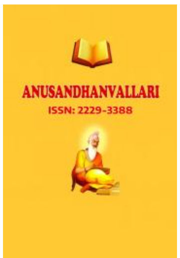

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A Critical Evaluation of Performance of Public Sector Banks Post-Merger

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Abstract

The banking sector plays a vital role in supporting the economic development of India, with Public Sector Banks (PSBs) being key institutions for mobilizing financial resources and providing credit to various sectors of the economy. However, around 2015 the financial health of several PSBs deteriorated due to the rising level of Non-Performing Assets (NPAs), which significantly affected their profitability and lending capacity. In response to these challenges, the Government of India and the Reserve Bank of India initiated several reforms, including the Asset Quality Review (AQR), the Indradhanush scheme and the implementation of the 4R strategy—recognition, resolution, recapitalization and reform. Legal and institutional mechanisms such as the Insolvency and Bankruptcy Code (IBC), SARFAESI Act amendments and improved credit monitoring systems were also introduced. Furthermore, the consolidation of Public Sector Banks through mergers in 2020 aimed to strengthen the banking system. These reforms have contributed to improved asset quality, stronger capital adequacy and enhanced operational efficiency in the Indian banking sector.

Key Words: Asset Quality Review, Capital Adequacy Ratio, Technological Integration, Non Performing Assets.

Introduction

The banking sector plays a crucial role in the economic development of a country by mobilizing savings and channelizing them into productive investments. In India, Public Sector Banks (PSBs) have historically dominated the banking system and have significantly contributed to financial inclusion, credit expansion and economic growth.

However, during the period after 2015, the Indian banking system witnessed a sharp deterioration in asset quality. The **Asset Quality Review (AQR)** conducted by the Reserve Bank of India in 2015 revealed large amounts of hidden stressed assets in the banking system. As a result, several restructured assets were reclassified as **Non-Performing Assets (NPAs)**, causing a significant increase in NPAs across PSBs.

The Gross NPA ratio of Scheduled Commercial Banks reached a peak in 2018, adversely affecting profitability, lending capacity and financial stability. To address this crisis, the Government of India introduced several reforms such as the **Indradhanush Scheme**, recapitalization measures and legal frameworks like the Insolvency and Bankruptcy Code to strengthen the banking system.

One of the most significant reforms was the **mega merger of Public Sector Banks in April 2020**, where ten PSBs were consolidated into four large banks. The mergers aimed to create stronger institutions with improved operational efficiency, larger capital base and better risk management capability.

Post-merger reforms and financial restructuring have resulted in significant improvements in asset quality, capital adequacy and profitability of PSBs. For example, the Gross NPA ratio of PSBs declined significantly after 2018, indicating improvement in financial health and stability of the banking system.

Therefore, evaluating the performance of Public Sector Banks after the merger becomes an important research issue to understand the effectiveness of banking sector reforms in India.

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Objectives of the Study

The study aims to evaluate the performance of Public Sector Banks in India after the 2020 mega merger. The specific objectives are:

1. To examine the financial performance of Public Sector Banks after the merger.
2. To analyse the impact of the merger on asset quality and profitability of PSBs.
3. To study the perception of bank customers and employees regarding the performance of PSBs post-merger.
4. To evaluate whether the merger has improved operational efficiency in the banking sector.

Rationale of the Study

The Indian banking sector has undergone significant structural transformation in recent years. The consolidation of PSBs in 2020 was one of the largest banking reforms undertaken by the Government of India.

The rationale behind this reform was to:

- Improve financial stability of banks
- Reduce operational costs through economies of scale
- Strengthen capital adequacy
- Enhance lending capacity to support economic growth

Despite these expected benefits, mergers may also create operational challenges such as integration issues, technological compatibility and cultural differences among employees.

Therefore, it becomes essential to critically examine whether the merger has actually improved the performance and efficiency of Public Sector Banks. This study attempts to provide empirical insights into the post-merger performance of PSBs.

Review of Existing Literature

Several studies have examined the impact of bank mergers on financial performance and operational efficiency.

Deepthi, Sindhu and John (2024) examined the structural transformation in the Indian banking sector after the 2020 PSB mergers. Their study found that consolidation helped create stronger institutions with improved capital base and operational scale, though integration challenges remained.

Hiremath and Kudachimath (2024) analysed the financial performance of anchor banks formed after the mega merger using pre- and post-merger financial indicators. The study observed improvements in profitability, asset quality and capital adequacy of major public sector banks.

Swami and Saradhi (2024) studied the financial efficiency of merged public sector banks using Data Envelopment Analysis and regression techniques. Their findings suggested that mergers improved risk management, liquidity and operational efficiency of banks involved in the consolidation.

Madray and Kamal (2020) analysed the reasons and expected outcomes of public sector bank mergers in India. The study concluded that the government intended to strengthen the banking sector by creating larger and more competitive institutions capable of supporting economic growth.

Overall, existing literature suggests that while bank mergers strengthen financial capacity and stability, successful outcomes depend on effective governance, technology integration and risk management.

Research Gap

Although several studies have examined the impact of bank mergers on financial performance, most of the existing research primarily focuses on **financial indicators such as profitability, capital adequacy and NPA levels using secondary data**. Limited studies have incorporated **primary data from stakeholders such as**

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bank customers and employees to evaluate the perceived performance of Public Sector Banks after the 2020 mega merger.
Furthermore, many earlier studies focused on **short-term financial outcomes immediately after the merger**, while relatively fewer studies analyze the **post-merger stability and operational efficiency in the medium term (2021–2025)**.
Therefore, the present study attempts to fill this gap by:
1. Evaluating the **post-merger performance of Public Sector Banks using both primary and secondary data**.
2. Studying the **perception of stakeholders regarding improvements in banking services and performance**.
3. Analysing **recent financial indicators such as NPA reduction, capital adequacy and profitability trends**.

This integrated approach provides a more comprehensive evaluation of the impact of PSB mergers on the Indian banking sector.

Hypothesis of the Study:
H0 (Null Hypothesis):
There is no significant improvement in the financial performance of Public Sector Banks after the merger.
H1 (Alternative Hypothesis):
There is a significant improvement in the financial performance of Public Sector Banks after the merger.

Research Methodology
Research Design
The study is descriptive and analytical in nature. The study uses a **sample size of 120 respondents** consisting of:
- Bank customers
- Bank employees
- Banking professionals

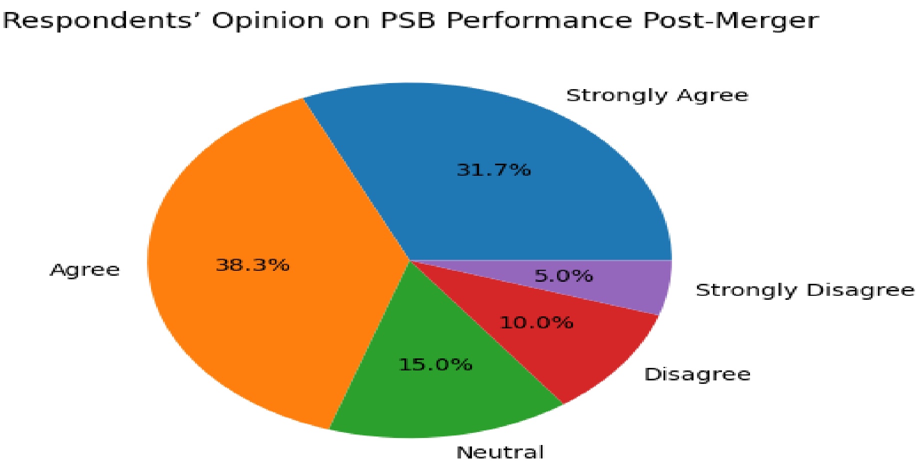
A **convenience sampling method** has been adopted to collect responses from respondents. Primary data were collected using a structured questionnaire distributed to 120 respondents. Secondary data were collected from:
- Annual reports of Public Sector Banks
- Reports of the Reserve Bank of India
- Government publications
- Research journals and articles

Tools for Analysis
The following statistical tools were used:
- Percentage analysis
- Mean score analysis
- Simple descriptive statistics

Results: Data Collection and Analysis
The primary data collected from 120 respondents were analysed to evaluate perceptions regarding the performance of PSBs after the merger.

Perception of Respondents Regarding PSB Performance

Opinion	Respondents	Percentage
Strongly Agree	38	31.7%
Agree	46	38.3%
Neutral	18	15.0%
Disagree	12	10.0%
Strongly Disagree	6	5.0%



Source : Primary Data

The data indicate that nearly **70% of respondents believe that the performance of Public Sector Banks has improved after the merger**.

Secondary data analysis also shows improvement in:

- Reduction in NPAs
- Increase in Provision Coverage Ratio
- Improvement in Capital Adequacy Ratio
- Increase in Net Profit

For example, the Net NPA of PSBs declined significantly between 2018 and 2024, indicating improved asset quality.

Conceptual Model

Public Sector Bank Merger (2020)
↓
Banking Reforms & Recapitalization
↓
Improved Risk Management & Governance
↓

Asset Quality Improvement (NPA)
Capital Adequacy Improvement
Higher Net Profit
Better Operational Efficiency
Improved Banking Services

↓
Stronger Banking System
↓
Economic Growth in India

Statistical Test for Hypothesis

To test the hypothesis, a **Chi-Square test** was applied to determine whether there is a significant improvement in the performance of Public Sector Banks after the merger.

Hypotheses

H0 (Null Hypothesis):

There is no significant improvement in the performance of Public Sector Banks after the merger.

H1 (Alternative Hypothesis):

There is a significant improvement in the performance of Public Sector Banks after the merger.

Table: Opinion of Respondents on Performance of PSBs

Sample Size = **120 respondents**

Opinion	**Number of Respondents (Observed)**	**Expected Frequency**
Strongly Agree	38	24
Agree	46	24
Neutral	18	24
Disagree	12	24
Strongly Disagree	6	24
Total	**120**	**120**

Chi-Square Calculation
Formula:

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Category	O	E	(O-E)	$(O-E)^2$	$(O-E)^2$ / E
Strongly Agree	38	24	14	196	8.17
Agree	46	24	22	484	20.17
Neutral	18	24	-6	36	1.50
Disagree	12	24	-12	144	6.00
Strongly Disagree	6	24	-18	324	13.50

$\chi^2 = 49.34$

Degrees of Freedom
df = n − 1
df = 5 − 1 = **4**
Table Value (5% significance level)
Critical value = **9.49**
Decision
Since
Calculated value (49.34) > Table value (9.49)
Reject the Null Hypothesis
Interpretation
There is **significant evidence that the performance of Public Sector Banks has improved after the merger**.

Data Analysis Charts

Chart 1: Respondents' Opinion on PSB Performance

Opinion	Percentage
Strongly Agree	31.7%
Agree	38.3%
Neutral	15%
Disagree	10%
Strongly Disagree	5%

Interpretation
Around **70% of respondents (Strongly Agree + Agree)** believe that the performance of Public Sector Banks has improved after the merger.

Chart 2: Improvement in Key Financial Indicators of PSBs

Indicator	2018	2024
Gross NPA Ratio	14.58%	3.09%
Net NPA Ratio	7.97%	0.63%
Provision Coverage Ratio	46%	93%
Net Profit	Negative/Low	₹1.41 lakh crore

Interpretation
The financial indicators show significant improvement in the post-merger period.

Suggestions and Recommendations
Based on the findings of the study, the following suggestions are proposed:
1. Public Sector Banks should strengthen risk management practices to prevent future NPA crises.
2. Banks should focus on technological integration and digital banking services.
3. Employee training and capacity building should be enhanced to improve service quality.
4. Banks should expand financial inclusion initiatives in rural and semi-urban areas.
5. Continuous monitoring of merged entities is necessary to ensure operational efficiency.

Conclusion
The study concludes that the consolidation of Public Sector Banks in 2020 has significantly improved the overall performance of the banking sector. The financial indicators such as asset quality, capital adequacy and profitability have shown considerable improvement in the post-merger period.
The reduction in NPAs, increase in provision coverage ratio and record-high profits indicate that the banking sector has recovered from the crisis witnessed around 2018.
However, the success of bank mergers also depends on effective governance, technological integration and efficient management practices. Continuous reforms and strong regulatory oversight are essential to sustain the positive performance of Public Sector Banks and support the growth of the Indian economy.

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