

IMPACT OF MERGER ON SBI

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ABSTRACT

Mergers and acquisitions (M&A) are transactions in which the ownership of companies, other business organizations or their operating units are transferred or combined. As an aspect of strategic management, M&A can allow enterprises to grow, shrink, and change the nature of their business or competitive position. From a legal point of view, a merger is a legal consolidation of two entities into one entity, whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests or assets. However, from a commercial and economic point of view, both types of transactions generally result in the consolidation of assets and liabilities under one entity, and the distinction between a "merger" and an "acquisition" is less clear. On 15 February 2017, the Union Cabinet approved a proposal to merge five SBI associate banks with SBI. In this present case study, Merging of five state bank subsidiary banks into the parent bank SBI is named after Mega-merging. The present paper explores the economic and political pull and push factors cause merger of SBI associate banks into SBI. The paper also attempted to evaluate prospects and consequences of Mega-merging.

Keywords: *Mega-merging, M&A*

INTRODUCTION

Banking industry in India at glance

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy and usher in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. But to do so, it has had to control miles and miles of difficult terrain, suffer the indignities of foreign rule and the pangs of partition. Today, Indian banks can confidently compete with modern banks of the world. Before the 20th century, usury, or lending money at a high rate of interest, was widely prevalent in rural India. Entry of Joint stock banks and development of Cooperative movement have taken over a good deal of business from the hands of the Indian

money lender, who although still exist, have lost his menacing teeth. In the Indian Banking System, Cooperative banks exist side by side with commercial banks and play a supplementary role in providing need-based finance, especially for agricultural and agriculture-based operations including farming, cattle, milk, hatchery, personal finance etc. along with some small industries and self-employment driven activities.

SBI at glance

The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding, in 1806, of the Bank of Calcutta, making it the oldest commercial bank in the Indian subcontinent. Bank of Madras merged into the other two "presidency banks" in British India, Bank of Calcutta and Bank of Bombay, to form the Imperial Bank of India, which in turn became the State Bank of India in 1955. Government of India owned the Imperial Bank of India in 1955, with Reserve Bank of India (India's Central Bank) taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India.

Key strengths of SBI

State Bank of India is a banking behemoth and has 20% market share in deposits and loans among Indian commercial banks. State Bank of India (SBI) is an Indian multinational, public sector banking and financial services company. It is a government-owned corporation. As of 2016-17, it had assets of 30.72 trillion (US\$460 billion) and more than 14,000 branches, including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets. The company is ranked 232nd on the Fortune Global. 500 list of the world's biggest corporations as of 2016.

SBI and its Associate banks

SBI now has one associate bank, down from the eight that it originally acquired in 1959. All use the State Bank of India logo, which is a blue circle, and all use the "State Bank of" name, followed by the regional headquarters' name:

- State Bank of Patiala (founded 1917)
- State Bank of Mysore (founded 1913)
- State Bank of Bikaner & Jaipur (founded 1963)
- State Bank of Hyderabad (founded 1941)
- State Bank of Travancore (founded 1945)
- Bharatiya Mahila Bank (founded 2013)

SBI provides a range of banking products through its network of branches in India and overseas, including products aimed at non-resident Indians (NRIs). SBI has 14 regional hubs and 57 Zonal Offices that are located at important cities throughout India.

REVIEW OF LITERATURE

- Joydeep Biswas (2004): “Recent trend of merger in the Indian private corporate sector”. They research about Corporate restructuring in the form M&A has become a natural and perhaps a desirable phenomenon in the current economic environment. In the tune with the worldwide trend, M&A have become an important conduit for FDI inflows in India in recent years. In this paper it is argued that the Greenfield FDI and cross-border M&As are not alternatives in developing countries like India.
- Vanitha. S (2007): “Mergers and Acquisition in Manufacturing Industry” she analysed the financial performance of the merged companies, share price reaction to the announcement of merger and acquisition and the impact of financial variables on the share price of merged companies. The author found that the merged company reacted positively to the merger announcement and also, few financial variables only influenced the share price of the merged companies.
- Vanitha. S and Selvam. M (2007): “Financial Performance of Indian Manufacturing Companies during Pre and Post Merger” they analysed the pre and post-merger performance of Indian manufacturing sector during 2000-2002 by using a sample of 17 companies out of 58 (thirty per cent of the total population). For financial performance analysis, they used ratio analysis, mean, standard deviation and t test. They found that the overall financial performance of merged companies in respect of 13 variables were not significantly different from the expectations.
- Kumar (2009): "Post-Merger Corporate Performance: an Indian Perspective “examined the post-merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period 1999-2002 in India. The study attempts to identify synergies, if any, resulting from mergers. The study uses accounting data to examine merger related gains to the acquiring firms. It was found that the post-merger profitability, assets turnover, and solvency of the acquiring companies, on average, show no improvement when compared with pre-merger values.

OBJECTIVES OF RESEARCH

- To study the impact of Merger and acquisition on state bank of India

Impact of Merger on SBI

Erstwhile associates and the Bharatiya Mahila Bank that merged with the State Bank of India Ltd. contributed nearly a third of the bad loans for India's largest lender in the last financial year.

The merged entities together added Rs. 65,523 crore of non-performing assets, taking SBI's bad loans to Rs 2,23,427 crore or about 10.9 per cent of its gross advances as of March, according to the lender's annual report. That compares with the industry wide NPA ratio of 11.6 percent.

[SBI](#) reported a net loss of Rs 6,547 crore for the year ended March against a net profit of Rs 10,484 crore in the previous pre-merger year. That's the first loss at least since 2007-08 though historical numbers are not strictly comparable because associate banks were merged with the lender on April 1, 2017.

Its losses were driven by the central bank's higher provisioning requirement for mark-to-market losses on investments. The bank's capital adequacy ratio—minimum capital reserves—declined 51 basis points to 12.60 per cent during the period. It's still higher than 11.25 percent needed under Basel III rules by March 2019.

Biggest Bank Gets Bigger

State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Travancore, State Bank of Patiala, State Bank of Hyderabad; and the Bharatiya Mahila Bank merged with the parent effective April 1, 2017. SBI expected the merger to help drive synergies, reducing duplication and save on resources.

They together contributed about 15 percent to SBI's total Rs 20.44 lakh crore loans and nearly 20 percent to Rs 27.06 lakh crore deposits as of March.

According to the annual report, the six entities added:

- Rs 5.41 lakh crore to deposits.
- Rs 2.98 lakh crore to total loans.

Before And After

How merger of erstwhile associates and Bharatiya Mahila Bank changed SBI

PARAMETERS	SBI PRE-MERGER (FY17)	SBI POST-MERGER (FY18)

Deposit Base (in Rs cr)	2,044,751.0	2,706,344.0
Advances (in Rs cr)	1,571,078.0	1,934,880.0
Net Profit/(Loss) (in Rs cr)	10,484.0	-6,547.0
Gross NPA	177,826.0	223,427.0
Capital Adequacy Ratio (%)	13.1	12.6

- The merger help to increase the deposits to 2706344 from 20447510 in financial year 2017-18 and the net profit was 10,484.0 in 2018 as compared to loss of 6,547.0 in 2017.

CONCLUSION

- Merger Synergies

The consolidation helped SBI reduce 1,805 branches and rationalised 244 administrative offices. Staff expenses declined 2.34 percent and overall employee count fell by 15,762 due to retirement despite 3,211 new additions. In all, the bank saved Rs 1,099 crore in the last financial year.

“Due to the tireless efforts of our team, the whole (merger) process went through seamlessly, with no hiccups either on the technology front or the HR front,” Rajneesh Kumar, chairman at SBI, wrote in his message to shareholders. “Customer on boarding was very smooth and we are now reaping the synergies of merger on multiple fronts.”

- Hopes Asset Quality Will Improve

About Rs 77,626 crore of funds were tied in accounts listed before the National Company Law Tribunal for resolution under the Insolvency and Bankruptcy Code as of March 31. SBI has a provision cover of 63 percent as against RBI’s requirement of 50 percent cover.

The bank expects bulk of the resolutions in the first list of accounts identified by the Reserve Bank of India to go through by June-end, and the second list by March 2019.

- Unlocking Value in Subsidiaries

In the previous financial year, SBI sold 8 percent stake in SBI Life Insurance Company, valuing the subsidiary at Rs 70,000 crore. The lender raised Rs 5,436 crore via the stake sale. The bank plans to unlock value in other arms as well.

“SBI owns and manages several non-banking subsidiaries that are amongst industry leaders in their own right,” it said in the annual report. As in the case of partial divestment and

subsequent IPO of SBI Life, “we believe that we will be able to unlock huge value in these businesses”, it said.

SBI merger with associate banks benefits Indian banking industry as well as Indian Economy. However the move has many challenges. The consolidation helped SBI reduce 1,805 branches and rationalised 244 administrative offices. Staff expenses declined 2.34 percent and overall employee count fell by 15,762 due to retirement despite 3,211 new additions. In all, the bank saved Rs 1,099 crore in the last financial year.

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