

GOVERNMENT INITIATES CONSOLIDATION – AMALGAMATED ENTITY TO BE INDIA’S THIRD LARGEST BANK

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Ministry of Finance

Government initiates consolidation – amalgamated entity to be India’s third largest bank

First-ever three-way bank amalgamation process commences

Government paves the way for amalgamated Public Sector Banks with global heft and business synergies for providing wider products & services and enhanced access

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The Alternative Mechanism comprising of its Chairperson, the Union Finance Minister Shri Arun Jaitley and Cabinet Ministers, Shri Piyush Goyal and Ms. Nirmala Sitharaman met here today in New Delhi and decided that Bank of Baroda, Vijaya Bank and Dena Bank may consider amalgamation of the three banks. The envisaged amalgamation will be the First-ever three-way consolidation of banks in India, with a combined business of Rs. 14.82 lakh crore, making it India’s Third Largest Bank.

The consolidation will help create a strong globally competitive bank with economies of scale and enable realisation of wide-ranging synergies. Leveraging of networks, low-cost deposits and subsidiaries of the three banks has the potential of yielding significant synergies for positioning the consolidated entity for substantial rise in customer base, market reach, operational efficiency, wider bouquet of products and services, and improved access for customers.

Some of the strengths of the envisaged amalgamated entity are—

- Provision Coverage Ratio (PCR) at 67.5% is well above Public Sector Banks (PSBs) average (63.7%), and steadily increasing
- Net NPA ratio at 5.71% significantly better than PSB average (12.13%), and declining further
- Gross NPAs for the combined entity have started declining (decline of Rs. 1,048 crore in Q1)
- Cost to income ratio of the combined entity at 48.94% better than the PSB average of

53.92%

- Dena Bank's strength in MSME will further augment the strength of the other two to position the amalgamated bank for being an MSME Udyamimitra
- Capital Adequacy Ratio (CRAR) at 12.25% is significantly above the regulatory norm of 10.875%, and stronger amalgamated bank will be better positioned to tap capital markets
- Significant cost benefits from synergies: Larger distribution network will reduce operating and distribution costs with benefits for the amalgamated bank, its customers and their subsidiaries
- Global network strength of Bank of Baroda will be leveraged to enable customers of Dena Bank and Vijaya Bank to have global access
- Access improvement through amalgamation of networks
- Wider range of products and services through leveraging of bank subsidiaries and leveraging of a larger network for offering more value-added non-banking services and products

DSM/RM/KA

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