Synergy of Amalgamation and Mergers of RRBS with specific Case study of amalgamation of Two RRB of Uttar Pradesh (SUPGB & Prathma Bank)

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***Abstract*— The study attempted to study the impact of amalgamation of banks particularly Regional Rural banks at financial level. The study is centric to arithmetical approach of amalgamation. It emphasized upon the real impact over financial of the premerger entities and merged entity. Although Amalgamation is not simple numeric/ arithmetic outcome but figures are one of the major parameter to assess the result of amalgamation. Other issues are tough to examine and requires the long gestation period to restore study of different human angles. Many merger and amalgamation could not achieve synergy rather merged entity became a less productive and poorly efficient. Study will analyse the all important parameters of banking like Net Profit ,Profitability, capital and reserves ,Return on assets , NIM, CASA deposit and Non interest income etc to reach to the conclusion. Every policy implantation has greater challenge at merger stage than period of normal functioning and CEOs, regulators, top officials and customers have to put very challenging efforts.**

1. Introduction:

Synergy is typically used in a positive way in the discussion of things or people coming together to produce something great. A mutually advantageous conjunction or compatibility of distinct business participants or elements (such as resources or efforts) Synergy is a process in which individuals or companies combine their resources and efforts to achieve more productivity, efficacy, and performance than they could alone. Mergers and acquisitions are the best example of this where the new company will provide more value than the two enterprises separately.

An amalgamation is **a combination of two or more companies into a new entity**. Amalgamation is distinct from a merger because neither company involved survives as a legal entity. Instead, a completely new entity is formed to house the combined assets and liabilities of both companies. Amalgamation became a budge word in banking and in many other public sectors to get the synergy. **Government of India (GoI) has consolidated 10 Public Sector Banks into 4 banks**. The announcement of this mega-merger was made by Union Finance Minister Nirmala Sitharaman in 2019. However, RBI notified it in the late March through its circular to merge banks in the new financial year (1st April 2020).Earlier one public sector bank New Bank of India was merged with Punjab National Bank in the year 1993 by Government notification. Merger of Private banks to Public sector banks are very common step taken by the central Government to protect the interest of people.RBI the regulator of Indian Banking System allows merger of banks only when one bank became non feasible and other bank has the capacity/ potential to absorb losses of merged bank and to take the advantage of resources/assets /command areas of merged bank.

The central government first merged all RRBs of one sponsored bank working in one state just to make process smooth. In second phase GOI allowed to merge RRBs of different sponsor bank to RRB of different sponsor bank to achieve the ultimate goal of one state one RRB. It improved the financial strength, capital base and geographical presence of RRB to a significant Level.

Presently 43 (with effect from 01.04.2020 because of amalgamation of public sector banks number of sponsor bank reduced to 12) RRBs are operating with 21865 branches in 26 states and 03 in union territory in India, which were 196 in the year 2001. All the public sector banks except Punjab & Sindh bank have at least one RRB while J&K bank is the only private sector bank having one RRB. The study based on the Financial analysis of amalgamation process of two RRBs: Sarv U.P. Gramin Bank (Sponsor bank Punjab National Bank) with Prathma Bank (Sponsor bank Syndicate bank) with effect from 01.04.2019.This was the part of process of amalgamation of six banks in UP to three new entities named Prathma UPGB, Aryavrat Gramin Bank (HO- Lucknow, Sponsor bank- Bank Of India) and Baroda UP Gramin Bank (HO- Gorakhpur Sponsor Bank- SBI).

As on 31.03.2021 Total capital of RRBs are Rs.8393 crore with reserves of Rs.30000 crore, total deposit of RRBs Rs. 525220 crore, total investment of RRBs Rs.275529 crore, total advances from RRBs Rs.335208 crore. Hence all RRBs are doing total business of Rs.860428 crore.It is a significant amount in Indian banking and economy particularly in rural economy hence any decision regarding amalgamation of RRBs is an important decision taken by Central government and State governments.

Out of 43 operational RRBs 28 are in profit (year ending 31.03.2021) and 14 RRBs are reporting loss. Combined net profit of RRBs Rs.1557 crore it was negative profit (loss) of Rs.2208 crore in the rear 2019-2020. Combined net interest margin (NIM) of RRBs is 3.5% (better than all nationalized banks), Return on assets is 0.25 % (below the banking average). Combined average cost of management is 3.3 % (Establishment cost is abnormally high due to pension implementation in RRBs since 2020).

The Combined Gross NPA of RRBs 9.1 percent and net NPA is 4.5 percent with PCR (Provisioning coverage ratio) 53.0 percent. Combined Capital Adequacy ratio (CAR) of RRBs is 10.1 percent as on 31.03.2021, which requires improvement.

2. Objectives of the Study:

Amalgamation became a buzz word in the banking, economic, social even political environment of India. Many studies were made to understand the pros and cons of amalgamation of public sector banks (Nationalized banks), new generation Private banks and old private Banks but a very limited studies were made to understand the amalgamation of Regional Rural Bank which are now equally important in numbers and size in rural India. RRBs are the life line of rural India when we think about agriculture credit, Direct Benefit transfer (DBT), Government schemes for Small, Marginal farmers, Tenant farmers and non agriculture house hold living in rural India. The objectives of the study are:

- To Study the synergy of Financials, obtained after amalgamation of RRBs in UP.
- To study the basic banking Para meters like CAAR (Capital adequacy ratio), Gross NPA, Net NPA (NPA after reducing the provision provided against Gross NPA), NIM (Net Interest Margin), provisioning against loss and stressed assets and other so many after amalgamation.
- To study the impact of amalgamation over Information technology and customer base after amalgamation.
- The impact of amalgamation on the sustainability of Bank after amalgamation
- Impact on Profit and profitability after amalgamation.
- Change in CAGR growth rates after amalgamation.

3. The business objectives (Generally) of Amalgamation are:

- It helps to lower the level of competition in the market.
- To enlarge the market further without expanding the competition.
- In case of banks 'amalgamation, bank gains more assets by the assimilating resources of both banks.
- To have access to more capital despite investing less amount.
- Once two banks unite their customer base also becomes double or more as the case may be.
- Lastly, it gives an opportunity to compete across the globe. Henceforth, the impact of Merger and Amalgamation makes a significant change in boosting the productivity banks. Besides, it underpins those banks that seek to grow in the market but do not possess the required resources and capital.
  All the above impacts support the meaning and result of Synergy.

4. Capital Structure of Regional Rural Banks in India:

In terms of numbers, highest merger and amalgamation took place in **RRB** to make them efficient and viable .As **RRBs** capital is owned by Central government (50%), State Government (15%) and respective sponsor bank (35%) with common supervisor /regulator NABARD which regulates on behalf of RBI.
The Regional Rural Banks (Amendment) ACT, 2015 No. 14 OF 2015 Dated 12th May, 2015. Amendment in earlier Act called the Regional Rural Banks Act, 1976. As per the amendment of act:
''Provided that in case the Regional Rural Bank raises its capital from sources other than the Central Government or the State Government or the Sponsor Bank, the shareholding of the Central Government and the Sponsor Bank shall not be less than fifty-one per cent, Provided further that the Central Government shall consult the concerned State Government if the level of shareholding in the Regional Rural Bank of such State Government is reduced below fifteen per cent.'' (c) after sub-section (2), the following sub-section shall be inserted, namely: ''(2A) The Central Government may, in consultation with the Sponsor Bank and the State Government, by notification, either raise or reduce the limit of shareholding of the Central Government, the State Government or the Sponsor Bank specified in sub-section (2): Provided that the Central Government shall consult the concerned State.
The Act provides for the authorised capital of each RRB to be **Rs five crore**. It does not permit the authorised capital to be reduced below Rs 25 lakh. The Bill seeks to raise the amount of authorised capital to Rs 2,000 crore and states that it cannot be reduced below Rs one crore.

5. Methodology and Review of Literature of the Study:

To complete the study, RRB act 1976 and 2015 were taken into knowledge. All rules and regulation of RBI, NABARD (Supervisor of RRBs on behalf of RBI –Regulator) and of other regulators were taken into consideration. Many research papers related to the old mergers of RRBs are referred. Notification of amalgamation of RRBs in UP in the year 2019 got studied. Discussion were made with two chairmen who were CEO at the time of amalgamation in UP. Agenda and minutes of last board meeting of SUPGB bank head quartered at Meerut and Prathma bank (Head quartered at Moradabad) were obtained and studied. The Board Agenda of first meeting of new amalgamated bank, Prathma UP Gramin Bank got studied and developed understanding of amalgamation. Audited balance sheets Prathma U.P. Gramin Bank for the 2019 (March 31, 2019), 2020, 2021 and 2022 collected and analysed.

6. Challenges of Amalgamations before management of Banks:

The merger and amalgamation appears as win -win situation for both organizations and it is always established by both managements. It is a great perception that amalgamation will always add the capital, assets, liabilities, customer base and staff strength arithmetically but the results of amalgamation in banking always not support the same outcome, an example is merger of 1993 New bank of India with PNB damaged the efficiency parameters of PNB for years together and lot of industrial disputes were arises. Amalgamation of two banks is partially a financial process but a big subjective process in terms dissemination of person and cultures. All the banks working in the world has different culture and differentiated product and created a unique Sales strategy which has to be vanished fully or partially to develop a new culture which can never be suitable for both entities and requires a long gestation period which is a difficult transition phase. Even the customers have to face difficulties due to change in Technology (Interface), Culture and products.
But amalgamation always improves the financial strength in terms of enhanced capital, reserves, quantum Deposit, quantum of advances and productivity. It provides better sustainability and growth. Capital and reserves are the basic requirement of a banking company to grow faster. Amalgamation provides the opportunity to reduce competition in a particular are and makes a plate form of faster growth.

7. Roadmap for amalgamation of Financial Institution:

All stake holders have to prepare a road map to successfully complete the process of amalgamation. Study will use the example of amalgamation of two RRBs in UP, Sarve UP Gramin bank (sponsor Bank PNB) with Prathma bank (Sponsored bank Syndicate bank) With effective from 01.04.2019.amalgamation Process have to pass through many actions at different levels:

Action by Regulator:
To approve the formation of the new bank, as per the GOI Gazette Notification. To ratify of the actions and expenses of the new banks from the date of amalgamation and to the date of first Board meeting by the new Bank. To get ratify integrated products and services with their prices by the new Board. To direct to central and State Government, RBI, NABARD for appointment of their nominee-directors on the Board of the new RRB.To appoint the new chairman, as the disciplinary authority, of the new entity.

Initiatives of Chairman /CEO of Both banks proposed to be amalgamated RRB
To inform the Government of India, State Government, the Reserve bank of India, NABARD (both their Central Offices and State Regional Offices), the Head of District Administration (Commissioners, District Collectors, Police authorities, President and CEOs of Zila Panchayats of all districts under its area of operations, SLBC / DLCCs about Government of India Suitably. To issue notification of appointment of chairman and taking over charge of the new Bank.To issue press Notice indicating amalgamation to the clientele with the new name of the Bank, its area of operations, business hours, soliciting their cooperation and continued support for the new entity. To advise all its branches, controlling offices about Government of India notification having amalgamated the RRBs and about his appointments as chairman of the new entity and date of his taking over charge of the new Bank. The address/telephone numbers of the Head office also to be circulated to all concerned including branches.To advise all branches and controlling offices about positioning of General Managers at HO. To issue information of continuation of present chairman, as officers on special Duty for the time being (Subject to directives of the regulator).Merge all the existing accounts of each of the amalgamated Banks in to new consolidated accounts with such Banks as required by the changed operational requirements. To advise all the Banks where the earlier Banks were maintaining accounts about constitution of new bank in terms of GOI Notification and about the authorized signatories, who will operate the accounts and Centralize process for CRR/SLR/Non-SLR accounts of the amalgamated Banks at HO of the new Bank including transfer of share capital, Reserves, and share Capital deposit accounts.

Compliance of regulations and Important Legal matters:

To send request to RBI for allotment of BSR Uniform Code for offices and branches of amalgamated bank with the new bank name. Issue of license/s and other Offices to be taken up with the RBI Apply for new PAN, TAN and GST number etc to appropriate authority. Consolidate the DTL of the Bank and ensure SLR and CRR maintenance.To address ongoing court cases, Consumer court cases, suits filed by the employees /Taxation /other litigation. These cases are to be transferred in the name of new Bank.

Approval and Notification by the Board of new Banks 'management:

To approving the formation of the new bank as per the GOI Gazette Notification.
Ratification of the actions and expenses of the new banks from the date of amalgamation and to the date of first Board meeting by the new Bank. Ratification of integrated products and services with their prices by the new Board. To appoint the new chairman as the disciplinary authority of the new entity. Passing a resolution transferring all assets, interests and rights of the old Banks acquired by its activities (both staff and clients) in the name of new bank and intimating the same to the registrars and lien registering authorities for change of lien in the name of the new entity. Issuing a public notification to this extent for the notice of all concerned. To adopt staff service regulations. To adopt recruitment and promotion rules as per GOI Gazette Notification.

Staff Matters /Issues

To providing new personal ID number to all staff members. To transfer the service records of staff to the new banks HR department. Incorporating the new Bank's name in the old GPA or providing a new GPA to all the holders based on the legal opinion. To decide the inter-se seniority among all cadres of staff. To removing anomalies in pay and allowances and system - procedures relating to staff so that uniformity in pay and allowances can be achieved. Provident fund may continue as per govt. norms. To devise a common performance Appraisal Report form and make operational.

Other Issues related with operations:

Brining in force a consolidated Head office account for the new Bank. Consolidation of all G-SEC in the name of new Bank. Classification of Securities: held for trading and held for maturity. Providing amortization on securities, if required. Follow-up of overdue investment for realization. Diarizing od dates of maturity and interest payment in respect of all securities. Transferring the physical non-SLR securities in to demat form.Opening and operationalizing single demat account for the Bank. Follow-up of non performing investment. (including follow-up for DRT/BIFR cases) Review in compliance of exposure norms and IRAC norms.Bringing in all CRR accounts in to one CRR account with the RBI.Consolidating remittances of DICGC premium Consolidation of borrowing from NABARD

Table No 1

Balance Sheet Comparison from year ending 31.03.2019 to year ending 31.03.2022
(Amount rupees in Lacs)

Serial Number	Name of the Head	As on 31.03.2019	As on 31.03.2020	As on 31.03.2021	As on 31.03.2022
	Share Capital	6052	6052	6053	6053
	Reserve & surplus	142289	164733	193065	201068
	Deposits	1688876	1814069	2048774	2311665
	Borrowings	188420	176335	225429	144548
	Other Liabilities	64303	58315	87407	84303
	Total	**2089942**	**2219505**	**2560729**	**2747638**
	Investment	440988	439897	557459	759005
	Advances	1288360	1382631	1560772	1620351
	Fixed Assets	5803354	6359	5425	4809
	Other assets	354791	390618	437073	363473
	Total	**2089942**	**2219505**	**2560729**	**2747638**

Table No 2

Profit and Loss accounts for the financial year 2019 to financial year 2022
(Amount Rupees in Lacs)

Serial No.	Head of accounts	Year 2019	Year 2020	Year 2021	Year 2022
	Total Income	181410	206372	229246	198413
	Total Expenditure	193452	184149	183262	189363
	Interest Expenditure	90849	86971	86025	81707
	Operating Expenditure	69280	70357	86237	63206
	Provisions	33323	26820	11000	44450
	Net Profit Before Tax	-12042 (loss)	22222	45984	9049
	Net profit after Tax	-15444(Loss)	18742	25784	6050

Table No 3

Table showing the different Parameters of amalgamated bank Prathma UP Gramin Bank
(Few figures like deposit advances are being repeated as it is Board approved)
(Amount in Rs. crore, as approved by Board)

Parameters	**31.03.2020**	**31.03.2021**	**31.03.2022**
Deposits	18140.69	20487.74	23116.65
Advances	14979.56	16876.26	17340.39
CASA	12776.33	14666.83	16747.74
(% share of CASA in Dep.)	70.43	71.59	72.45
Total Business	33120.25	37364.00	40.457.04

CD Ratio (%)	82.57	82.37	75.01
P S Advances	14075.89	15885.89	16002.71
(% to Total Advances)	93.97	94.13	92.29
Agricalture Advances	12089.28	13700.58	14019.32
(% to Total Advances)	80.71	81.18	80.85
Net Profit	187.42	257.84	60.50
Per Employee Net Profit (Rs. In laces)	4.70	6.88	1.52
Gross NPAs (Amt.)	1170.50	1312.38	1731.79
Gross NPAs (%)	7.81	7.75	9.98
Net NPAs (Amt.)	225.85	292.12	600.30
Net Advances	13826.31	15607.71	16203.51
(% of Net NPAs to Net Adv)	1.63	1.87	3.70
Loss Assets	33.33	28.79	167.65
Total Income	2063.72	2292.46	1984.13
Non Interest income	195.91	275.12	274.29
% Non Interest income to Total income	9.49	12.00	13.82
Total Expenditure	1841.49	1832.62	1893.63
Loss Making Branches (In existence of more than 12 months)	13	3	0
Productivity per Branch	35.31	39.83	42.99
Productivity per Employee	8.31	9.97	10.17
Number of Employees	3984	3748	3979
Number of Branches	938	938	941

Analysis of Data:

The data are expressive and self explanatory and shows the synergy of amalgamation. The operative expenses which were Rs.692.80 crore in the year ending March 2019 to Rs.632.06 crore in the year ending March 2022, the data for year 2020 & 2021 shows the increase in operative expenditure because this is transit period.

Changes from 31.03.2020 to 31.03.2022, in following parameters:

The per branch business productivity increases from 35.31 crore to 42.99 crore.Productivity per employee increases from 8.31 crore to 10.17 crore (it is efficiency parameter called productivity.Loss making branch reduced to Zero from 13Noninterest income to total income ratio improved from 9.49 percent to 13.82 per cent.(it is one of most important parameter to evaluate the fee base income of a bank.Gross NPA and Net NPA of the bank is 7.75 pc and 1.87 pc respectively in comparison to combined of RRBs 9.5 pc and 4.5 pc respectively.CRAR (Capital Adequacy Norms) increases from 12.60 pc to 13.49 pc. Which much above the combined CRAR of all RRB i.e.10.1 percent. ROA (return on assets) reduced to 0.24 pc (near the combined ROA of all RRBs 0 .25 pc) from 0.87 percent. It is due to higher provisioning, pension provisions and some other reasons. Return on equity, one of the most important efficiency parameter for a bank reduced sharply from 12.63 to 3.03(It is ratio).

Conclusions and Suggestions:

- The amalgamation creates the simple advantage of economy of scale in terms of operational cost, establishment cost, mostly fixed costs. It improved the cost to income ratio, ROA (Return on Assets), CRAR (Capital to Asset Ratio known as capital adequacy), Non interest Income, Net interest Margin and other important parameter improve profitability and sustainability. Increase in business with reduction of operational expenditure improved overall efficiency. Increase in capital provides the opportunity of higher rate of growth in credit off take. After these mergers, the lending capacity of the Regional Rural Banks will increase and their balance sheet would also be strong.

- The results in case of Public sector banks may not be visible in first one two year because management have very limited scope in reduction of staff and their perks etc.

- These bigger banks would also be able to compete globally (yet not applicable to RRBs as most of the RRBs are not involved in Foreign exchange Business) and increase their operational efficiency by reducing their cost of lending.

- **It helps to improve the professional standard**. Multiple posts get abolished, resulting in substantial financial savings banking mergers improve risk management. The merger helps the geographically concentrated regionally present banks to expand their coverage. NPA is beneficial. Provides the better efficiency ratio for operations as well as banking

operations which is beneficial for the economy. Entry in the Global market. Improves customer base. Increase in market share. Increases goodwill. Research and development less documents. Tax benefits (the taxes which are ad valorem in nature).

Study explored few disadvantages of amalgamation also

- Acquiring banks have to bear the burden of weaker banks. It is very challenging to manage the people and culture of different banks.
  Also destroy the idea of decentralization as many banks have a regional audience to cater Large banks are more vulnerable to global economic crises.
  Mergers may make it difficult for private banks to gain faster market share as most amalgamated Regional Rural banks are spread in large geographical areas.
  Chances of Bank going Bankrupt increase if one of the entities is weak.

Complications, and Governance issues, although initially persist there.

The amalgamation process is not a simple adding of the books of two separate banks to implement the decision of regulator /government. The boards of both banks proposed to be merged should take all precautions regarding, operational guidelines, prevailing regulations, by laws, accounting system and dealing of bank with outside world while passing the final resolution for merger as both existing boards will be defunct and new board of new entity will emerged. The Chairman /CEO of both bank sit together amicably and egoless to make out the plans for transit period. The CEO of new emerged bank has to repeatedly address the issues of technology, staff, pending reconciliation of account books. The CEO, top management and senior level management should make intense contact with customers of merged /amalgamated bank to address their issue of transit face and to develop their confidence in new entity (bank).

References

[1] Related notifications of Government of India Ministry of Finance Dept of DFS were deeply referred.
[2] NABARD guide lines on the subject were referred.
[3] Repeated contact with both chairman and their top management were made pre amalgamation, during period of t ransition and post amalgamation.
[4] Board resolution /minutes of to be amalgamated RRBs board resolutions /minutes of amalgamated new entity got studied and referred.
[5] Field functionaries and customers of both banks were contacted and get their memory base feedback.
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[8] Selvaraj Jeevitha R Arya "A STUDY ON MERGER AND AMALGAMATION OF COMPANIES UNDER COMPANIES ACT, 2013" Internal Journal of Pure and Applied Mathematics, Volume 120 No. 5 2018, Page 195-205