



BANKS MERGER: A MODERATING FACTOR FOR MSME PORTFOLIO GROWTH IN INDIA AN ECNOMETRIC STUDY

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Abstract: This study has been undertaken to investigate the impact of Banks merger on the growth of MSME portfolio of Public Sector Banks in India. The study has analyzed the MSME portfolio of selected public Sector Banks including State Bank of India and investigated the impact of merger in isolation. Outcome of the study may be used by Government of India in further framing the Banks consolidation policy in future in special reference to MSME, the so called growth engine of Indian Economy.

Keywords: Merger, Bank, MSME

INTRODUCTION

Bank merger is a process where two or more banking company join to form one Banking company with new ownership and legal structure. It is typically considered a friendly purchase, as two or more Banks have agreed to pool their resources. Merger generally occur between two banks of the similar resources and organization culture. There are several motivating factors which drive the merger of the Banks. Few of them are mentioned below:

- ❖ Reduction in Operating Cost
- ❖ Increased efficiency
- ❖ Expansion into new Market
- ❖ Scaling-up customer base and acquiring new customers
- ❖ Increasing the Tire-I and Tire-II regulatory capital
- ❖ Filling Technology and Product gap
- ❖ Improving overall customers' experience
- ❖ Bringing new people, process & technology together
- ❖ Gaining competitive edge in the market
- ❖ Weak Banks will be saved from

While mergers and acquisitions are often talked about together, they are actually distinct scenarios. Merger refers to consolidating two or more business entities to form one joint entity with the new management structure, ownership, and name capitalizing on its competitive advantage and synergies. In contrast, the acquisition is the case where one financially strong entity takes over or acquires a less financially strong business entity by acquiring all shares or shares with a value greater than 50% of its total shares.

Difference between Merger & Acquisition:

	Merger	Acquisition
Definition	The merger is a process in which more than one companies come forward to work as one	The acquisition is a process in which one company takes control of another company
Terms	Considered to be friendly and Planned	Considered to be hostile and sometime involuntary
Title	New name is given	The acquired company comes under the name of the acquiring company

Scenario	Two or more companies that consider each other on equal terms usually merge	Acquiring company is always larger than the acquired company
Power	The power difference is almost nil between two companies	Acquiring company gets to dictate terms
Stocks	Mergers leads to new stocks being issued	In acquisition, there are no new stocks issued

The Indian Scenario:

The reform process of the banking sector or industry is part and parcel of the government strategic agenda aimed at repositioning and integrating the Indian banking sector into the global financial system. There have been several reforms in the Indian banking sector, merger among one of them. In 1993, Punjab National Bank acquired New Bank of India. The only other nationalized bank merged with another except for State Bank of India with its associate banks was the merger of Bharatiya Mahila Bank with State Bank of India in 2017.

In August 2019, Government of India announced the merger of 10 Public Sector Banks to 4 (RBI's press release dated 28th March 2020). The said mergers took effect from 1st April, 2020.

ANCHOR BANK	BANKS MERGED
Punjab National Bank	United Bank of India and Oriental Bank of Commerce
Indian Bank	Allahabad Bank
Canara Bank	Syndicate Bank
Union Bank of India	Andhra Bank and Corporation Bank
Bank of Baroda	Dena Bank and Vijaya Bank
State Bank of India	State Bank of Bikaner and Jaipur State Bank of Hyderabad State Bank of Mysore State Bank of Patiala State Bank of Travancore Bharatiya Mahila Bank

The merger, which saw 27 public sector banks consolidated and reduced to 12, the government's consolidation strategy aims to create larger banks that can compete with both domestic and international financial institutions.

Objectives of PSB Amalgamation:

- ❖ The Government of India announced the mergers with the following objectives:
- ❖ Increase operational effectiveness to reduce financing costs
- ❖ Establishment of banks with a significant national presence and global reach
- ❖ Unlocking potential through mergers and the development of new banks
- ❖ Repositioning PSBs in order to create a \$5 trillion economy
- ❖ Increased ability to take on more credit and risk
- ❖ Improvement in delivery of services

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

MSMEs contribute more than 29% to the GDP and are responsible for 50% of the country's total exports. They are also accountable for one-third of India's manufacturing output. MSMEs employ more than 11 crore people, and the aim is to grow this number to 15 crores in the coming years.

MSMEs are not only important for economy of the nation but also for the banking sector of the country. The demand for credit by corporates has reduced drastically because most of the corporates have move to primary market for their fund needs. MSMEs are bridging the gap in credit demand and appeared as a new thrust area for the banks in India. MSMEs are not only bridging the gap in credit demand but also helping banks in diversifying their credit and concentration risk.

Problem Statement:

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial

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Despite of the importance of MSMEs sector, Very few, meager, limited and sporadic studies have been done to measure the impact of Banks merger on credit accessibility of MSMEs in India. The present study has overcome these drawbacks by doing the descriptive study of impact of Banks merger on MSMEs in selected Banks by comparing the MSMEs portfolio growth of these banks in pre and post-merger period.

LITERATURE REVIEW:

Grant Thornton and FICCI (2011) concluded that the cost of capital is high for MSMEs, and that there is a need to reduce the time and documentation required for procuring finance.

Lahiri (2012) pointed out that with MSMEs' rising need for short-term and long-term capital, banks should move toward more innovative methods of lending to provide for those firms' financial needs.

According to International Finance Corporation (2012), the supply of finance to the MSME sector is estimated to be 32.5 trillion Indian rupees (Rs). This total comprises contributions from informal finance, formal finance, and self-finance. Informal sources and self-finance contribute Rs25.5 trillion to the sector, of which informal finance accounts for Rs24.4 trillion. In other words, 78% of the finance used by MSMEs is met by informal sources and self-finance. The remaining 22% (Rs6.9 trillion) is provided by banks and NBFCs, of which banks provide the bulk (91.8%).

According to Charan Singh and Kishinchand Poornima Wasdani (2016) Finance for micro, small, and medium-sized enterprises (MSMEs) has been a concern for all stakeholders including entrepreneurs, financial institutions, and government organizations. The key objective of the study was to identify various challenges faced by MSMEs in sourcing of finance during different stages of their life cycle. This study is a first-of-its-kind attempt to focus on these aspects. The study further explores whether the financial awareness of MSME entrepreneurs is a major limitation in the identification and utilization of sources of finance. Data was collected through personal interviews using a structured questionnaire from a sample of 85 MSMEs. The survey was conducted mainly in the city of Bangalore covering a wide spectrum of sectors like precision tools, weavers, jewelers, food retailers, metal works, textiles, and bookshops. The results reinforce the findings of other studies that utilization of formal sources like banks is significantly small compared with informal sources like personal and family wealth. The study found that the main challenges faced in underutilization of formal sources were inadequacy of collateral assets and lack of financial awareness of entrepreneurs. Based on the conclusion that requirement of finance differs with the life-cycle stage of the MSMEs; recommendations have been proposed for entrepreneurs, financial institutions, and policy makers.

International Finance Corporation (2018): Financing India's MSMEs Estimation of Debt Requirement of MSMEs in India. This study aims to provide an assessment of the Micro, Small and Medium Enterprise sector finance in India. The chapters in the study highlight the key characteristics of the MSME sector, and assess the demand for, and the flow of credit into the sector. The study also evaluates the consequent gap in the financing needs of MSMEs. Finally, it explores potential interventions to boost the flow of formal credit to the sector.

Research gap and Need for the study:

Despite of the importance of MSMEs sector, Very few, meager, limited and sporadic studies have been done to measure the impact of Banks merger on credit accessibility of MSMEs in India. The present study has overcome these drawbacks by doing the descriptive study of impact of Banks merger on MSMEs in selected Banks by comparing the MSMEs portfolio growth of these banks in pre and post-merger period.

Research Objectives:

The objectives of the present study are given below:

(1) To measure the impact of Banks merger on credit accessibility of MSMEs by doing the descriptive study of MSME portfolio growth of selected banks in pre and post-merger period.

Research Questions:

What is the Impact of Banks merger of credit accessibility of MSMEs in India?

Hypotheses:

The following hypotheses is tested in the present study.

(1) H01 There is no difference in percentage growth of MSME portfolio in pre and post-merger period in selected banks.

DATA AND METHODOLOGY:**Sample Selection and Sample Size:**

Six Banks were chosen for the study which are as follows:

- ❖ State Bank of India
- ❖ Bank of Baroda
- ❖ Punjab National Bank
- ❖ Union Bank
- ❖ Bank of India
- ❖ Canara Bank

The rationale for choosing the sample Banks is the availability of primary data & size of the Bank.

Source of Data:

Keeping in view the above-mentioned objectives and hypotheses both Primary & secondary data has been used. Obtaining the datasets for the purpose of the study involved a comprehensive search of the databases of IBA, website of RBI, SEBI, Banks, data bank of CMIE, reports and statistical data and tables published on Banks in different journals. Following were the main source of data:

- ❖ Information obtained through Right to information from Reserve Bank of India, MSME Department and Khadi & Village Industries Commission of Government of India.
- ❖ Databases of IBA, CMIE, RBI
- ❖ Window-shopping in different branches of peer Banks
- ❖ Statistical data and tables published on Banks in different Journals.
- ❖ Website of the selected Bank.
- ❖ Investor's presentation and ABS of selected Banks.
- ❖ The study has use the (balance sheet) data for 10 years from the year 2013 to 2022. This period was chosen to represent the impact of several mergers & acquisition and COVID19, which occurred most in this period.

Period of study:

The study has used the data for 10 years from the year 2012-13 to 2021-22. This period were chosen to represent the merger impacts, which occurred most in this period.

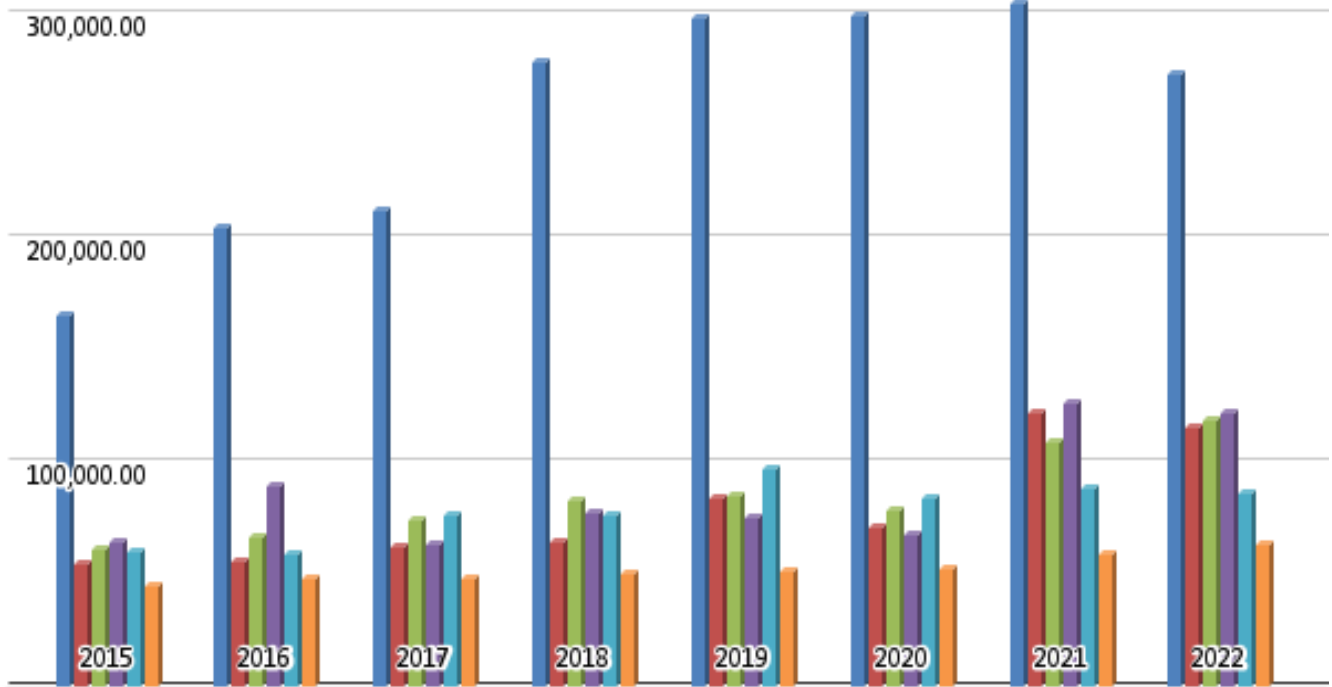
Analysis of Year wise percentage growth in MSMEs portfolio:**Year wise MSMEs portfolio of Selected Bank:**

Year	State Bank	Union Bank	Canara Bank	PNB	BOB	BOI
2015	1,65,490.10	54,746.92	60,604.73	63,715.55	60,179.50	44,579.15
2016	2,04,577.88	55,480.62	66,688.70	88,725.16	58,889.26	48,075.17
2017	2,11,859.07	61,888.46	74,301.73	63,270.71	76,168.07	48,018.30
2018	2,78,455.22	63,738.91	82,098.04	77,432.11	76,299.98	50,331.33
2019	2,97,425.69	83,924.92	85,105.22	74,988.14	96,302.36	51,154.46
2020	2,99,321.75	70,381.38	78,772.71	67,070.11	83,540.61	52,201.10
2021	3,04,361.02	1,22,273.61	1,08,266.31	1,25,966.03	87,555.47	59,086.53
2022	2,72,929.91	1,14,833.98	1,18,966.73	1,22,126.63	85,883.28	63,259.81

Table 6.1 Source: Right to Information replied by RBI

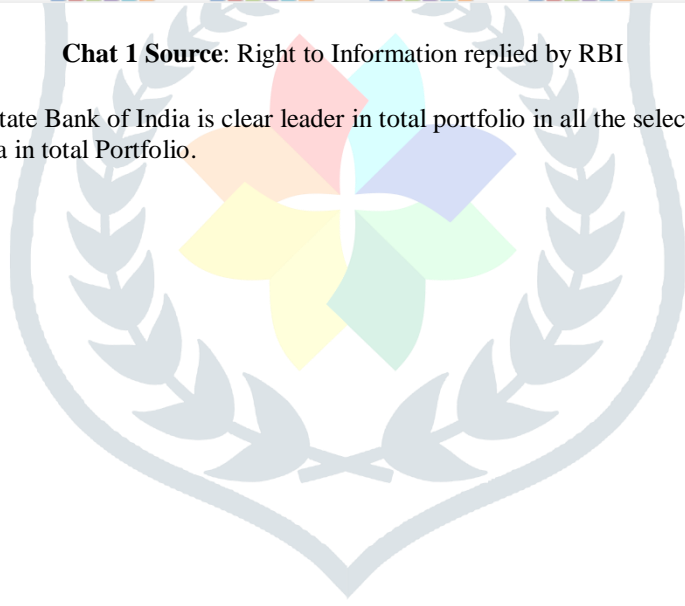
Year-wise MSME Portfolio

■ State Bank of India
 ■ Union Bank
 ■ Canara Bank
 ■ Punjab National Bank
■ Bank of Baroda
 ■ Bank of India

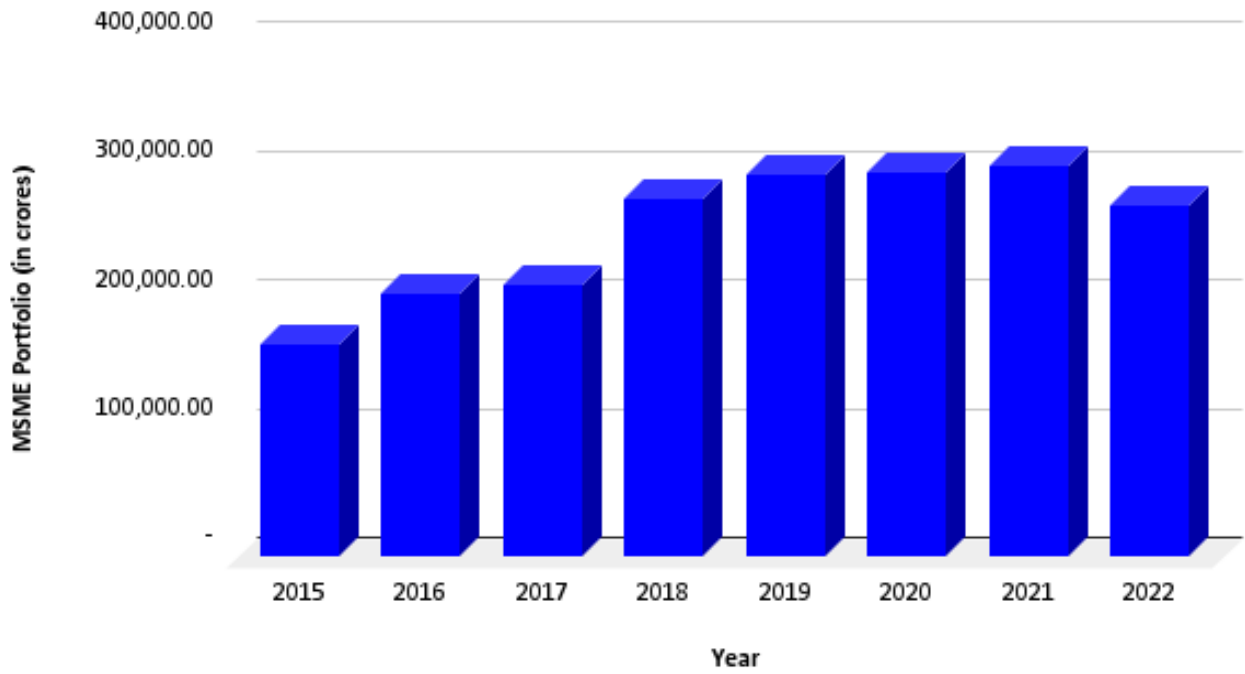


Chat 1 Source: Right to Information replied by RBI

The above chart is showing that State Bank of India is clear leader in total portfolio in all the selected years. Other selected banks are far behind State Bank of India in total Portfolio.

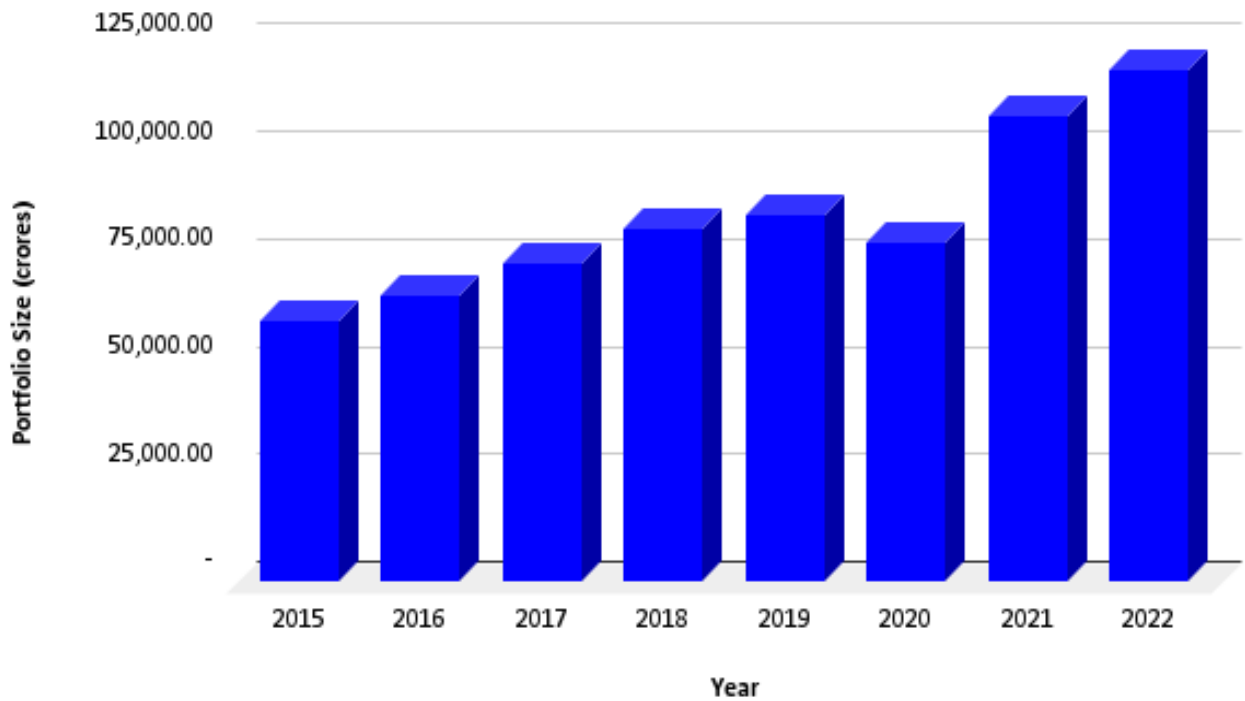


MSME PORTFOLIO of SBI

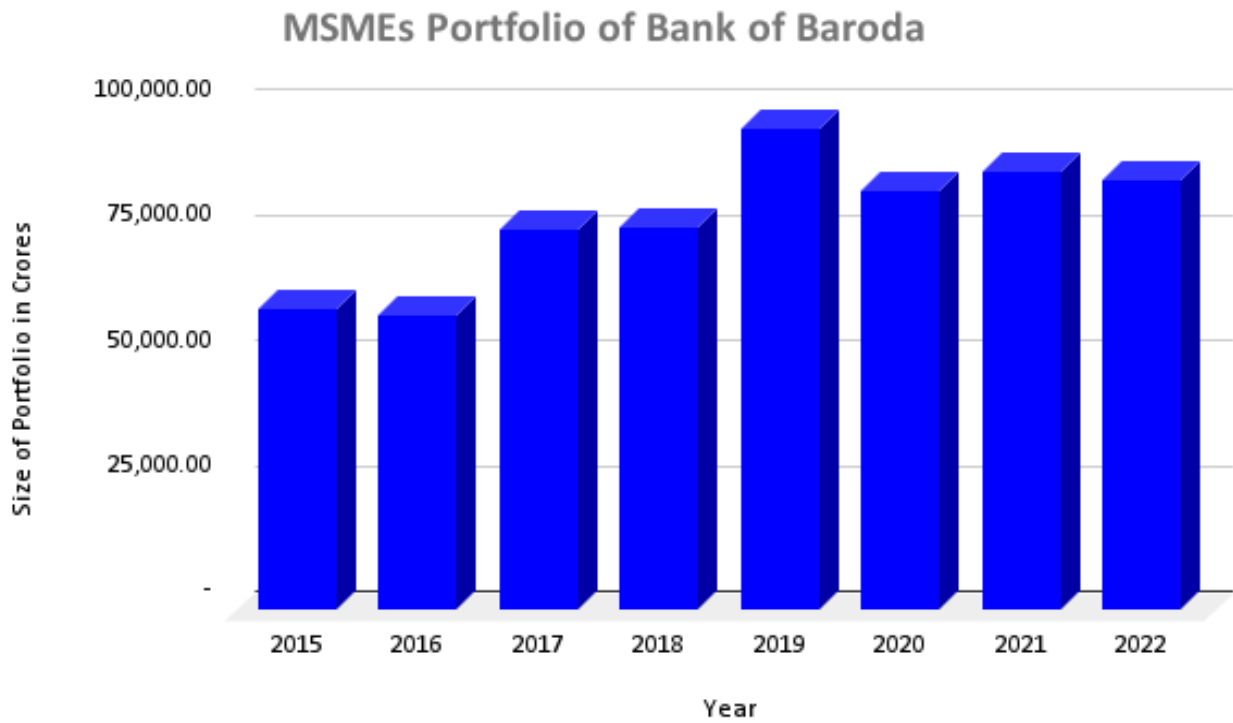


Chat 2 Source: Right to Information replied by RBI

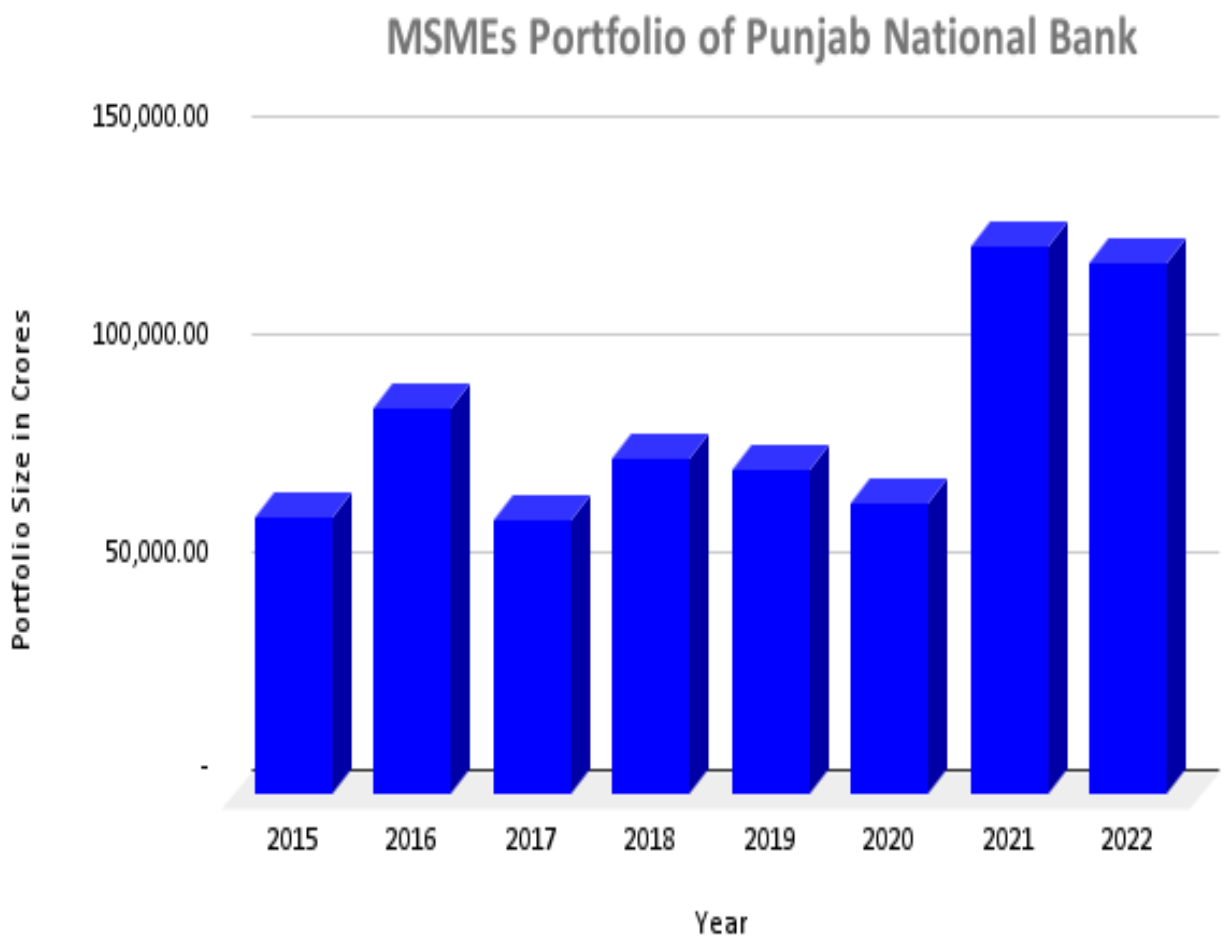
MSME Portfolio of Canara Bank



Chat 3 Source: Right to Information replied by RBI

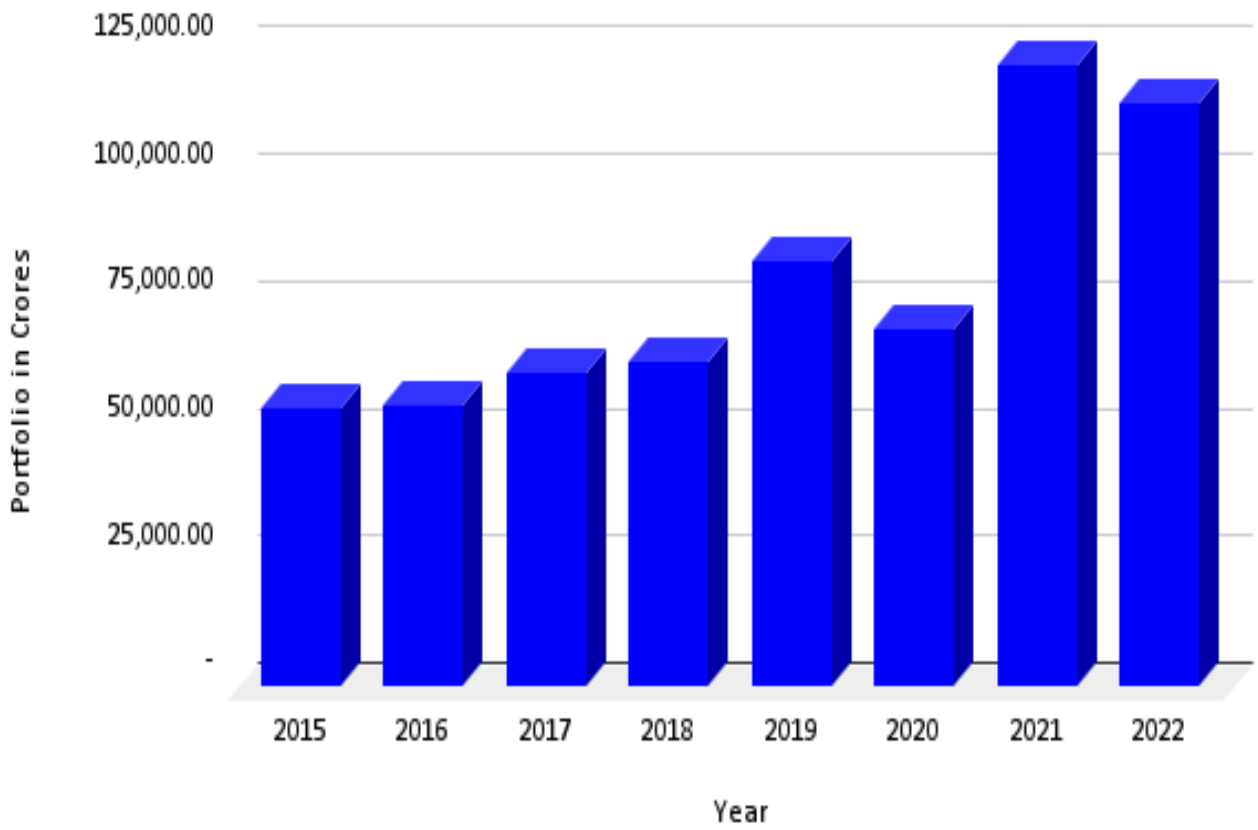


Chat 4 Source: Right to Information replied by RBI



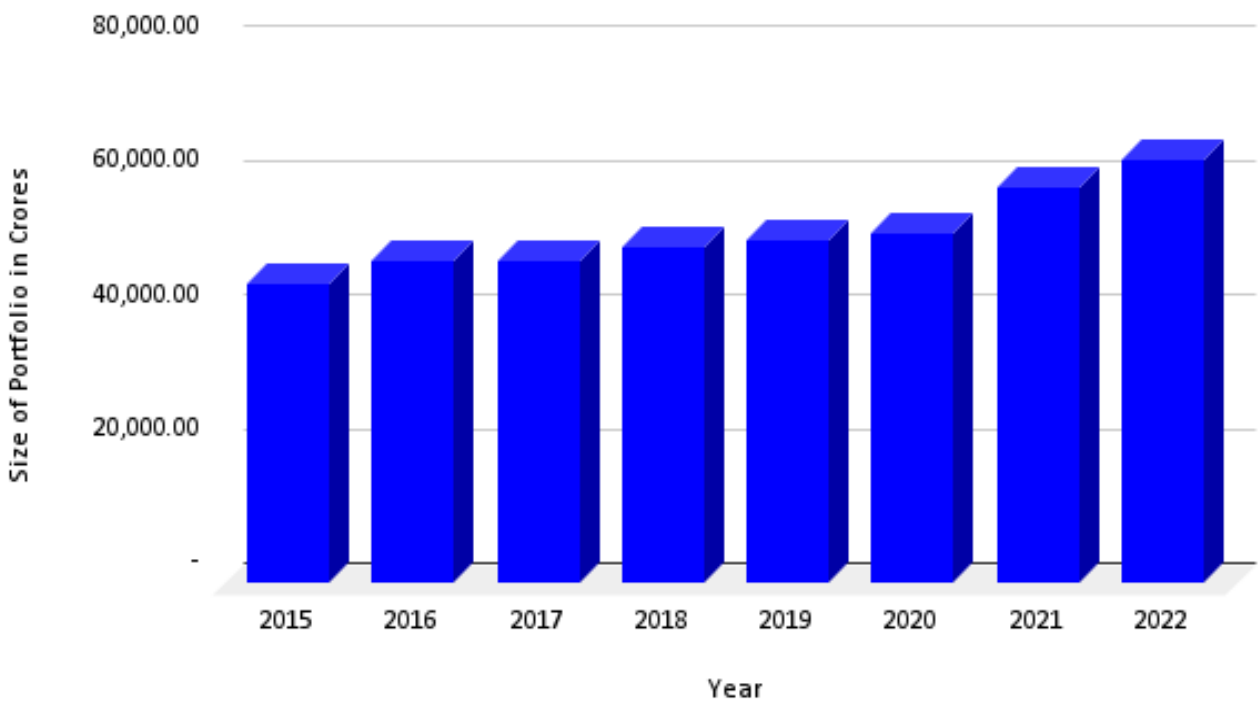
Chat 5 Source: Right to Information replied by RBI

MSMEs Portfolio of Union Bank



Chat 6 Source: Right to Information replied by RBI

MSMEs Portfolio of Bank of India



Chat 7 Source: Right to Information replied by RBI

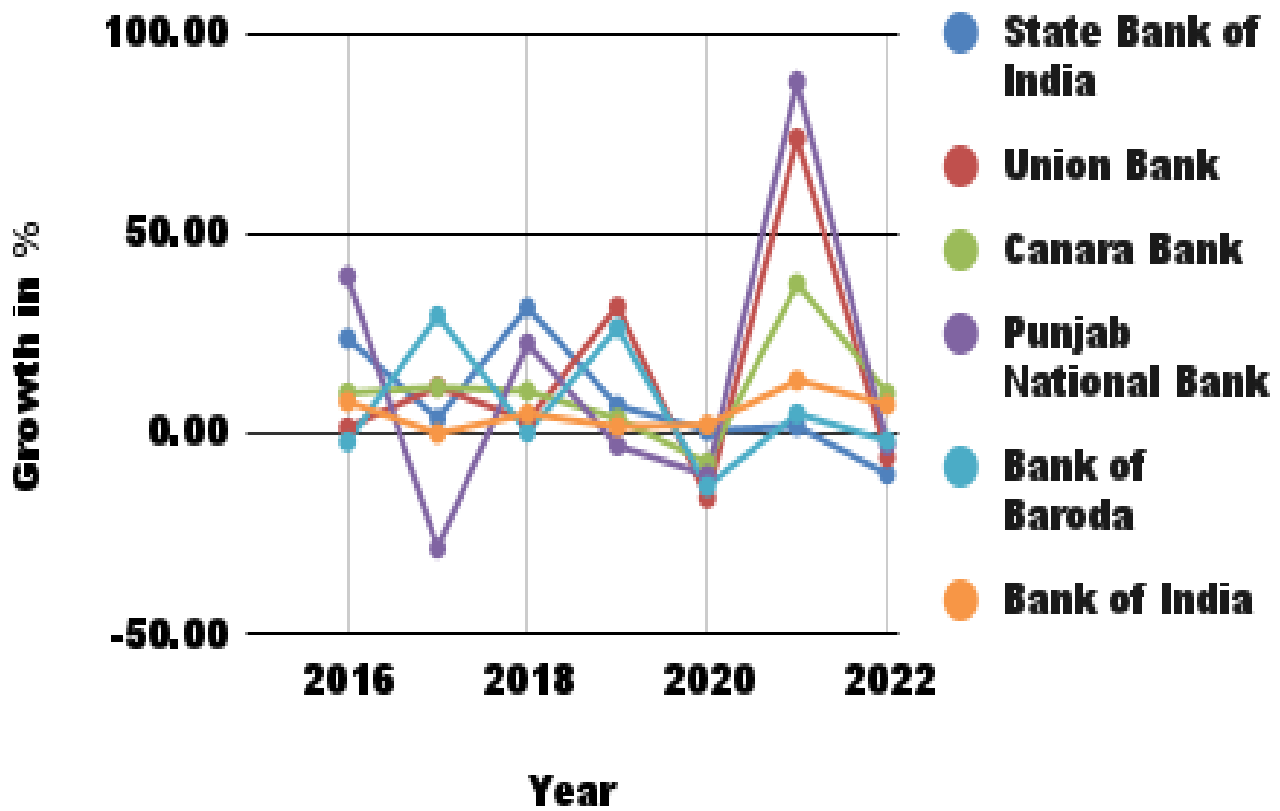
Year wise percentage growth in MSMEs portfolio:

Year	State Bank	Union Bank	Canara Bank	PNB	BOB	BOI
2016	23.62	1.34	10.04	39.25	-2.14	7.84
2017	3.56	11.55	11.42	-28.69	29.34	-0.12
2018	31.43	2.99	10.49	22.38	0.17	4.82
2019	6.81	31.67	3.66	-3.16	26.22	1.64
2020	0.64	-16.14	-7.44	-10.56	-13.25	2.05
2021	1.68	73.73	37.44	87.81	4.81	13.19
2022	-10.33	-6.08	9.88	-3.05	-1.91	7.06

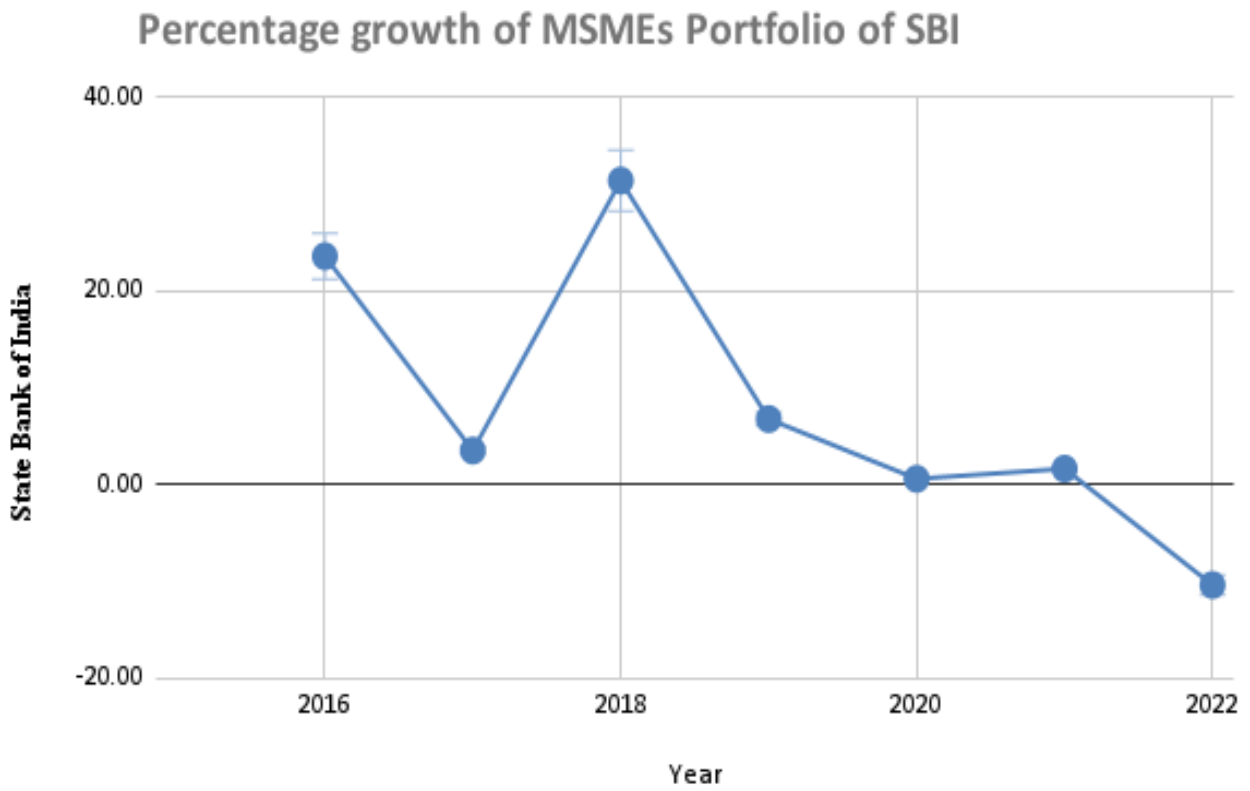
Table 2 Source: Right to Information replied by RBI

The above figures shows that in FY 2022 all the selected bank have shown the negative growth except Canara Bank & Bank of India. The percentage growth in FY 2021 was impact of merger.

Percentage growth of MSMEs Portfolio

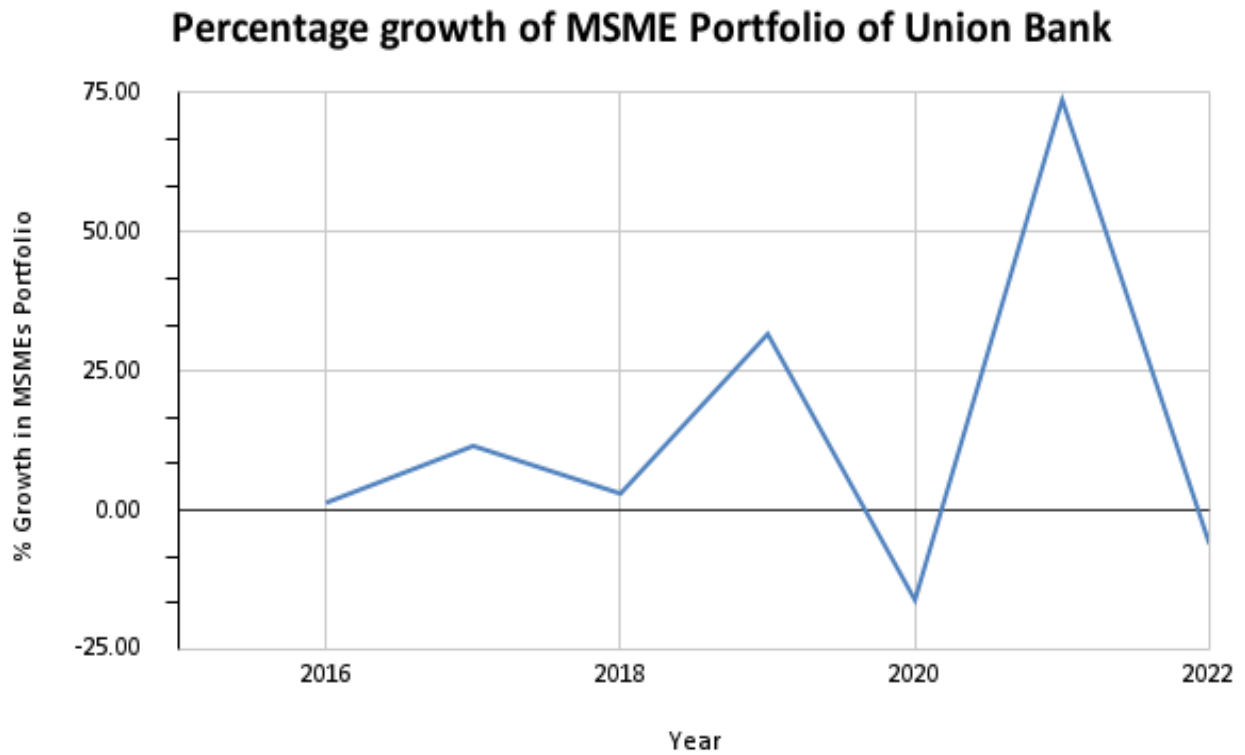


Chat 8 Source: Right to Information replied by RBI



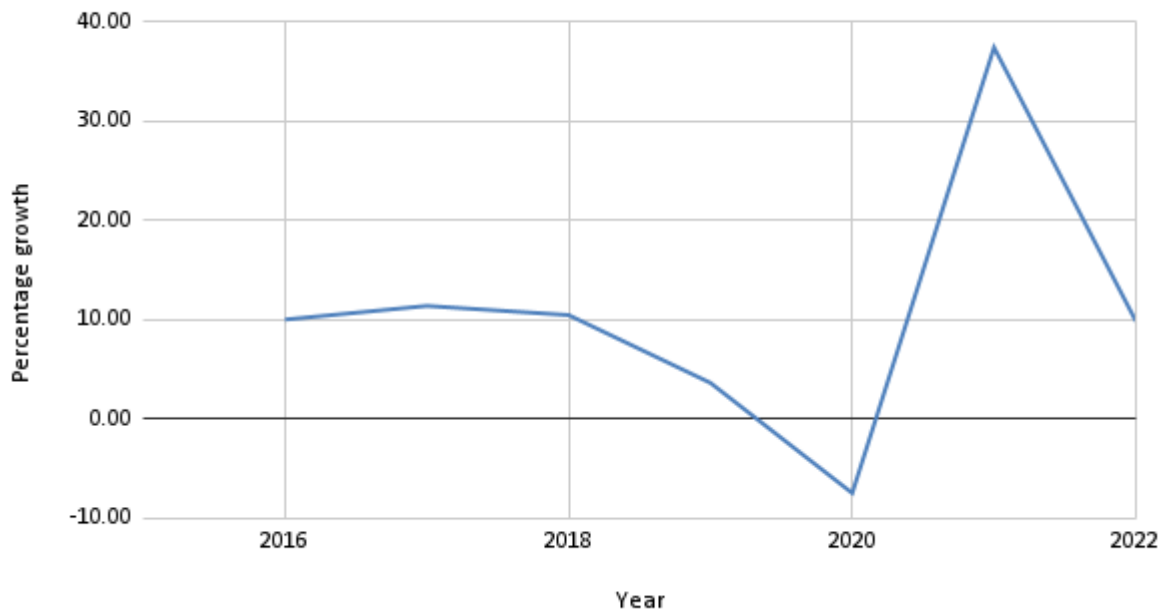
Chat 9 Source: Right to Information replied by RBI

The above chart shows that after FY 2018 the growth percentage of MSME portfolio of SBI is declining however it was positive till FY 2021. In FY 2022, first time in selected year, it has become negative.



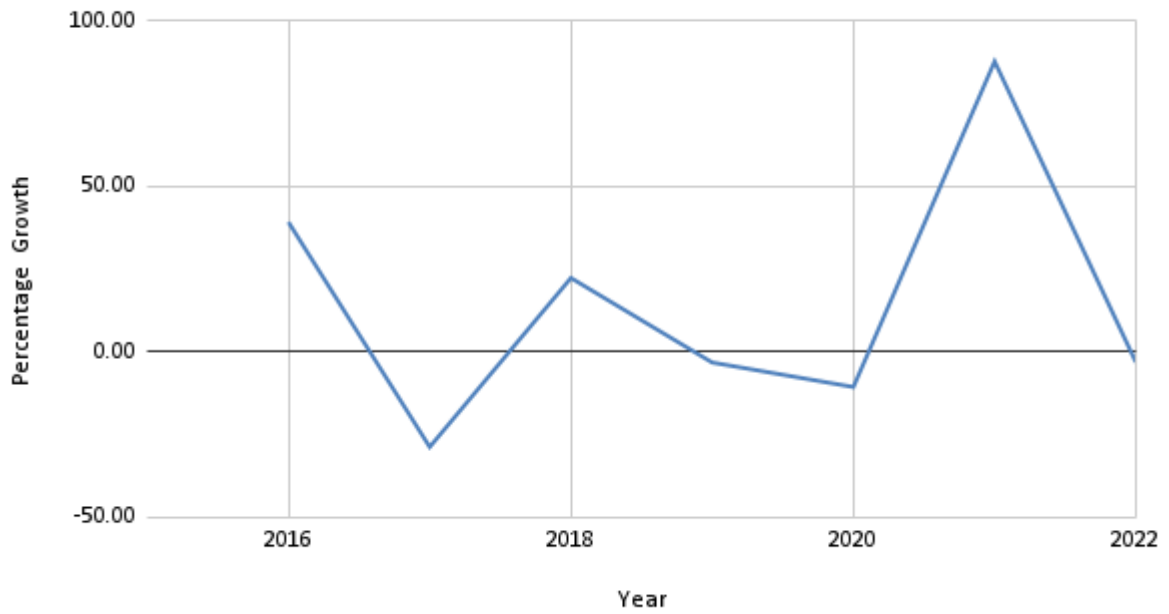
Chat 10 Source: Right to Information replied by RBI

Growth rate of MSMEs Portfolio Canara Bank



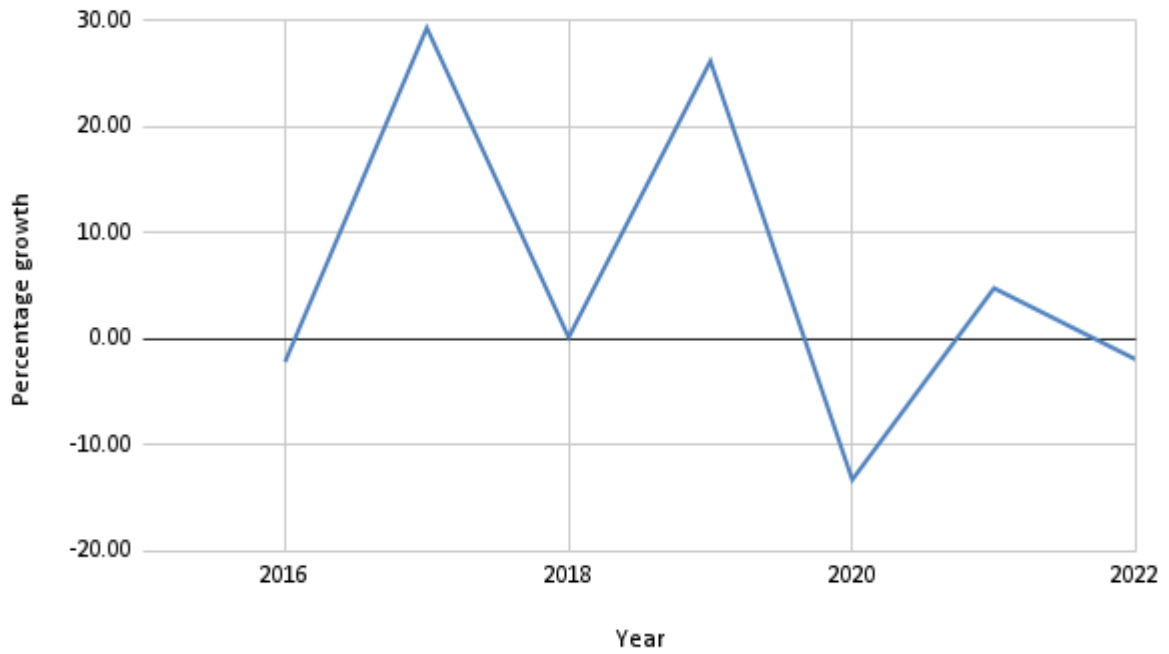
Chat 11 Source: Right to Information replied by RBI

Growth rate of MSMEs Portfolio of Punjab National Bank



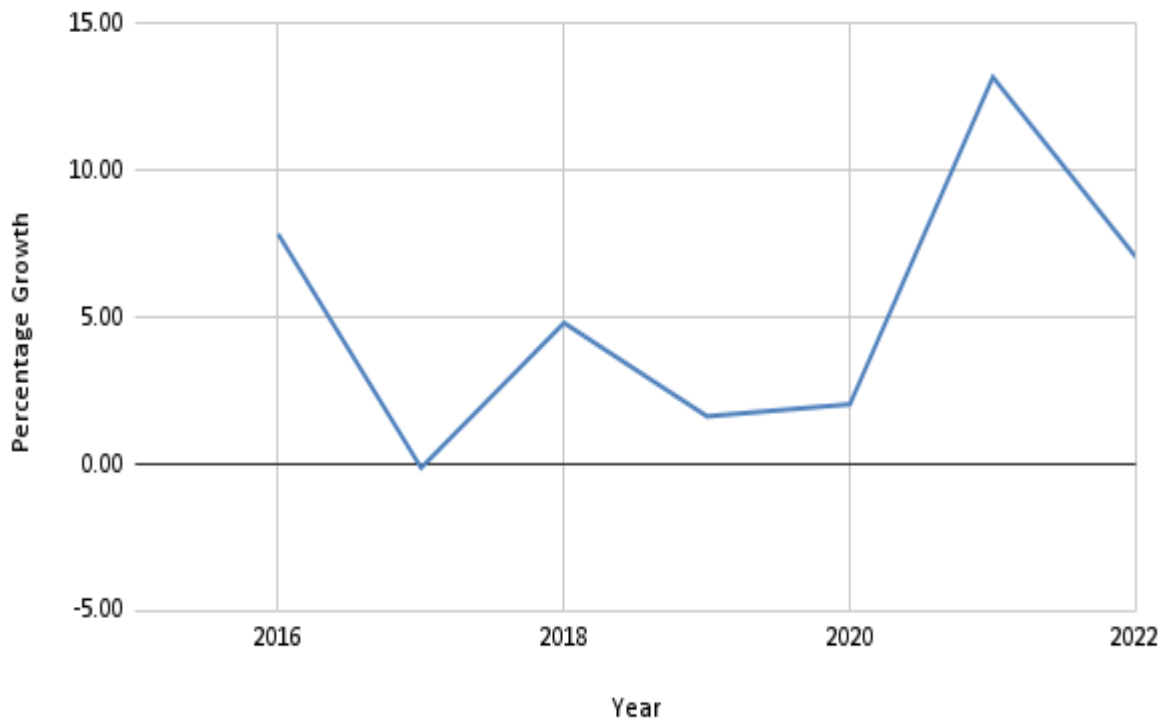
Chat 12 Source: Right to Information replied by RBI

Growth rate of MSMEs Portfolio of Bank of Baroda



Chat 13 Source: Right to Information replied by RBI

Growth rate of MSMEs Portfolio of Bank of India

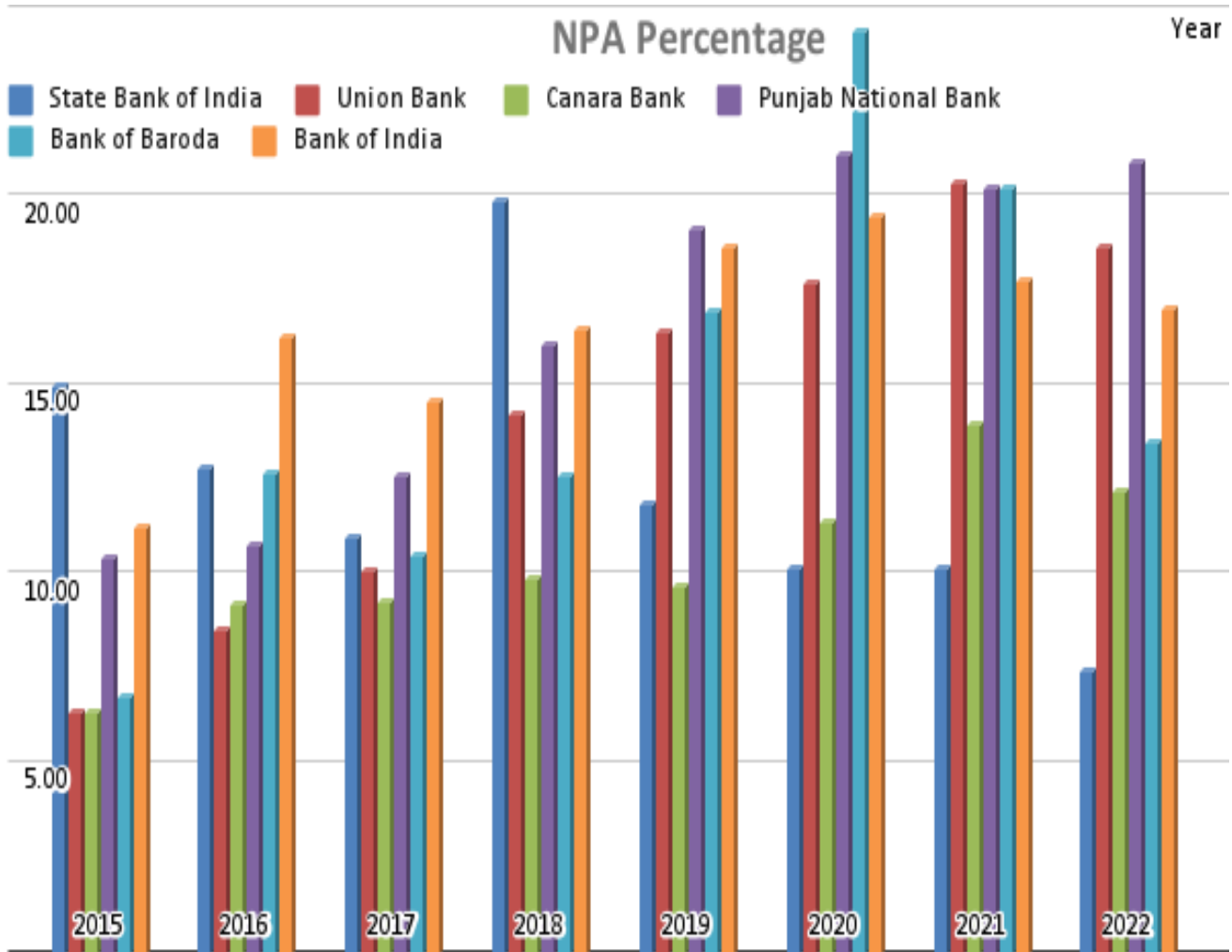


Chat 14 Source: Right to Information replied by RBI

Year wise NPA% of MSMEs Portfolio of Selected Bank:

Year	State Bank	Union Bank	Canara Bank	PNB	BOB	BOI
2015	15.01	6.38	6.40	10.48	6.76	11.28
2016	12.85	8.53	9.22	10.83	12.69	16.29
2017	11.01	10.15	9.28	12.67	10.52	14.62
2018	19.91	14.24	9.90	16.08	12.62	16.51
2019	11.87	16.47	9.75	19.17	17.02	18.70
2020	10.19	17.74	11.44	21.12	24.36	19.50
2021	10.21	20.40	14.01	20.27	20.23	17.77
2022	7.47	18.70	12.25	20.93	13.51	17.02

Table: 4 Source: Right to Information replied by RBI



Chat 15 Source: Right to Information replied by RBI

The above figure shows that in FY 2022, Punjab National Bank is having the highest percentage of NPA. Union Bank of India is having the second largest percentage of NPA.

In spite of having the highest portfolio of MSMEs loan, State Bank of India is having the lowest percentage of NPA in the MSMEs portfolio. Hence, study have inferred that State Bank process and procedure is best in the selected Bank. State Bank of India: Highest Portfolio and Lowest percentage of NPA in MSMEs.

Summary of Findings, Results & Discussion

There was a considerable effect of bank merger on MEMEs in India. On 1st Apr 2017 five associate banks merged with State Bank of India. In FY2016 percentage growth of SBI MSME portfolio was 23.62%. After FY 2017 till FY 2022, SBI has not realized double digit growth except in year of merger i.e. FY 2018.

Union Bank of India merged with Andhra Bank and Corporation Bank on Apr 2020. In merger year of FY 2021, the growth of MSME portfolio was 73.73% which has come down to negative (6.08)% in FY 2022.

Canara Bank merged with Syndicate Bank in Apr 2020. In the year of merger the MSME portfolio growth was 37.44% which has reduced to 9.88% in FY 2022.

Punjab National Bank merged with United Bank of India and Oriental Bank of Commerce in Apr 2020. In the year of merger the percentage growth of MSME portfolio was 87.81% which has come down to negative (3.05)% in FY 2022.

Bank of Baroda merged with Vijaya Bank & Dena Bank in Apr 2020. In the year of merger the percentage growth of the said portfolio was 4.81%. The same has reduced to negative (1.91)% in FY 2022.

Bank of India has not merged with any Bank and in the FY 2021 the percentage growth of MSME portfolio was 13.19% which reduced to 7.06% in FY 2022.

The above results & finding shows that merger has not given positive effect on the growth rate of MSME portfolio of the selected banks. The time lag for cultural integration or too big to manage, may be the reason for the same. However due to short span of time after merger and possible impact of Covid-19, it will be too early to draw any conclusion.

Limitations of the study:

Only six PSU Bank has been selected for the study.

Only one year data after merger is not sufficient to draw any concrete conclusion.

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