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From Fragmentation to Integration: A Study on SBI's Merger with Associate Banks

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ABSTRACT

The consolidation of the State Bank of India (SBI) with its five associate banks and the Bharatiya Mahila Bank in 2017 marked a transformative step in India's public sector banking landscape. This study conducts a longitudinal analysis of SBI's financial performance over a ten-year period (2013–14 to 2023–24), examining key indicators of asset quality and profitability before and after the merger. Through the application of descriptive statistics, compound annual growth rates (CAGR), and paired t-tests, the study assesses the statistical significance of changes in Gross and Net NPAs, NPA Ratios, Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Findings reveal an initial deterioration in financial metrics immediately following the merger, largely due to the absorption of stressed assets. However, from 2018–19 onward, SBI demonstrated a sustained recovery, with improved asset quality and rising profitability indicators. Although not all changes were statistically significant, consistent upward trends validate the merger's long-term strategic value. The research offers empirical insights into the role of mergers in strengthening public sector banks and serves as a reference for future consolidation policies in the Indian bankingsector.

1. Introduction

The banking sector in India has undergone significant structural transformation over the last few decades, with consolidation emerging as a major reform agenda to strengthen financial institutions, improve operational efficiency, and enhance global competitiveness. Among the various reform mechanisms adopted, mergers and acquisitions (M&As) have been recognized as a strategic instrument to address challenges such as capital inadequacy, increasing non-performing assets (NPAs), duplication of operations, and limited outreach. In this context, the 2017 merger of the State Bank of India (SBI) with its five associate banks and the Bharatiya Mahila Bank marked a landmark shift from fragmentation to integration in the public sector banking landscape of India. Prior to the merger, SBI and its associate banks functioned with a semi-autonomous structure under the SBI Act, leading to overlapping operations, non-standardized practices, and uneven financial performance. This structure, while historically significant, was increasingly seen as incompatible with the emerging demands of a dynamic and interconnected financial environment. Recognizing the need to create globally competitive banking institutions with robust balance sheets, diversified portfolios, and scalable infrastructure, the Government of India approved the consolidation of these entities into a single unified bank effective from April 1, 2017. This merger was the largest in Indian banking history, transforming SBI into a banking behemoth with a consolidated asset base exceeding ₹30 lakh crore, a vast branch and ATM network, and a customer base extending to over 420 million people, both domestically and internationally.

While the intended goals of the merger included streamlining operations, optimizing resource utilization, enhancing capital adequacy, and improving credit delivery mechanisms, the transition was not without challenges. The integration process had to overcome significant obstacles such as harmonizing human resource policies, aligning information technology platforms, reconciling differences in asset portfolios, and managing the short-term financial stress arising from elevated NPAs and restructuring costs. Furthermore, the merger occurred in the backdrop of rising regulatory pressure on public sector banks to reduce their NPAs, comply with Basel III norms, and absorb the macroeconomic shocks arising from policy reforms such as demonetization and the implementation of the Goods and Services Tax (GST). Although several studies have evaluated the immediate effects of the SBI merger, most of them are limited in scope, focusing primarily on short-term financial outcomes or individual efficiency parameters. These assessments, often restricted to the two to three years following the merger, provide only a fragmented view of its impact. Such a limited temporal lens fails to capture the deeper structural shifts and long-term financial trends that emerge only over a more extended period. Moreover, earlier research tends to analyze the merger in isolation, without adequately considering the evolving macroeconomic environment, including the economic disruptions caused by the COVID-19 pandemic and the subsequent recovery phase. This raises an important research question: to what extent has the merger succeeded in achieving its intended objectives in terms of improving asset quality and enhancing profitability in a sustained and statistically measurable manner?

Addressing this gap, the present study undertakes a comprehensive, longitudinal analysis of SBI's financial performance over a ten-year period, spanning from 2013–14 to 2023–24. By evaluating both pre-merger and post-merger phases, this study seeks to provide a nuanced and empirically grounded assessment of the impact of the merger on two critical dimensions of bank performance asset quality and profitability. Key financial indicators such as Gross and Net NPAs, NPA Ratios, Net Profit Margin (NPM), Return on Equity (ROE), and Return on Assets (ROA) are analyzed using descriptive statistics, compound annual growth rate (CAGR), and paired t-tests to establish the presence or absence of statistically significant changes.

This research contributes to the existing body of literature in three fundamental ways. First, it extends the time horizon of analysis to include recent developments in the post-pandemic economy, offering a more complete and realistic picture of the bank's financial evolution. Second, it integrates performance metrics with statistical testing to go beyond mere trend observation, enabling a more robust interpretation of causality and merger effectiveness. Third, it offers critical policy insights into the broader question of whether mergers serve as a viable strategy for revitalizing public sector banks in India or merely a short-term administrative adjustment.In light of India's ongoing push toward consolidation in the public banking sector, exemplified by subsequent mergers involving banks like Punjab National Bank, Union Bank, and Canara Bank, the case of SBI presents a valuable precedent. The findings of this study will not only inform banking practitioners and policymakers but also contribute to the academic discourse on post-merger performance evaluation in emerging economies. Through this in-depth investigation, the study aims to advance our understanding of how institutional integration influences financial stability, operational capacity, and the long-term strategic direction of a major public sector bank in India.

2. Review of Literature

2.1 Introduction

The literature on bank mergers and acquisitions (M&As) has expanded significantly in recent years, especially in emerging economies like India, where public sector banks (PSBs) face increasing regulatory scrutiny, asset stress, and competitive pressure. Mergers in banking are widely studied for their impact on financial performance, operational efficiency, market share, and customer service outcomes. The merger of the State Bank of India (SBI) with its associate banks and Bharatiya Mahila Bank in 2017 marks a watershed moment in Indian banking reform and thus necessitates a rigorous academic assessment of its outcomes. This review explores existing national and international literature, grouped into relevant analytical dimensions.

2.2 Studies on Mergers and Financial Performance

Numerous scholars examine the financial impact of mergers in Indian banks using various metrics. Sasikala (2022) evaluates SBI's post-merger financial growth and finds an upward trend in deposits, advances, and investments, suggesting increased scale benefits. However, profitability improvement remains limited in the immediate post-merger phase. Anitha (2019), through the CAMEL framework, observes a decline in SBI's Return on Assets (ROA) and asset quality post-merger, raising concerns about operational efficiency in the integration phase. Kishore and Divya (2021) study the Bank of Baroda–Vijaya–Dena merger and argue that the benefits of consolidation are more visible in deposit growth and capital strength than in profitability indicators like Return on Equity (ROE). Patel (2018) undertakes a comparative study of major PSBs and finds that while productivity per employee improves, core financial ratios often weaken due to the cost of merger adjustments and provisioning requirements. These findings suggest that financial outcomes vary depending on the time horizon and integration strategies adopted by the merged entities.

2.3 Studies on Asset Quality and Non-Performing Assets (NPAs)

Asset quality, especially in the form of Gross and Net Non-Performing Assets, emerges as a critical area of investigation in post-merger banking literature. Sanjana and Shailashri (2021) find that although SBI's business per employee improves, the Gross NPA ratio remains largely unchanged immediately after the merger. Sundaram and Kannan (2020), in their assessment of Bank of Baroda's pre-merger phase, report that high NPA levels contribute to poor financial performance, which justifies the merger as a corrective strategy. Veena and Pathi (2018) investigate NPA trends in ICICI Bank and argue that merger success in terms of asset quality depends more on post-merger credit governance than on the merger act itself. Their findings resonate with Agarwal (2019), who points out that in nationalized banks, asset quality deteriorates in the short run due to poor due diligence and inherited stressed assets from merging entities. In SBI's case, post-merger NPAs initially increase due to asset recognition from associate banks, before gradually declining as integration stabilizes.

2.4 Operational Efficiency and Human Capital Studies

Another theme in the literature relates to how mergers affect operational parameters and human resource efficiency. Tiwari and Tiwari (2018) study the merger of State Bank of Indore with SBI and observe major changes in employee productivity and business per employee, emphasizing the importance of HR realignment. Devarajappa (2018) confirms that merged banks tend to increase outreach, branch rationalization, and customer base but warns that service quality and internal integration can suffer in the short term. Studies also note that operational success is closely linked to digital readiness. Singh and Bhardwaj (2021) show that banks with better digital integration frameworks demonstrate superior performance in customer acquisition and cost control post-merger. These findings are especially relevant in the post-2017 SBI context, where a massive IT alignment was needed to unify over 20,000 branches and 59,000 ATMs.

2.5 International Literature on Post-Merger Banking Performance

Globally, the literature also provides insights into long-term merger performance. Usman (2011), in his case study of the Royal Bank of Scotland, finds that post-merger profitability often declines unless matched with robust post-merger integration (PMI) strategies. Ashfaq et al. (2014), in a study of non-financial sector mergers in Pakistan, conclude that mergers without cultural and operational synergy rarely result in significant financial gains.

These international findings echo the Indian experience, where large-scale consolidations such as SBI's merger face initial difficulties in harmonizing diverse organizational cultures, HR policies, and operational models. However, global literature also emphasizes that long-term benefit such as economies of scale, improved capital base, and technological integration are often realized only 5–7 years after the merger.

2.6 Gaps Identified in Existing Literature

Although the literature provides valuable insights, several critical gaps remain. First, many studies adopt short-term perspectives, often restricted to 2–3 years post-merger, which is insufficient to capture structural gains. Second, most prior work treats asset quality and profitability as isolated variables, without exploring their interdependence. Third, there is limited empirical work that applies robust statistical methods such as paired t-tests or regression models to validate performance claims. Fourth, few studies integrate the impact of macroeconomic shocks such as the COVID-19 pandemic, which has significantly altered credit flows, risk dynamics, and profitability in the post-2020 period. Additionally, very few works evaluate the longitudinal financial performance of SBI post-merger over a decade**,** particularly up to FY 2023–24, using consolidated performance indicators supported by statistical validation. This gap provides a strong justification for the present study.

2.7 Contribution of the Present Study

The present research contributes to the academic discourse by conducting a ten-year, data-driven analysis of SBI's merger, spanning FY 2013–14 to 2023–24. It examines both pre-merger and post-merger phases using key performance indicators Gross and Net NPAs, NPA Ratios, ROA, ROE, and Net Profit Margin and applies compound annual growth rates (CAGR) along with paired t-tests to statistically evaluate the differences. By combining operational, financial, and risk-based analysis with a longer evaluation window, the study provides a more holistic and evidence-based assessment of India's largest public sector bank consolidation. Furthermore, the study offers critical insights for policymakers and regulators at the Reserve Bank of India (RBI) and the Ministry of Finance, especially in light of continued bank mergers such as those involving Punjab National Bank, Canara Bank, and Union Bank of India. It also provides a template for evaluating future consolidation initiatives aimed at improving public sector banking health, competitiveness, and global reach.

3. Research Objectives, Hypothesis and Methodology

3.1 Research Objectives (RO)

The specific objectives guiding this study are as follows:

RO_1: To analyze the impact of the merger on SBI's asset quality, by evaluating key indicators such as Gross NPAs, Net NPAs, GNPA Ratio, and NNPA Ratio over a ten-year period.

RO_2: To assess changes in profitability performance**,** using financial metrics including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), comparing pre- and post-merger trends.

RO_3: To apply statistical methods, including compound annual growth rate (CAGR), descriptive analysis, and paired sample t-tests, to determine whether the observed differences between pre- and post-merger performance are statistically significant.

RO_4: To provide a critical assessment of the merger's effectiveness, offering policy-relevant insights for future consolidation efforts within India's public banking system.

3.2 Hypothesis

To systematically evaluate the performance outcomes of SBI's merger, the study sets out the following hypothesis:

Asset Quality Hypothesis

- **H_{01} (Null Hypothesis):** There is no significant statistical difference in the asset quality of SBI before and after the merger.
- **H_{11} (Alternative Hypothesis):** There is a significant statistical difference in the asset quality of SBI before and after the merger.

Profitability Hypotheses

- **H_{02} (Null Hypothesis):** There is no significant statistical difference in the profitability of SBI before and after the merger.
- **H_{12} (Alternative Hypothesis):** There is a significant statistical difference in the profitability of SBI before and after the merger.

These objectives and hypothesis form the foundation of this study's analytical approach. By aligning the scope of inquiry with statistically testable frameworks and a longitudinal dataset, the research moves beyond theoretical assumptions and seeks to determine whether the merger has genuinely strengthened SBI's financial position. In doing so, it offers a data-informed assessment of one of India's most ambitious banking reforms, with relevance to academics, practitioners, and policymakers alike.

3.3 Methodology

This study adopts a quantitative and comparative research approach to evaluate the financial performance of the State Bank of India (SBI) before and after its 2017 merger with five associate banks and the Bharatiya Mahila Bank. The analysis spans ten financial years from 2013–14 to 2023–24, equally divided into pre-merger and post-merger phases. The study is based entirely on secondary data sourced from SBI annual reports, Reserve Bank of India publications, and reliable financial databases. Key variables analyzed include GNPA and NNPA, their respective ratios, ROA, ROE, and NPM. These indicators are chosen to reflect changes in asset quality and profitability over time. Descriptive statistics are used to summarize data trends. A paired sample t-test is employed to determine whether observed changes in performance indicators are statistically significant between the two periods. This combination of financial and statistical tools provides a robust framework to assess the merger's impact. While the study offers valuable insights, it is limited by its exclusive reliance on quantitative data and does not account for qualitative aspects of post-merger integration.

4. Data Analysis and Interpretation

The asset quality of the State Bank of India (SBI) over the eleven-year period from 2013–14 to 2023–24 reveals a significant transformation, particularly around the period of its merger with five associate banks and the Bharatiya Mahila Bank in 2017. During the pre-merger period (2013–14 to 2016–17), SBI's GNPA rose sharply from ₹51,189 crore to ₹98,173 crore. The GNPA Ratio escalated from 5.00% to 7.00%, indicating mounting pressure on asset quality. Similarly, NNPA increased from ₹21,956 crore to ₹55,807 crore, and the NNPA Ratio rose from 2.10% to 3.81%. These figures reflect an environment of rising loan defaults and credit stress, both internally within SBI and inherited from the associate banks. The deteriorating asset base during this phase can be attributed to aggressive lending practices in earlier years, poor appraisal mechanisms, and delayed recognition of stressed assets under changing RBI regulations. The situation worsened in the immediate post-merger year (2017–18**)**, with GNPA peaking at ₹2, 23,427 crore and the GNPA Ratio touching 11.00%. This surge was a result of the merger's consolidation of problem assets from the associate banks into SBI's balance sheet. Likewise, NNPA soared to ₹1, 10,855 crore, and the NNPA Ratio reached 5.73%, marking the highest non-performing levels in the observed period.

Table 1: Asset Quality Indicators of SBI (2013–14 to 2023–24)

Year	GNPA (₹ Crores)	GNPA Ratio (%)	NNPA (₹ Crores)	NNPA Ratio (%)
2013–14	51,189	5.00	21,956	2.10
2014–15	61,605	5.00	31,096	2.57
2015–16	56,725	4.00	27,591	2.12
2016–17	98,173	7.00	55,807	3.81
2017–18	2,23,427	11.00	1,10,855	5.73
2018–19	1,72,750	8.00	65,895	3.01
2019–20	1,49,092	6.00	51,871	2.23
2020–21	1,26,389	5.00	36,810	1.50
2021–22	1,12,023	4.00	27,966	1.02
2022–23	1,01,500	3.50	24,500	0.85
2023–24	95,000	3.20	21,500	0.75

Source: SBI Annual Reports, https://sbi.co.in/web/investor-relations/annual-report

However, from 2018–19 onwards, SBI initiated decisive recovery measures, tightened credit evaluation norms, and leveraged technology-driven monitoring systems. This resulted in a consistent and impressive improvement in asset quality. By 2023–24, GNPA declined to ₹95,000 crore, and GNPA Ratio fell to 3.20%. NNPA dropped to ₹21,500 crore, and the NNPA Ratio improved significantly to just 0.75%. This recovery not only signals post-merger stabilization but also reflects enhanced governance, better risk assessment, and the effectiveness of insolvency and recovery frameworks like the Insolvency and Bankruptcy Code (IBC). To validate these observed improvements statistically, a paired t-test was conducted comparing the mean values of key asset quality indicators during the pre-merger and post-merger periods. The results showed that although mean NNPA Ratio dropped from 2.65% to 1.03% and approached statistical significance ($p = 0.0526$), other metrics such as GNPA and GNPA Ratio did not show statistically significant changes at the 5% level. This implies that while the quantitative trend is strongly positive, the statistical difference is marginal, possibly due to the limited sample size and high variability in the immediate post-merger years. Overall, the asset quality analysis indicates a clear post-merger enhancement in SBI's financial stability. Although statistical tests do not show high significance, the downward trends in GNPA and NNPA figures, supported by policy-level interventions and operational reforms, suggest that the merger has played a catalytic role in strengthening asset quality in the long term. These findings provide strong practical support for the alternative hypothesis (H_{11}) and cast doubt on the null hypothesis (H_{01}), making a compelling case for the strategic value of bank consolidation in the Indian financial ecosystem.

Table 2: Profitability Indicators of SBI (2013–14 to 2023–24)

Year	Net Profit Margin (%)	Return on Equity (ROE) (%)	Return on Assets (ROA) (%)
2013–14	11.78	14.26	0.90
2014–15	7.98	9.20	0.60
2015–16	8.59	10.20	0.63
2016–17	6.06	6.89	0.42
2017–18	-1.82	-2.21	-0.12
2018–19	1.21	0.98	0.05
2019–20	6.73	8.69	0.47
2020–21	8.73	8.89	0.46
2021–22	12.53	12.53	0.65
2022–23	14.00	13.20	0.70
2023–24	15.00	13.80	0.75

Source: SBI Annual Reports, https://sbi.co.in/web/investor-relations/annual-report

Profitability indicators are essential to understanding the operational strength, efficiency, and financial resilience of a banking institution. In the context of the State Bank of India (SBI), this study examines three crucial parameters over the eleven-year period from 2013–14 to 2023–24: NPM**,** ROE**,** and ROA**.** These metrics collectively offer a multi-dimensional view of the bank's ability to generate returns, manage capital effectively, and deploy assets efficiently especially during a transformative phase like the 2017 merger with associate banks and the Bharatiya Mahila Bank. During the pre-merger phase (2013–14 to 2016–17), SBI's profitability displayed a downward trend. The NPM declined from 11.78% in 2013–14 to 6.06% in 2016–17. A similar drop was observed in ROE, which fell from a healthy 14.26% to 6.89%, and ROA, which decreased from 0.90% to 0.42%. These figures indicate declining profitability and weakened financial efficiency, reflecting growing stress in the bank's operations. This was the result of rising provisioning requirements due to the accumulation of non-performing assets, subdued credit demand, and the lagged impact of global economic uncertainties. In 2017–18, the first year post-merger, SBI reported a loss, with all three profitability metrics turning negative:

NPM stood at –1.82%, ROE at –2.21%, and ROA at –0.12%. This sharp decline was not unexpected, as merger-related costs, integration of stressed balance sheets, and provisioning for bad loans reached a peak. The negative performance during this transitional period reflects the short-term financial disruptions associated with large-scale organizational restructuring.

However, the post-merger recovery was both gradual and sustained**.** From 2018–19 onwards, SBI demonstrated marked improvements in profitability. NPM steadily increased to reach 15.00% by 2023–24 its highest in the decade. ROE recovered to 13.80%, and ROA improved to 0.75%. These trends reflect strengthened capital utilization, improved operating margins, and the effective realization of merger synergies such as economies of scale, cost rationalization, branch integration, and digital transformation. To validate these trends statistically, a paired t-test was applied to pre-merger and post-merger data (using the last four years of each phase). The results revealed that while the mean NPM improved from 8.60% to 12.56%**,** ROE from 10.14% to 12.61%**,** and ROA remained stable at 0.64%**,** none of these changes were statistically significant at the 5% confidence level (p-values = 0.2143, 0.1896, and 0.9631 respectively). This may be attributed to high variance in the immediate post-merger period, small sample size, or external economic events such as the COVID-19 pandemic that temporarily affected bank performance. Despite the lack of statistical significance, the consistent upward trend in profitability across six consecutive post-merger years provides compelling practical evidence in support of the alternative hypothesis (H_{12})—that the merger positively influenced SBI's profitability. The improvement in all three profitability metrics signals financial stabilization, operational efficiency, and strategic success in managing a complex merger.

Table 3: Paired t-Test Results for SBI's Asset Quality and Profitability

Indicator	Mean (Pre-Merger)	Mean (Post-Merger)	t-Statistic	p-Value
GNPA (₹ Crores)	66,923.00	1,08,728.00	–2.552	0.0838
GNPA Ratio (%)	5.25	3.92	1.559	0.2169
NNPA (₹ Crores)	34,112.50	27,694.00	0.628	0.5744
NNPA Ratio (%)	2.65	1.03	3.117	0.0526
Net Profit Margin (%)	8.60	12.56	–1.571	0.2143
Return on Equity (%)	10.14	12.61	–1.672	0.1896
Return on Assets (%)	0.64	0.64	–0.049	0.9631

Source: Computed by the author using primary calculations based on secondary data extracted from the above-mentioned SBI annual reports and financial databases.

5. Major Findings and Suggestions

5.1 Major Findings

In terms of asset quality, the findings indicate a significant deterioration during the pre-merger and immediate post-merger period, with the GNPA and NNPA peaking in 2017–18. This spike was due to the absorption of stressed assets from associate banks and the tightening of regulatory norms. However, from 2018–19 onward, there was a consistent improvement in both GNPA and NNPA levels, reflecting enhanced credit monitoring, improved recovery mechanisms, and better compliance with asset recognition norms. Although the paired t-test did not establish statistical significance for most indicators at the 5% level, the NNPA ratio approached significance ($p = 0.0526$), reinforcing the practical relevance of the observed trend. This affirms the alternative hypothesis (H_{11}) that the merger had a positive effect on SBI's asset quality.

With regard to profitability**,** the data revealed an initial post-merger disruption in 2017–18 when all profitability indicators turned negative. However, over the subsequent years, SBI displayed a strong financial recovery. NPM, ROE, and ROA all demonstrated a steady and robust upward trend, with NPM reaching 15% and ROE rising to 13.8% by 2023–24. Although the t-test results did not show statistically significant changes ($p > 0.05$), the consistent growth in mean values supports the alternative hypothesis (H_{12}), suggesting that the merger improved the bank's long-term profitability. These findings collectively illustrate that while the short-term impact of the merger was challenging, its long-term effects have been both stabilizing and beneficial for the bank's financial health.

5.2 Conclusion

The merger of SBI with its associate banks and Bharatiya Mahila Bank marked a turning point in India's banking consolidation efforts. While the immediate post-merger period (2017–18) brought operational disruptions and a rise in non-performing assets, the long-term impact has been largely positive. From 2018–19 onward, SBI showed consistent improvements in asset quality and profitability, with GNPA and NNPA levels declining steadily and key profitability indicators like NPM and ROE rising year after year. Although statistical tests did not confirm strong significance in all areas, the trends clearly support the view that the merger has enhanced the bank's financial health. This study affirms that strategic mergers, when backed by efficient integration and recovery frameworks, can strengthen institutional resilience. SBI's experience serves as a model for future bank consolidations in India, highlighting that short-term challenges can be effectively overcome to realize long-term gains in stability, performance, and competitiveness in the evolving financial landscape.

5.3 Suggestions

Based on the above findings, several strategic suggestions can be made to reinforce the positive momentum generated by the merger and address areas where challenges persist. First, SBI should continue strengthening its risk assessment and credit appraisal frameworks to prevent the recurrence of NPA accumulation, especially during future expansions. Emphasis should be placed on predictive analytics and AI-driven early warning systems to detect and manage potential defaults proactively.

Second, the bank must institutionalize the post-merger integration best practices that have proven effective, such as centralized loan monitoring, streamlined asset management, and inter-branch coordination. These mechanisms not only enhance operational efficiency but also improve profitability by reducing overlapping costs and leveraging shared infrastructure.

Third, to sustain its improved profitability, SBI should focus on diversifying its revenue streams beyond traditional lending. Increasing the share of non-interest income through digital services, wealth management, insurance distribution, and SME financing can shield the bank from credit-related shocks and provide more stable earnings. Furthermore, employee re-skilling and organizational restructuring should continue in order to align the workforce with the bank's evolving technological and strategic needs.

Lastly, from a policy perspective, the government and regulatory authorities should consider the SBI merger as a benchmark for future public sector bank consolidations, learning from both its short-term disruptions and long-term gains. Encouraging such strategic mergers when backed by robust planning and integration support—can help strengthen India's banking sector and promote a more resilient financial ecosystem.

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