

BANKING

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Blockbuster merger – 10 PSBs fused into 4

In a mega move towards consolidation, the Finance Minister has announced the merger of 10 PSBs into 4 new entities, albeit with no definite timelines or swap ratios. A further recap of Rs 553bn has also been mooted to fuel credit growth and meet regulatory/integration costs. In our view, merger will not materially benefit any of the four anchor banks, though integration will be a challenge. Also, synchronised, smooth mergers across multiple entities is a tall ask that can hurt credit growth, stall recoveries and gift market share to private banks in the short run.

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Big bang PSB consolidation: The government today has proposed the merger of 10 public sector banks (PSB) into 4, thereby reducing the number of PSBs to 12 from 27 (in 2017). Prima facie, it appears that banks which share a common CBS platform are being merged in order to minimise technology integration hurdles. Six PSBs have been left out of the consolidation process – we believe this was done to protect regional business interests or to avoid creating weaker entities.

Canara–Syndicate merger looks manageable: Apart from State Bank of India, Canara Bank (CBK) is the only anchor bank that we track in the public space. Post-merger with Syndicate Bank (SNDB), CBK will be the fourth largest PSB with a network of over 10,000 branches. Other synergies include a potential uplift in CASA, PCR and capital adequacy ratios (based on Mar'19 financials), besides cost reduction from network overlap. Its NNPA ratio, however, could deteriorate slightly by 25bps to 5.62%. In our view, a similar work culture could make SNDB's and CBK's consolidation journey more manageable.

Capital infusion the only silver lining: We see no material improvement in financials of the remaining anchor banks (Punjab National Bank, Union Bank, Indian Bank) post-merger. But as consolidation in the PSB space is the government's sole intention, additional capital infusion worth Rs 553bn makes the move less contentious.

Private banks to gain from protracted merger exercise: In our view, the inherently long-drawn merger process across multiple banks will divert management bandwidth away from credit growth and asset quality management in the short-run. As PSBs grapple with the mega consolidation exercise, private banks will be able to step in and augment their market share.



FIG 1 – AMALGAMATED DETAILS OF PUNJAB NATIONAL BANK + ORIENTAL BANK OF COMMERCE + UNITED BANK

Y/E 31 Mar 2019	Punjab National Bank	Oriental Bank of Commerce	United Bank of India	Amalgamated bank
Total business (Rs bn)	11,822	4,042	2,081	17,945
Gross advances (Rs bn)	5,062	1,715	731	7,509
Deposits (Rs bn)	6,760	2,326	1,350	10,437
CASA ratio (%)	42.2	29.4	51.5	40.5
Domestic branches	6,992	2,390	2,055	11,437
PCR (%)	61.7	56.5	51.2	59.6
CET-I ratio (%)	6.2	9.9	10.1	7.5
CRAR ratio (%)	9.7	12.7	13.0	10.8
Net NPA ratio (%)	6.6	5.9	8.7	6.6
Employees	65,116	21,729	13,804	100,649

Source: Finance ministry presentation, BOBCAPS Research

FIG 2 – AMALGAMATED DETAILS OF CANARA BANK + SYNDICATE BANK

Y/E 31 Mar 2019	Canara Bank	Syndicate Bank	Amalgamated bank
Total business (Rs bn)	10,432	4,770	15,203
Gross advances (Rs bn)	4,442	2,171	6,614
Deposits (Rs bn)	5,990	2,599	8,589
CASA ratio (%)	29.2	32.6	30.2
Domestic branches	6,310	4,032	10,342
PCR (%)	41.5	48.8	44.3
CET-I ratio (%)	8.3	9.3	8.6
CRAR ratio (%)	11.9	14.2	12.6
Net NPA ratio (%)	5.4	6.2	5.6
Employees	58,350	31,535	89,885

Source: Finance ministry presentation, BOBCAPS Research

FIG 3 – AMALGAMATED DETAILS OF UNION BANK + ANDHRA BANK + CORPORATION BANK

Y/E 31 Mar 2019	Union Bank	Andhra Bank	Corporation Bank	Amalgamated bank
Total business (Rs bn)	7,413	3,985	3,196	14,594
Gross advances (Rs bn)	3,254	1,787	1,350	6,391
Deposits (Rs bn)	4,159	2,198	1,846	8,203
CASA ratio (%)	36.1	31.4	31.6	33.8
Domestic branches	4,292	2,885	2,432	9,609
PCR (%)	58.3	68.6	66.6	63.1
CET-I ratio (%)	8.0	8.4	10.4	8.6
CRAR ratio (%)	11.8	13.7	12.3	12.4
Net NPA ratio (%)	6.9	5.7	5.7	6.3
Employees	37,262	20,346	17,776	75,384

Source: Finance ministry presentation, BOBCAPS Research

FIG 4 – AMALGAMATED DETAILS OF INDIAN BANK + ALLAHABAD BANK

Y/E 31 Mar 2019	Indian Bank	Allahabad Bank	Amalgamated bank
Total business (Rs bn)	4,300	3,779	8,079
Gross advances (Rs bn)	1,879	1,636	3,514
Deposits (Rs bn)	2,421	2,143	4,564
CASA ratio (%)	34.7	49.5	41.7
Domestic branches	2,875	3,229	6,104
PCR (%)	49.1	74.2	66.2
CET-I ratio (%)	11.0	9.7	10.4
CRAR ratio (%)	13.2	12.5	12.9
Net NPA ratio (%)	3.8	5.2	4.4
Employees	19,604	23,210	42,814

Source: Finance ministry presentation, BOBCAPS Research

FIG 5 – ADDITIONAL CAPITAL INFUSION ANNOUNCED BY GOVERNMENT

Bank	Amount (Rs bn)
Punjab National Bank	160
Union Bank of India	117
Bank of Baroda	70
Canara Bank	65
Indian Bank	25
Indian Overseas Bank	38
Central Bank of India	33
UCO Bank	21
United Bank of India	16
Punjab and Sind Bank	8
Total	553

Source: Finance ministry presentation, BOBCAPS Research

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