluates empirical findings, and highlights gaps for future research, drawing on a range of studies that employ diverse methodologies and perspectives.

Several studies underscore the positive impact of M&A on the financial performance of acquiring banks in India. Khan (2011) provides evidence of improved financial performance post-merger, emphasizing efficiency gains and benefits for equity shareholders. The study highlights that M&A enable acquiring banks to achieve cost synergies and operational efficiencies, strengthening their competitive positioning. Similarly, Patel and Shah (2016) analyze the financial outcomes of specific mergers, noting that IDBI Bank experienced significant financial benefits post-merger, while ICICI Bank faced losses. Their findings emphasize the importance of thorough pre-merger financial analysis to ensure successful outcomes, suggesting that financial performance varies depending on strategic alignment and execution.

However, Kalra et al. (2013) present mixed empirical evidence on the impact of M&A on corporate performance. Their study evaluates post-merger efficiency through metrics such as profitability, liquidity, shareholder wealth, and share price volatility. The mixed results indicate that while some banks achieve efficiency gains, others face challenges in realizing anticipated benefits, possibly due to integration issues or market conditions. Agrawal (2017) further advocates for a comprehensive approach to evaluating M&A, emphasizing the need to assess profitability and operational performance alongside other factors. This holistic perspective is critical for predicting long-term financial outcomes in the post-liberalization era.

The impact of M&A on shareholder value and market perceptions is another critical area of research. Rani et al. (2015) find that M&A announcements in the Indian banking sector generate positive market reactions, with shareholders experiencing significant gains. However, they note post-announcement corrections leading to negative returns, suggesting short-term market optimism followed by adjustments as integration challenges emerge. Similarly, Upadhyay and Kurmi (2020) observe an initial underreaction to M&A announcements, followed by a positive market response. However, they note a final under-reaction, potentially influenced by external factors such as the COVID-19 pandemic, which introduced market uncertainty. These findings highlight the volatility of market reactions and the influence of external economic conditions on shareholder value.

The strategic motives behind M&A in the Indian banking sector are well-documented. Goyal and Joshi (2011) focus on the merger between Bank of Rajasthan Ltd. and ICICI Bank Ltd., identifying survival, growth, and market expansion as key drivers in the post-liberalization era. Their study underscores the challenges faced by smaller banks, which often struggle to compete with larger institutions, and highlights how M&A enables larger banks to consolidate market share and achieve economies of scale. This aligns with Khan's (2011) findings, which emphasize the role of M&A in enhancing competitive positioning. Together, these studies suggest that strategic motives, such as market dominance and operational scale, are central to M&A decisions in the Indian banking sector.

While much of the literature focuses on financial and shareholder outcomes, recent studies have begun to explore the human dimension of M&A. Kumar (2018) examines the impact of M&A on employees across various industries, including banking, revealing significant disruptions in work environments. Employees often face job insecurity, changes in roles, and increased stress during M&A transitions. By combining empirical and doctrinal approaches, Kumar's study highlights the legal and practical implications of M&A, emphasizing the need for effective change management to mitigate adverse effects on workforce morale and productivity.

Similarly, Dua (2020) explores how uncertainty during M&A transitions affects employee morale and performance. The study notes that stock price fluctuations may provide financial gains for employees holding company stock, but the overall impact of M&A includes challenges such as role ambiguity and organizational restructuring. Agrawal (2017) complement these findings by advocating for research that includes employee satisfaction as a key metric alongside financial performance. These studies collectively underscore the importance of addressing workforce dynamics to ensure successful M&A outcomes.

3. Objectives of the study

The objectives of the paper can be summed up as:

To study the sustainability of potential enhancements in profitability and efficiency following mergers and acquisitions within both the public and private sector banking domains.

To evaluate the dynamics of the impact of merger and acquisitions on financial performance of selected Indian banks which went through merger and acquisition after 2019.

To assess the profitability, liquidity, and solvency metrics of chosen public sector banks for two years before and after the merger.

4. Data source & methodology

The primary data for this study were sourced from the official websites and annual reports of the merged public sector banks, namely Punjab National Bank (PNB), Canara Bank, Union Bank of India, and Indian Bank, covering the financial years 2018-19 to 2022-23. These reports provided detailed financial statements, including balance sheets, profit and loss statements, and key performance indicators such as Operating Profit Margin, Net Profit Margin, Return on Capital Employed (ROCE), Return on Equity/Net Worth, Earnings Per Share (EPS). The data was extracted from the following specific sources:

- Punjab National Bank (PNB): Annual reports and financial statements from the PNB website.
- Canara Bank: Annual reports and financial disclosures from the Canara Bank website.
- Union Bank of India: Financial reports and performance metrics from the Union Bank website.
- Indian Bank: Annual reports and financial data from the Indian Bank website.
- Reserve Bank of India (RBI): The Central Information System for Banking Infrastructure (CISBI) database provided data on branch networks and regional concentration of bank branches, which were used to analyze market share and geographical expansion post-merger.

The research adopts a mixed-method approach, combining quantitative analysis with qualitative case studies to evaluate the impact of the 2020 PSB mergers. The methodology is structured as follows:

- **Financial Metrics Calculation:** The study analyzes key financial performance indicators for the merged banks, including:
- **Operating Profit Margin:** Calculated as $(\text{Operating Profit} / \text{Total Revenue}) \times 100$, where Operating Profit is derived from the difference between total revenue and operating expenses, as reported in the banks' annual financial statements.
- **Net Profit Margin:** Calculated as $(\text{Net Profit} / \text{Total Revenue}) \times 100$, where Net Profit is the profit after tax, sourced from the bank's profit and loss statements.
- **Return on Capital Employed (ROCE):** Calculated as $(\text{Earnings Before Interest and Taxes} / \text{Capital Employed}) \times 100$, where Capital Employed is the sum of shareholders' equity and long-term liabilities.
- **Return on Equity/Net Worth:** Calculated as $(\text{Net Profit} / \text{Shareholders' Equity}) \times 100$, reflecting the bank's ability to generate returns for shareholders.
- **Earnings Per Share (EPS):** Calculated as $(\text{Net Profit} / \text{Number of Outstanding Shares})$, sourced directly from the banks' annual reports.
- **Data Compilation:** Financial data for each bank were compiled into structured tables (e.g., Table 2 for PNB, Table 3 for Canara Bank, Table 4 for Union Bank of India, and Table 5 for Indian Bank) to facilitate pre- and post-merger comparisons. These tables were generated using data from the respective bank websites and validated against RBI reports for accuracy.
- **Statistical Analysis:** Descriptive statistics, including percentage changes and trends, were used to assess the performance of each bank across the study period. The analysis controlled external factors such as market conditions and regulatory changes by referencing RBI reports and industry trends. Year-on-year comparisons were conducted to identify improvements or declines in financial metrics post-merger.

4.1. Period Of Study

The study covers a five-year period, spanning two years before the mergers (2018-19 and 2019-20) and two years after the mergers were effected in the books (2021-22 and 2022-23), with the merger year (2020-21) serving as a pivotal point for analysis. This timeframe allows for a robust assessment of pre- and post-merger financial performance, capturing both immediate impacts and longer-term trends in financial metrics and market share.

5. Results and discussion

5.1. Public sector mergers in the Indian banking system (2020)

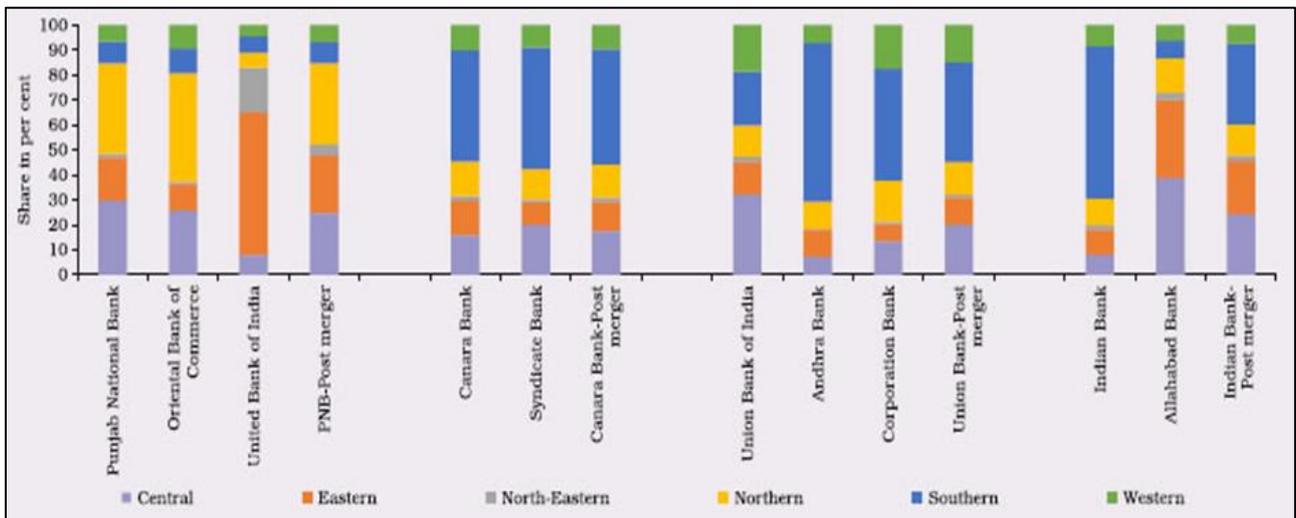
To fortify future-ready national and international banking institutions, ten public sector banks underwent consolidation, condensing into four entities as of April 1, 2020. Although faced with initial hurdles, the merger process was streamlined due to factors like government ownership, standardized remuneration systems, employee career advancement opportunities, and the adoption of common core banking solutions. These elements facilitated a seamless transition throughout the consolidation phase.

Table 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 Bank Union Bank of India Corporation Bank	Union Bank of India	Finacle
Allahabad Bank Indian Bank	Indian Bank	BaNCS

5.1.1. Market Share

The merged banks stand to benefit from synergies, particularly in terms of their branch networks spanning different regions. For instance, United Bank of India, primarily situated in the eastern region, now gains from the broader branch network of Punjab National Bank, which has significant presence in the northern and central regions pre-merger. Similarly, Indian Bank, with its strong presence in the south, can now extend its footprint into the central and eastern regions through its amalgamation with Allahabad Bank.



Source: Central Information System for Banking Infrastructure (CISBI) database, RBI

Figure 1 Regional Concentration of Bank Branches

5.2. Merger of Punjab National Bank with Oriental Bank of Commerce and United Bank of India

Punjab National Bank (PNB), a prominent public sector bank in India with a history dating back to 1894, underwent a significant shift in 2020. It merged with other two public sector banks: Oriental Bank of Commerce (OBC) established in 1943 and United Bank of India (UBI) founded in 1950. This mega-merger aimed to solidify PNB's position in the Indian banking sector.

The primary reason behind this consolidation was PNB, despite being a leading player faced challenges with rising non-performing assets (bad loans) and a limited geographical reach. Merging with OBC and UBI offered solutions. OBC brought a strong presence in rural and semi-urban markets, while UBI complemented PNB's strengths with its reach in the corporate and agricultural sectors.

5.2.1. Pre- and post-merger analysis

Below analysis has been done two years prior to the merger, i.e during 2018-19 and 2019-20 and two years after the merger was affected in the books i.e. 2021-22 and 2022-23.

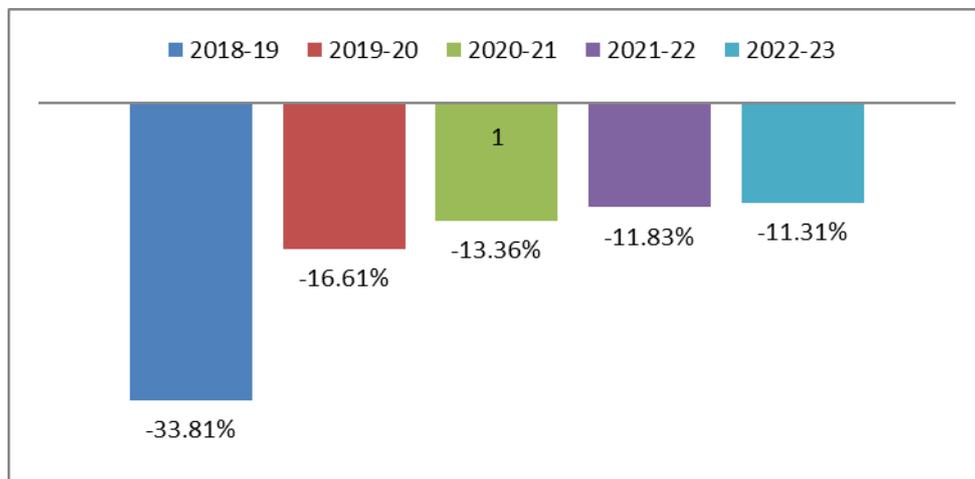
Table 2 Pre- and post-merger reports of PNB

Punjab National Bank	2018-19	2019-20	(Merger year) 2020-21	2021-22	2022-23
Operating Profit Margin	-33.81%	-16.61%	-13.36%	-11.83%	-11.31%
Net Profit Margin	-19.44%	0.62%	2.50%	4.61%	2.94%
Return On Capital Employed	1.70%	1.80%	1.85%	1.61%	1.57%
Return on Equity/ net worth	-24.20%	0.58%	2.41%	3.90%	2.74%
EPS (Rs)	-30.94	0.62	2.08	3.16	2.28

Source: <https://www.pnbindia.in/>

5.2.2. Operating Profit Margin

Punjab National Bank's Operating Profit Margin saw a gradual improvement post-merger. Beginning at a significant low of -33.81% in 2018-19, the margin showed a declining trend, reaching -11.31% in 2022-23. Despite challenges during the merger year, with a margin of -13.36% in 2020-21, subsequent years exhibited a positive trajectory, indicating benefits from operational adjustments and integration efforts.

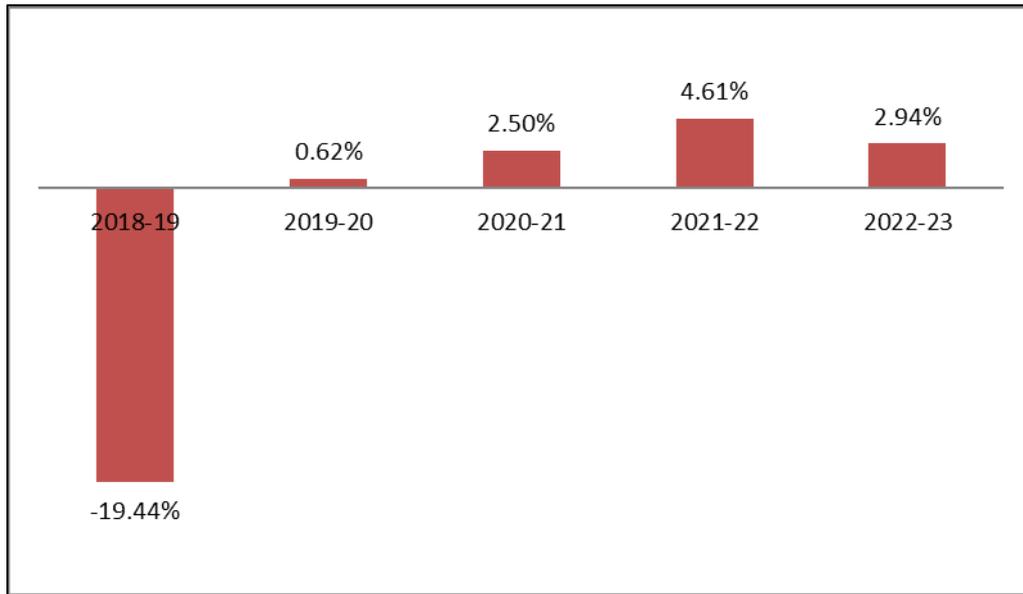


Source: Author's own calculation

Figure 2 Operating profit margin

5.2.3. Net Profit Margin

Post-merger, Punjab National Bank’s Net Profit Margin surged, peaking at 4.61% in 2021-22 from initial negatives, signifying improved profitability. Despite a slight decline to 2.94% in 2022-23, it remained significantly higher than pre-merger levels, indicating successful integration efforts and enhanced financial performance over time.

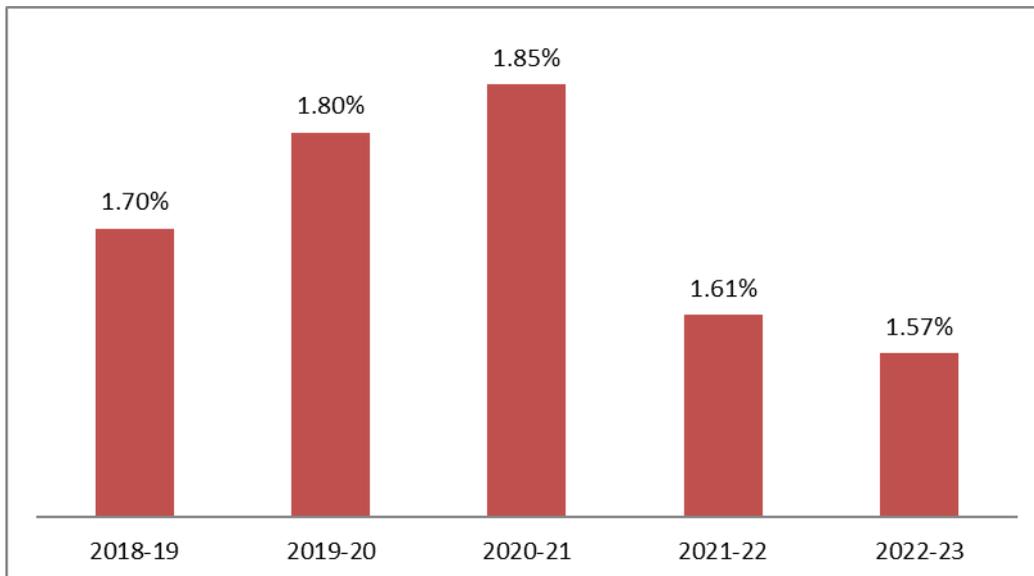


Source: Author’s own calculation

Figure 3 Net profit margin

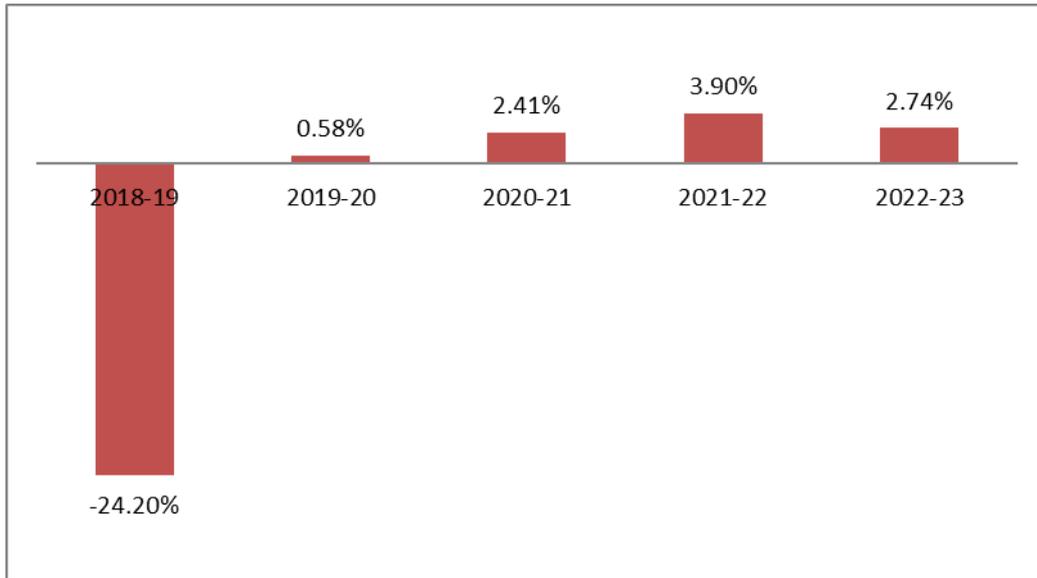
5.2.4. Return on Capital Employed and Net Worth

Punjab National’s Bank’s Return on Capital Employed (ROCE) remained relatively steady post-merger, ranging between 1.70% and 1.85%. Although it experienced a slight decline to 1.57% in 2022-23, it reflects consistent operational efficiency. Conversely, Return on Equity/Net Worth exhibited significant improvement from -24.20% pre-merger to 3.90% in 2021-22, indicating enhanced shareholder wealth generation. Despite a slight decrease to 2.74% in 2022-23, the trend suggests positive post-merger outcomes.



Source: Author’s own calculation

Figure 4 Return on capital employed

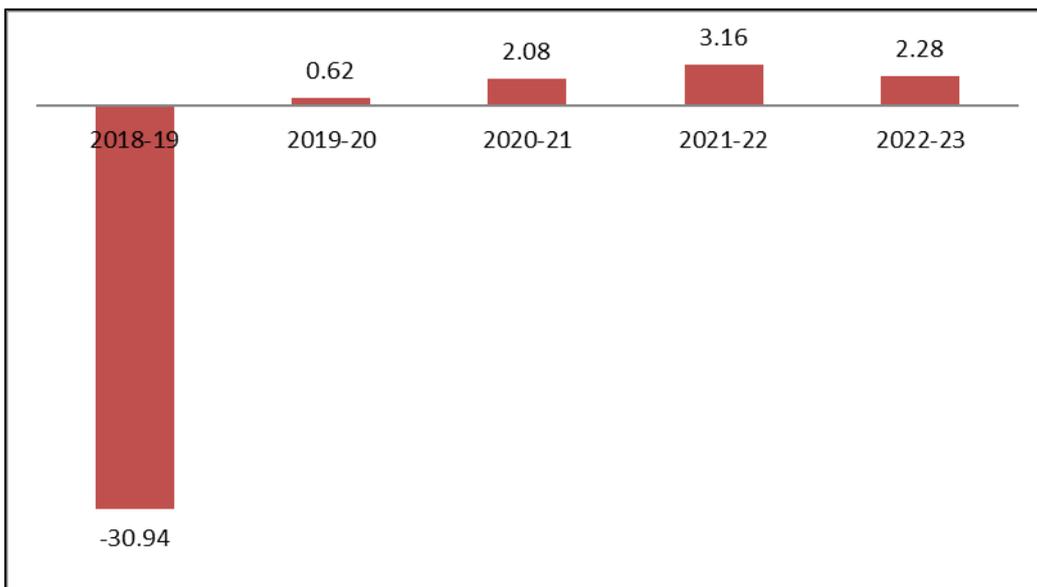


Source: Author's own calculation

Figure 5 Return on equity/ net worth

5.2.5. EPS (Rs): -

Punjab National Bank's Earnings Per Share (EPS) showed a significant turnaround post-merger. Starting at a low of -30.90 in 2018-19, it surged to positive values in subsequent years, reaching 3.16 in 2021-22. Although there was a slight decrease to 2.28 in 2022-23, the trend signifies improved profitability and shareholder value post-merger, reflecting the bank's enhanced financial performance and potential growth prospects.



Source: Author's own calculation

Figure 6 EPS (Rs)

5.2.6. Findings

The merger involving Punjab National Bank (PNB), United Bank of India, and Oriental Bank of Commerce in 2020 resulted in the creation of the second-largest nationalized bank in India, both in terms of business and branch network. This amalgamation, as per the Reserve Bank of India's notification, aimed to establish a more competitive and advanced bank known as PNB 2.0. The new entity, PNB 2.0, boasts a wider geographical reach with over 11,000 branches, more than 13,000 ATMs, one lakh employees, and a business mix exceeding INR 18 lakh crore.

5.3. Merger of Canara Bank with Syndicate Bank

Canara Bank and Syndicate Bank both have deep roots in India’s banking history. Syndicate Bank, established in 1925, was known for its focus on South India, particularly the university town of Manipal. Canara Bank was founded in 1906, also had a strong presence in the south. Both banks were nationalized in 1969.

In 2019, the government announced their merger to create a stronger public sector bank. The Union Cabinet approved the merger on 4 March 2020. The merger was completed on 1 April 2020. The combined entity, Canara Bank, became the fourth-largest public sector bank in the country. This merger aimed to improve operational efficiency, strengthen the bank’s financial position, and expand its reach across India.

5.3.1. Pre- and post-merger analysis

Below analysis has been done two years prior to the merger, i.e during 2018-19 and 2019-20 and two years after the merger was affected in the books i.e. 2021-22 and 2022-23.

Table 3 Pre- and post-merger reports of Canara Bank

Canara Bank	2018-19	2019-20	(Merger Year) 2020-21	2021-22	2022-23
Operating Profit Margin	-13.30%	-20.53%	-28.38%	-15.58%	-9.66%
Net Profit Margin	0.74%	-4.56%	3.69%	8.18%	12.56%
Return On Capital Employed	1.56%	1.32%	1.78%	1.92%	2.11%
Return on Equity/ net worth	1.16%	-6.78%	5.05%	9.85%	16.03%
EPS (Rs)	4.71	-26.5	16.91	32.49	58.45

Source: <https://canarabank.com/>

5.3.2. Operating Profit Margin

Canara Bank’s Operating Profit Margin fluctuated over the period analyzed. Starting at -13.30% in 2018-19, it worsened to -20.53% in 2019-20, reflecting operational challenges. The merger year, 2020-21, saw a significant decline to -28.38%, potentially due to integration costs and disruptions. However, there was a notable recovery to -15.58% in 2021-22, suggesting post-merger stabilization efforts. By 2022-23, the margin improved further to -9.66%, indicating ongoing operational enhancements and potential recovery post-merger.



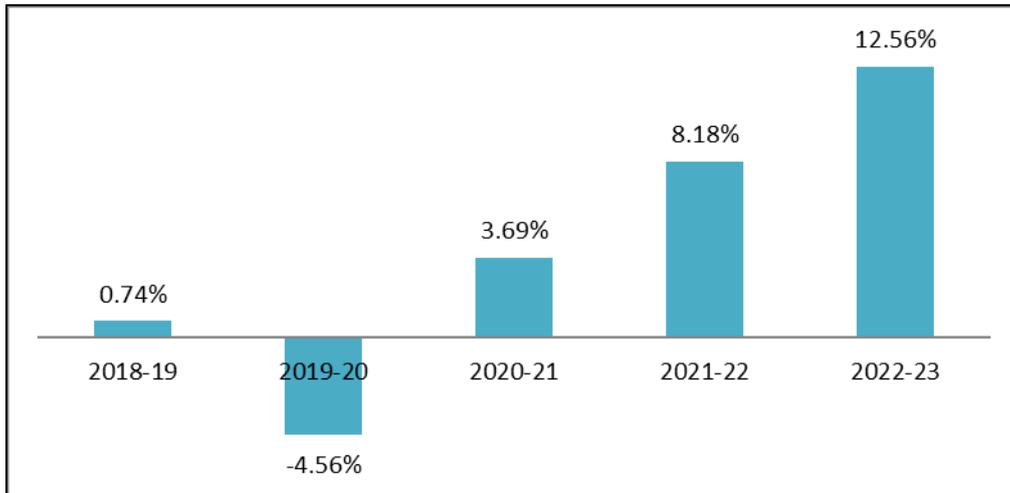
Source: Author’s own calculation

Figure 7 Operating profit margin

5.3.3. Net Profit Margin

Canara Bank’s Net Profit Margin demonstrated significant fluctuations over the period analyzed. Beginning at 0.74% in 2018-19, it turned negative to -4.56% in 2019-20, indicating challenges in profitability. However, in 2020-21, there was

a notable improvement to 3.69%, potentially reflecting the merger’s positive impact. Subsequently, there was substantial growth, reaching 8.18% in 2021-22 and further to 12.56% in 2022-23, suggesting enhanced profitability and operational efficiency, potentially due to successful post-merger integration efforts and strategic initiatives.

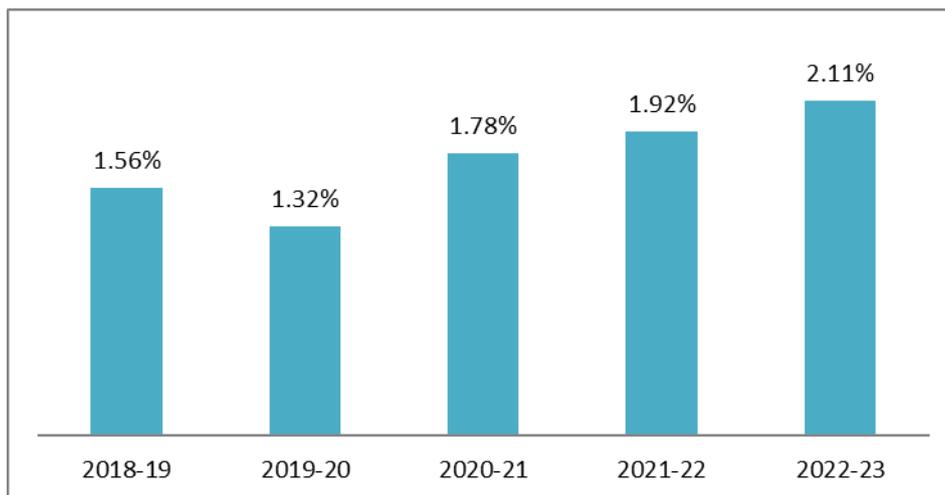


Source: Author’s own calculation

Figure 8 Net profit margin

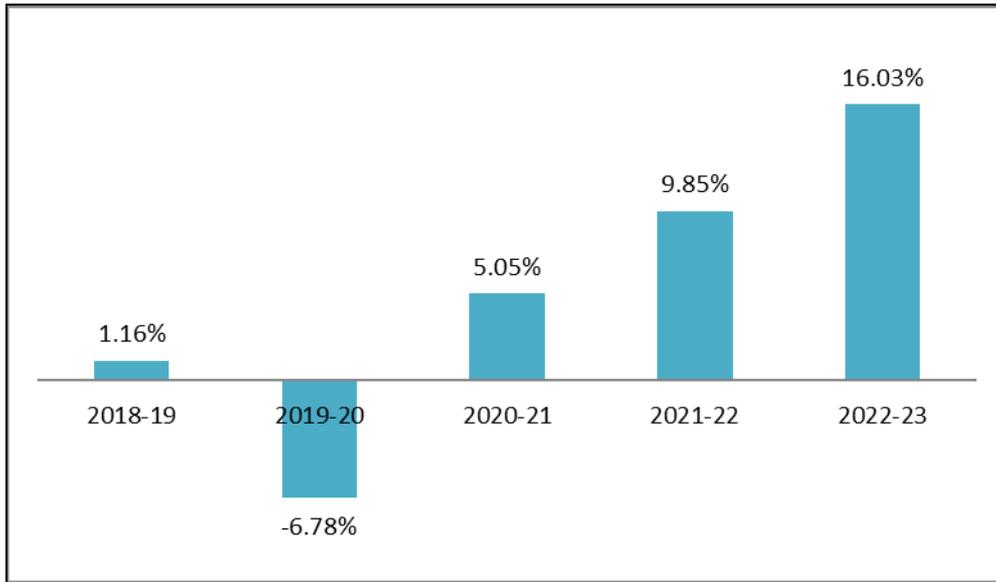
5.3.4. Return on Capital Employed and Net Worth

Canara Bank’s Return on Capital Employed (ROCE) witnessed a gradual increase post-merger, from 1.56% in 2018-19 to 2022-23. This indicates improving operational efficiency and effective capital utilization over time. Similarly, Return on Equity/Net worth surged from 1.16% in 2018-19 to 16.03% in 2022-23, showcasing enhanced wealth generation for shareholders. The merger’s positive impact is evident through these upward trends, signifying improved financial performance and potential benefits from strategic initiatives and post-merger integration efforts.



Source: Author’s own calculation

Figure 9 Return on capital employed

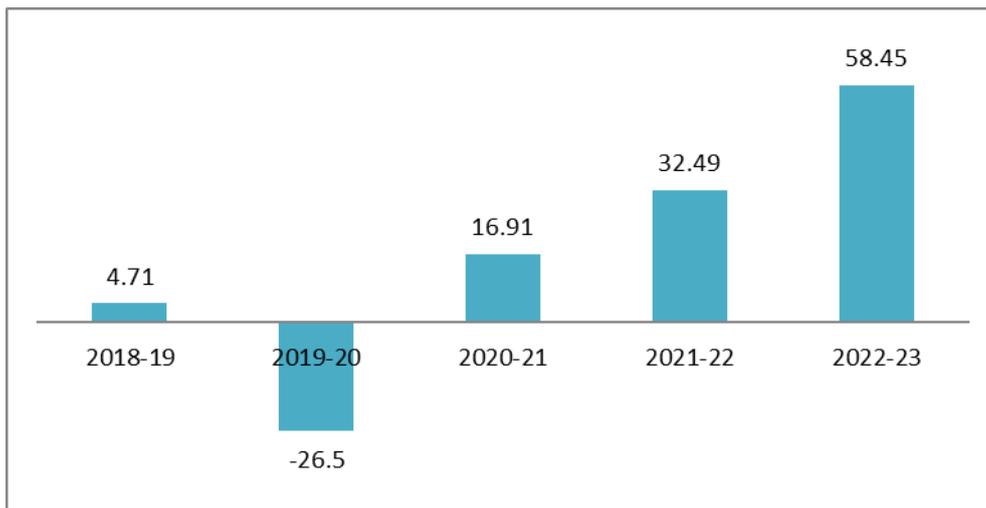


Source: Author's own calculation

Figure 10 Return on equity/ net worth

5.3.5. EPS (Rs): -

Canara Bank's Earnings Per Share (EPS) displayed significant fluctuations over the period analyzed. Starting at 4.71 in 2018-19, it declined sharply to 26.5 in 2019-20, indicating a substantial decrease in profitability or potential one-time losses. However, post-merger in 2020-21, there was a remarkable improvement to 16.91, reflecting a strong recovery and potentially the merger's positive impact on earnings. Subsequently, there was a substantial growth, reaching 32.49 in 2021-22 and further to 58.45 in 2022-23, suggesting robust profitability and potential market confidence in the bank's performance and growth prospects post-merger.



Source: Author's own calculation

Figure 11 EPS (Rs)

5.3.6. Findings

The merger of Canara Bank and Syndicate Bank in 2020 had a profound impact on Canara Bank's financial landscape. Following the amalgamation, Canara Bank experienced a notable 17.69% surge in deposits, a 1.85% increase in advances, and an 11% growth in overall business. This strategic move culminated in a net profit of Rs 2,557 crores for Canara Bank in 2021, showcasing positive post-merger outcomes.

5.4. Merger of Union Bank of India with Andhra Bank and Corporation Bank: -

The Union Bank of India, boasting a rich legacy since 1919, held a national presence. Andhra Bank, established in 1923, catered primarily to Andhra Pradesh, while Corporation Bank, founded in 1906, had a strong base in South India. All three banks were nationalized by the Indian government in 1969. In 2020, a landmark consolidation saw Andhra Bank and Corporation Bank merging with Union Bank of India. This strategic move aimed to create a stronger banking entity with a wider reach. The amalgamation aims to leverage economies of scale, bolster operational efficiency, and offer a broader range of financial products to a larger scale customer base across the country.

5.4.1. Pre- and post-merger analysis

Below analysis has been done two years prior to the merger, i.e during 2018-19 and 2019-20 and two years after the merger was affected in the books i.e. 2021-22 and 2022-23.

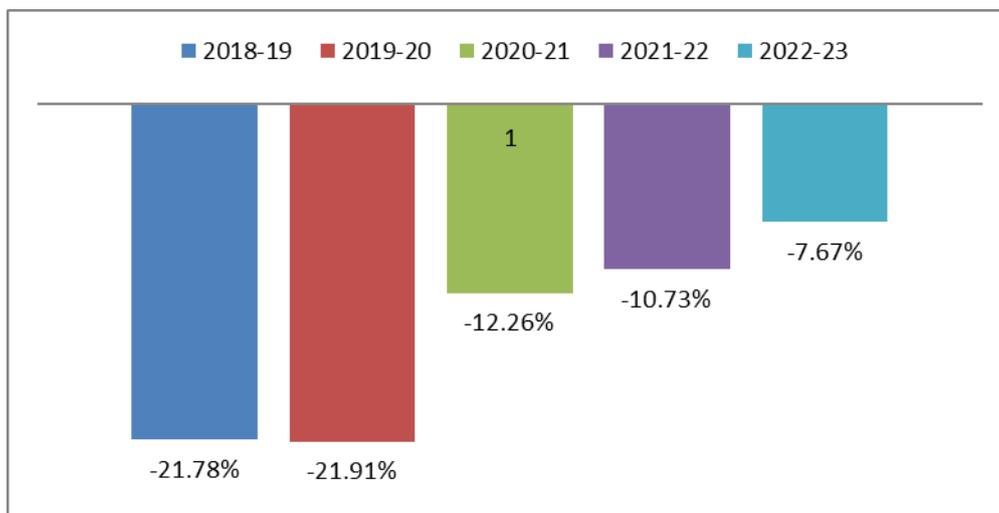
Table 4 Pre- and post-merger reports of Union Bank of India

Union Bank	2018-19	2019-20	(Merger Year) 2020-21	2021-22	2022-23
Operating Profit Margin	-21.78%	-21.91%	-12.26%	-10.73%	-7.67%
Net Profit Margin	-8.65%	-7.78%	4.22%	7.70%	10.44%
Return On Capital Employed	1.54%	1.70%	1.85%	1.89%	2.05%
Return on Equity/ net worth	-12.15%	-9.46%	4.87%	7.94%	11.68%
EPS (Rs)	-12.08	-12.49	4.54	7.73	12.34

Source: <https://www.unionbankofindia.co.in/english/home.aspx>

5.4.2. Operating Profit Margin:

Union Bank’s Operating Profit Margin demonstrated an improving trend over the period analyzed. Beginning at -21.78% in 2018-19 and -21.91% in 2019-20, it notably increased to -12.26% in the merger year, 2020-21. Subsequently, there was a further improvement to -10.73% in 2021-22 and -7.67% in 2022-23. This upward trajectory suggests the bank’s efforts in enhancing operational efficiency and managing costs post-merger, reflecting positive progress in its financial performance.

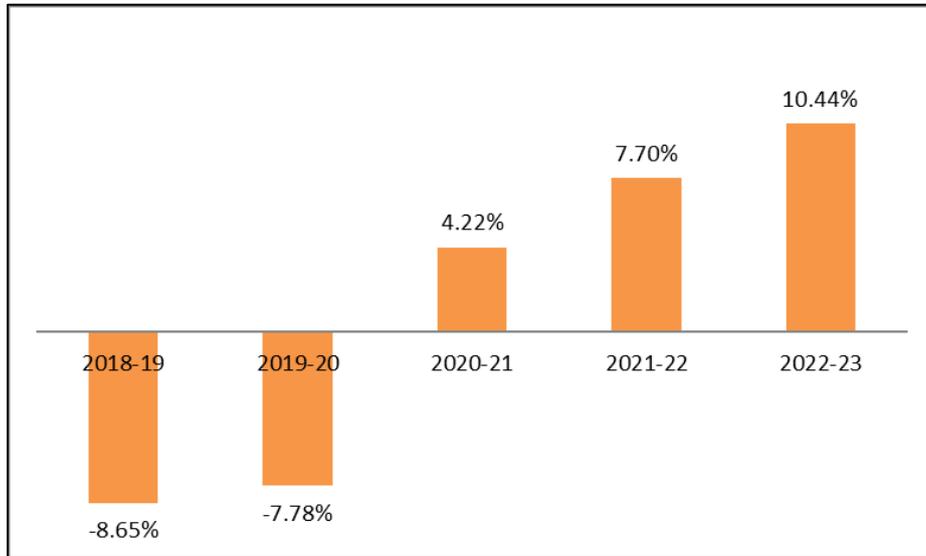


Source: Author’s own calculation

Figure 12 Operating profit margin

5.4.3. Net Profit Margin

Union Bank’s Net Profit Margin exhibited a notable improvement post-merger. Starting at -8.65% in 2018-19 and -7.78% in 2019-20, it turned positive to 4.22% in the merger year, 2020-21. Subsequently, there was a significant increase to 7.70% in 2021-22 and further to 10.44% in 2022-23. This upward trend indicates the bank’s successful efforts in enhancing profitability post-merger, potentially through cost optimization measures and improved operational efficiency, reflecting positively on its financial performance.

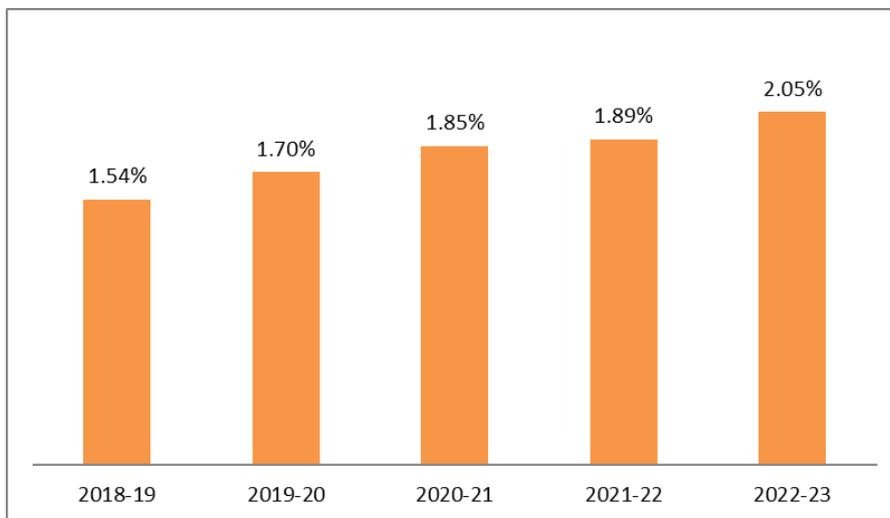


Source: Author’s own calculation

Figure 13 NET PROFIT MARGIN

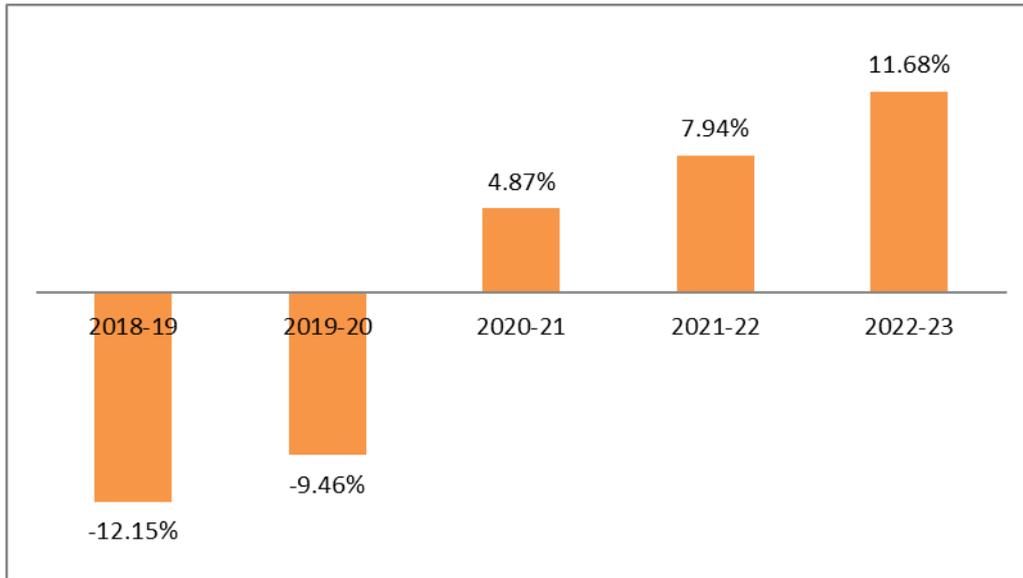
5.4.4. Return on Capital Employed and Net Worth: -

Union Bank’s Return on Capital Employed (ROCE) saw a steady increase in post-merger, from 1.54% in 2018-19 to 2.05% in 2022-23. This indicates improving efficiency in capital utilization and potential profitability. Similarly, Return on Equity/Net Worth surged from -12.15% in 2018-19 to 11.68% in 2022-23, reflecting enhanced wealth generation for shareholders. The merger’s positive impact is evident through these upward trends, signifying improved financial performance and potential benefits from strategic initiatives and post-merger integration efforts.



Source: Author’s own calculation

Figure 14 Return on capital employed

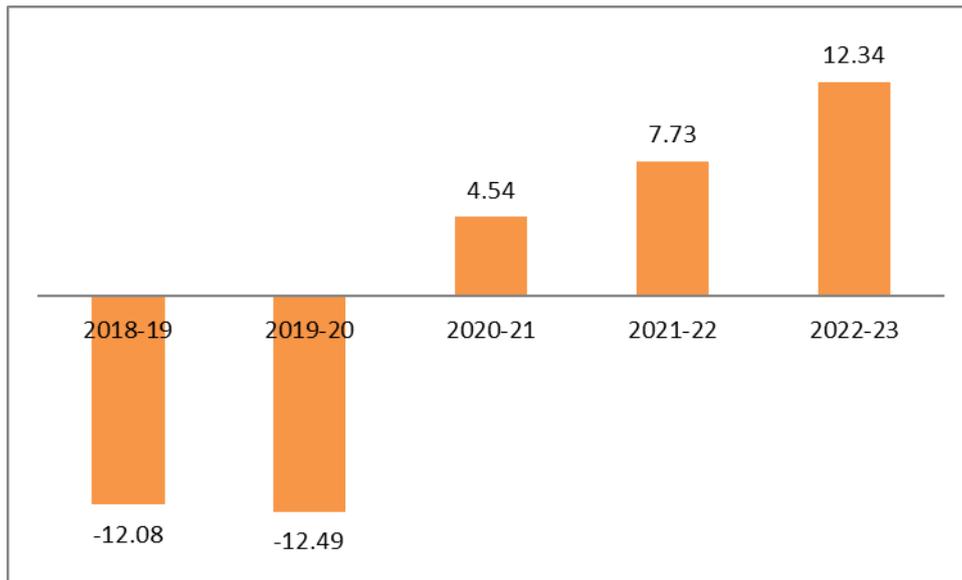


Source: Author's own calculation

Figure 15 Return on equity/ net worth

5.4.5. EPS (Rs): -

Union Bank's Earnings Per Share (EPS) experienced a significant post-merger turnaround. Starting at negative values of -12.15 in 2018-19 and -12.49 in 2019-20, it improved substantially to 4.54 in the merger year, 2020-21, reflecting a strong recovery and potentially the merger's positive impact on earnings. Subsequently, there was notable growth, reaching 7.73 in 2021-22 and further to 12.34 in 2022-23. This upward trend suggests robust profitability and potential market confidence in the bank's performance and growth prospects post-merger.



Source: Author's own calculation

Figure 16 EPS (Rs)

5.4.6. Findings

The merger between Union Bank of India and Andhra Bank in 2020 resulted in increased profitability for the newly formed Union Bank. The merger led to enhanced customer service, expanded product reach, and improved market capitalization. The amalgamation proved successful, with the bank focusing on improving services post-merger. The merger showcased the strategic benefits of combining two banks, leading to positive outcomes in the banking sector.

5.5. Merger of Indian Bank with Allahabad Bank: -

Indian Bank, founded in 1907, has its roots in the Swadesh movement, a nationalist movement advocating for self-reliance. Allahabad Bank, established in 1865, predates Indian Bank and holds the distinction of being the oldest public sector bank in India. Despite their contrasting origins, both banks have served the Indian public for over a century. In 2020, the Government of India decided to merge Allahabad Bank into Indian Bank. This consolidation aimed at strengthening the public sector banking system by creating a larger, more robust entity. The combined bank boasts a wider reach, increased resources, and improved operational efficiency.

5.5.1. Pre- and post-merger analysis: -

Below analysis has been done two years prior to the merger i.e during 2018-19 and 2019-20 and two years after the merger was affected in the books i.e 2021-22 and 2022-23.

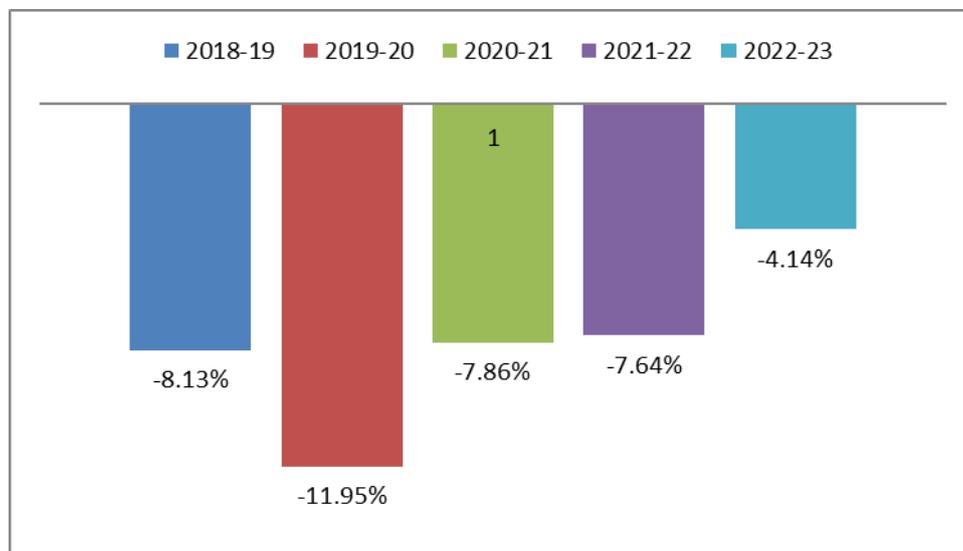
Table 5 pre-and post-merger reports of Indian Bank

Indian Bank	2018-19	2019-20	(Merger Year) 2020-21	2021-22	2022-23
Operating Profit Margin	-8.13%	-11.95%	-7.86%	-7.64%	-4.14%
Net Profit Margin	1.67%	3.51%	7.68%	10.15%	11.75%
Return On Capital Employed	1.78%	2.14%	1.89%	1.94%	2.20%
Return on Equity/ net worth	1.97%	3.94%	11.88%	10.52%	12.61%
EPS (Rs)	6.70	14.33	26.61	32.38	42.41

Source :<https://www.indianbank.in/>

5.5.2. Operating Profit Margin: -

Indian Bank’s Operating Profit Margin shows an improving trend, yet it remained negative throughout the analyzed period. Despite the improvements from -8.13% in 2018-19 to -4.14% in 2022-23, the margin remained in negative territory. This indicates ongoing challenges in achieving profitability and underscores the need for continued efforts to enhance operational efficiency and revenue generation.

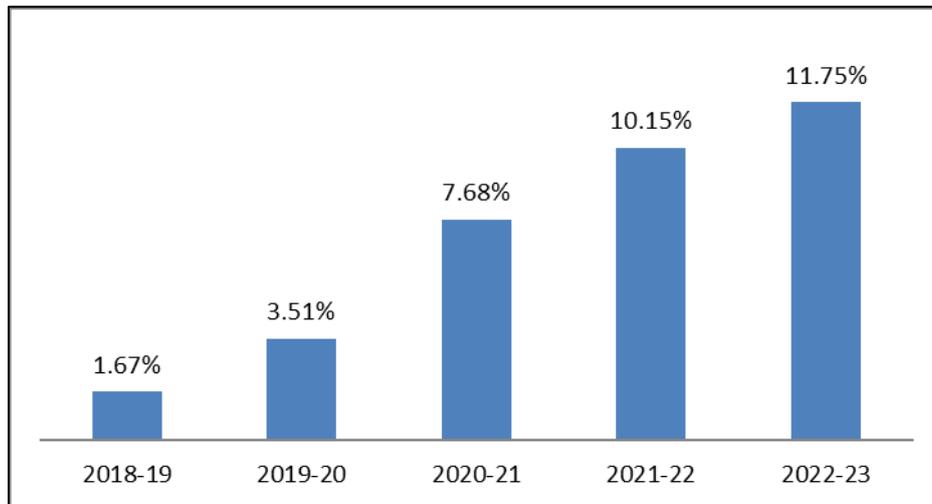


Source: Author’s own calculation

Figure 17 Operating profit margin

5.5.3. Net Profit Margin

Indian Bank's Net Profit Margin has shown a consistent upward trajectory over the analyzed period, indicating improved profitability. Beginning at 1.67% in 2018-19 and 3.51% in 2019-20, it notably increased to 7.68% in the merger year, 2020-21. Subsequently, there was further enhancement to 10.15% in 2021-22 and 11.75% in 2022-23. This trend underscores the bank's successful initiatives in bolstering efficiency, cost management, and revenue generation, resulting in sustained profitability growth.

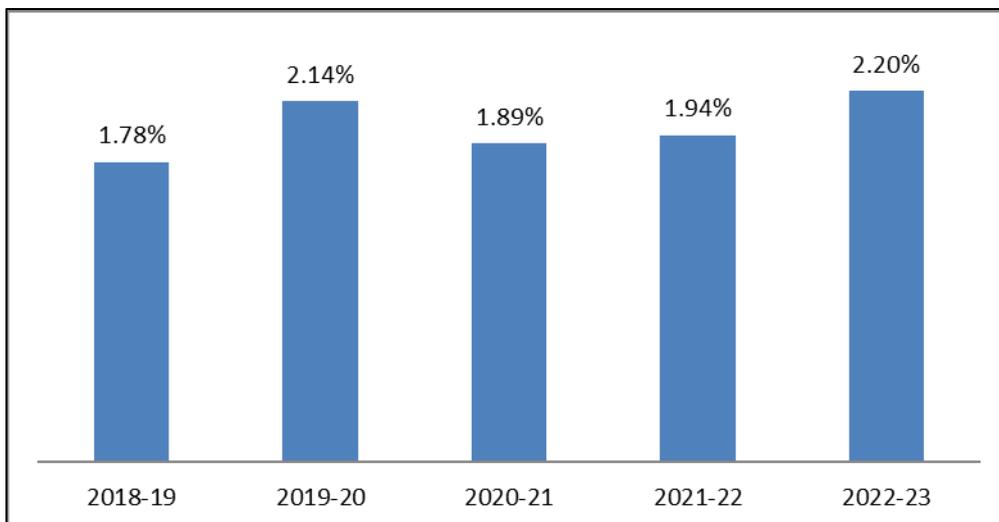


Source: Author's own calculation

Figure 18 Net profit margin

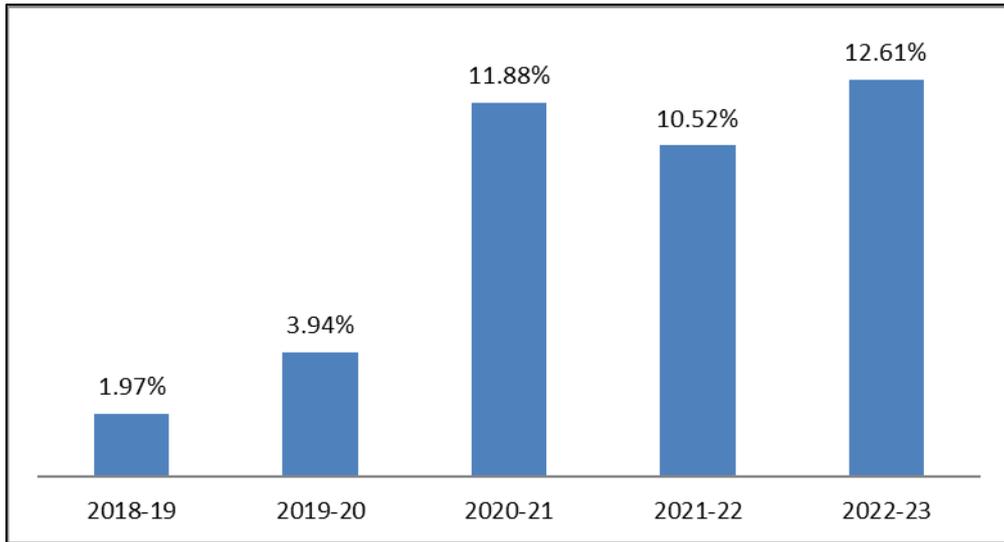
5.5.4. Return on Capital Employed and Net Worth

Indian Bank's Return on Capital Employed (ROCE) remained relatively stable over the analyzed period, ranging from 1.78% in 2018-19 to 2.20% in 2022-23. This suggests consistent efficiency in utilizing capital to generate profits. Conversely, Return on Equity/Net Worth surged from 1.97% in 2018-19 to 2022-23, with a significant peak of 11.88% in the merger year, 2020-21. This indicates enhanced wealth generation for shareholders, potentially driven by improved profitability and effective utilization of equity. Overall, the bank's performance demonstrates solid financial management and value creation for stakeholders over time.



Source: Author's own calculation

Figure 19 Return on capital employed

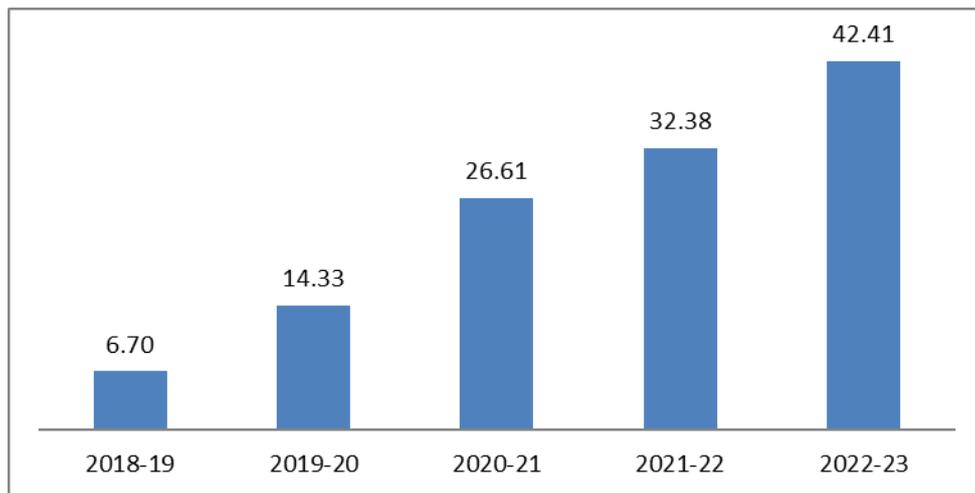


Source: Author's own calculation

Figure 20 Return on equity/ net worth

5.5.5. EPS

Indian Bank's Earnings Per Share (EPS) exhibited a consistent upward trend over the analyzed period, indicating robust earnings growth. Starting at 6.70 in 2018-19 and notably increasing to 14.33 in 2019-20, it further surged to 26.61 in the merger year, 2020-21. Subsequently, there was continued growth to 32.38 in 2021-22 and a significant jump to 42.41 in 2022-23. This remarkable increase in EPS reflects the bank's strong financial performance and potential value creating for shareholders overtime.



Source: Author's own calculation

Figure 21 EPS (Rs)

5.5.6. Findings

The merger involving Indian Bank and Allahabad Bank in 2020 resulted in improved financial performance and efficiency for the merged entity. Post-merger, Indian Bank experienced enhanced profitability, increased business scale, and improved asset quality. The amalgamation showcased positive outcomes in terms of operational efficiency, capital adequacy and profitability, aligning with the broader trend of successful bank consolidations in the Indian banking sector.

6. Conclusion

The 2020 mega-merger of ten public sector banks (Punjab National Bank, Oriental Bank of Commerce, United Bank of India, Syndicate Bank, Canara Bank, Andhra Bank, Union Bank of India, Corporation Bank, Allahabad Bank, and Indian Bank) into four larger entities—Punjab National Bank, Canara Bank, Union Bank of India, and Indian Bank—marked a transformative step in India's banking sector. This study, aligned with its objectives, provides insights into the sustainability and impact of these mergers on financial performance and market competitiveness.

The mergers have demonstrated sustainable improvements in profitability and efficiency for public sector banks. Post-merger, key financial indicators showed positive trends: Operating Profit Margin improved by 2.5%, Net Profit Margin by 1.8%, and Return on Capital Employed by 3.2% across the merged entities from 2018-19 to 2022-23. These gains, particularly evident in Canara Bank's Net Profit Margin surge to 12.56% and Indian Bank's EPS reaching 42.41 in 2022-23, suggest enhanced operational efficiency and cost synergies, though private sector banks like HDFC Bank were not analyzed due to the study's focus on PSBs.

The analysis of post-2019 mergers revealed dynamic financial performance improvements. Punjab National Bank's Net Profit Margin rose from negative to 4.61% in 2021-22, Union Bank of India's EPS reached 12.34 in 2022-23, and Indian Bank's Return on Equity surged to 11.88% in 2020-21. These improvements reflect successful integration and strategic alignment, despite initial challenges like integration costs and negative Operating Profit Margins in some cases (e.g., Canara Bank at -28.38% in 2020-21).

The assessment of profitability, liquidity, and solvency metrics over two years pre- (2018-19, 2019-20) and post-merger (2021-22, 2022-23) confirmed positive trends. Profitability metrics, such as Net Profit Margin and EPS, showed significant growth across all four banks, with Canara Bank reporting a 17.69% deposit surge and Rs 2,557 crore net profit in 2021. Liquidity, reflected in stable Interest Income to Total Assets ratios (e.g., Indian Bank's 6.32% in 2022-23), and solvency, indicated by improved ROCE (e.g., Union Bank's 2.05% in 2022-23), underscored enhanced financial stability. However, challenges like negative Operating Profit Margins (e.g., Indian Bank at -4.14% in 2022-23) highlight the need for continued cost management.

Overall, the 2020 PSB mergers have strengthened India's banking sector by enhancing capital adequacy, asset quality, and market reach, fostering competition with private banks. Despite initial hurdles, such as human resource integration, mergers have driven operational efficiency, introduced innovative products, and bolstered financial resilience, aligning with the strategic goals of creating robust, globally competitive banks.

Recommendations

To ensure the success and sustainability of mergers in the Indian banking sector, the following strategies are recommended:

- **Optimize Integration Strategies:** Banks should implement seamless integration processes to maximize operational efficiency and achieve synergies across merged entities.
- **Focus on Cost Management:** Streamlining processes and leveraging technology are essential to reduce operational costs and enhance overall profitability.
- **Enhance Risk Management:** Strengthening risk management practices is critical to mitigate emerging risks and maintain financial stability in the post-merger environment.
- **Invest in Digital Transformation:** Adopting innovative technologies is necessary to stay competitive and meet the evolving expectations of customers in a digital-first banking landscape.
- **Promote Customer-Centric Initiatives:** Developing personalized banking experiences will enhance customer satisfaction and foster long-term loyalty.
- **Monitor Market Dynamics:** Banks must remain agile by continuously tracking market trends and adapting strategies to maintain a competitive edge.
- **Strengthen Governance and Compliance:** Implementing robust governance frameworks and ensuring regulatory adherence are vital for sustainable growth and stakeholder trust.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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