# Big Bank Merger Reveals Indian Government Plot

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The Economic Times reports: *"The central government has started an internal exercise to ascertain merger candidates from among* *banks* *(PSBs)."*

This is something that Sanjeev Sanyal, the principal economic adviser to the ministry of finance also said recently: *"Currently, there* *country. This number would come down to 10-15."*

There are good ideas and there are bad ideas. Any merger is a bad idea. There is enough research evidence that suggests that mo work. As the Harvard Business Review article titled *The Big Idea: The New M%26A Playbook points out: "Companies spend more t acquisitions every year. Yet study after study puts the failure rate of mergers and acquisitions somewhere between 70% and 90%."*

When the failure rate is between 70 to 90 per cent, why even attempt to merge. Typically, most mergers get sold on the idea of the s between the companies. Synerrgy is a term every uses but no defines. John Lanchester does define synergy in his book How to Sp writes: *"Synergy: Mainly BULLSHIT, but when it does mean anything it means merging two companies together and taking the oppo people... When two companies merge, the first thing that ANALYSTS look at when evaluating the deal is how many jobs have been number, the better. That's synergy."*

Of course, no public sector bank employee is going to get fired after any merger. So, the only reason why a merger might work is a context of the merger of public sector banks. Nevertheless, when the government, the major owner of the public sector banks, has d banks will merge, then they will merge.

Recently, the five associate banks of the State Bank of India, along with the Bhartiya Mahila Bank merged with the State Bank of Ind touted as a major reason.

Now take a look at Table 1, which basically lists the gross non-performing advances ratio or simply put the bad loans ratio of the ba with the State Bank of India. It also lists the bad loans ratio of the State bank of India. Bad loans are essentially loans in which the re borrower has been due for 90 days or more.

Table 1: Bad Loans Ratio.

| | **Bad loans rate (as on March 31, 2017)** |
|---|---|
| State Bank of Mysore | 28.76% |
| State Bank of Patiala | 25.49% |
| Indian Overseas Bank | 24.99% |
| State Bank of Hyderabad | 22.94% |
| State Bank of Travancore | 18.14% |
| State Bank of Bikaner %26 Jaipur | 16.47% |
| Bharatiya Mahila Bank | 9.54% |
| State Bank of India (SBI) | 7.15% |

Source: Author Calculations based on data from Indian Banks' Association

As can be seen from Table 1, four out of the five associate banks of SBI had a bad loans ratio of greater than 20 per cent. This mea one-fifth of the loans they had given had been defaulted on and were not being repaid. This leads to the question as to why were the business of lending in the first place.

The Bhartiya Mahila Bank, given that it was a relatively new bank, had a bad loans ratio of a little under 10 per cent. Also, given its s inconsequential in the overall scheme of things.

Among these banks, SBI had the lowest bad loans ratio at 7.15 per cent. As far as public sector banks were concerned, SBI had the bad loans ratio (with Vijaya Bank having the best ratio).

What happened after the merger? Take a look at Table 2.

Table 2:

| **Bad loans rate (in per cent)** | **State Bank of India (solo)** | **State Bank of India (merged)** |
|---|---|---|

| | March 31, 2017 | June 30, 2017 |
|---|---|---|
| Corporates | 13.69 | 18.61 |
| Small and Medium Enterprises | 7.04 | 11.86 |
| Agriculutre | 5.53 | 9.51 |
| Retail | 1.56 | 0.55 |
| International | 2.37 | 2.51 |
| Total | 7.15 | 9.97 |

Source: State Bank of India and calculations based on data from Indian Banks' Association.

The bad loans rate of SBI after the merger has jumped to nearly 10 per cent from 7.15 per cent, earlier. Without firing employees, ar
be of no consequence. It will just bring down the performance of the larger and the more efficient bank.

What seems to have happened in case of SBI is exactly what a former deputy governor of the Reserve Bank of India, R Gandhi, had
2016, when he had said: *"Merger of a weak bank with a strong bank may make combined entity weak if the merger process is not h*
*The problems of capital shortages and higher non-performing assets (or bad loans) may get transmitted to stronger bank due to und*
*mechanical merger process."*

Viral Acharya, one of the current deputy governors of the Reserve Bank of India, said something similar, recently: *"Sometimes merg*
*entities with weaker entities leads to bringing down the stronger entity."*

Having said that mergers make sense for the government given that it can tell the world that it has done something to manage the b
the public sector banks. Take the case of SBI. Earlier there were seven different banks. Of these, the performance of five banks was
Now, it is just one. Also, no one will now talk about four banks with bad loans of greater than 20 per cent because they have all been
India's largest bank.

Some of the public sector banks have now reached a stage wherein there is no point in the government trying to spend time and mo
them. It simply makes more sense to shut them down and sell their assets piece by piece or to sell them, lock, stock and barrel, if an
private banks or any other private firms, are willing to buy them.

Some of these banks with extremely high bad loans are way too small to make any difference in the overall lending carried out by ba
at Table 3.

Table 3:

| Name of the Bank | Total advances as a percentage of gross advances of banks (as on March 31, 2017) | Bad loans rate (as |
|---|---|---|
| United Bank of India | 0.82% | |
| Dena Bank | 0.90% | |
| Bank of Maharashtra | 1.18% | |
| UCO Bank | 1.48% | |
| Central Bank of India | 1.73% | |
| Indian Overseas Bank | 1.74% | |

Source: Author calculations on Indian Banks' Association data and Bank NPAs June 2017.pdf

Of course, nothing like this is going to happen. The government of India likes the idea of owning companies. It gives some relevance
and bureaucrats.