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Bank Consolidation: Pre & Post Merger financial performance of State Bank of India

Dr. Smita Jape*

Ms.Gauri Gite **

Abstract

Indian banking system is the lifeblood of Indian Economy. India considered being the fastest growing Emerging Market economy globally; it is inevitable fact that without strong and firm presence of banking at its place it will be difficult for our country economy to grow at the faster pace. India banking sector is considered one of the robust banking system. Nevertheless, it is unavoidable fact that this robust system is going through the worst crisis in recent times. Different measures are taken to overcome a crisis one of the biggest measures being taken and considered for re-engineering the entire system is Consolidation of Banks through Mergers & Acquisition. To implement this strategic decision taken the Government of India approved the proposal of merger of State Bank of India and its Associates & Bhartiya Mahila Bank. The research paper will focus on studying the financial performance of the merged bank prior to merger for financial year 2016-17 and post-merger for financial year 2017-18. The present study will also try to explore the whether the strategic decision of consolidation will help the banks to reboot themselves for better performance in coming years.

Keywords:

Advances ,
Deposits,
Mergers & Acquisition,
Net Profit ,
State Bank Of India

Author correspondence:

Dr.Smita Jape ,
MBA Program, VPMS Dr.V.N.Bedekar Institute of Managements Studies
GynadweepChendaniBundar Road Thane , Mumbai University,India

1. Introduction:-

Indian banking sector has been a dominant factor for development of the Indian economy and ensured the free flow of credit to all strata's of the society. In the world, India has one of the robust banking system because of which Indian economy could sustain various global economic shocks and came out to be the one of the fastest growing economy in the world.With massive changes in the Indian economy, Banking has also gone through various changes one of the major change that is evolving the entire banking is mergers & acquisitionand consolidation of entire banking sector especially the Indian Public Sector Unit Banks. M & A have been a common reality throughout the world to attain growth, market share, customers and to be placed in the global banks. Mergers means when two or more existing entities come together and unite with each other

*Associate Professor ,Dr.V.N.Bedekar Institute of Management studies,Thane,Mumbai University ,India

**MMS Final year Student ,Dr.V.N.Bedekar Institute of Management studies ,Thane,Mumbai University ,India

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to form a new entityin order to gain market share, economies of scale, expansion of business, growth in revenue, sales and profits. Acquisition means when one entity purchases more than 50% shares of other entity or else all shares of target entity. Mergers and Acquisition can be voluntary or forceful.

History of mergers in Indian banking sector:-

Mergers& Acquisition came into light since the recommendation of committee formed in the year 1997 under leadership of M Narsimhan. Narsimhan committee-II gave various recommendations on operational & structural issues of Indian banking, capital adequacy, management of NPA's, prudential norms on income recognition & disclosures, direct credit, rural & Small industries credit, regulation & Supervision and also on mergers of banks and NBFC. In the year, 1972 and 1976 respectively "Banking Commission"committees were formed who also emphasized on restructuring of the banking sector.Further many committees were formed for betterment of financial system, liquidity, consolidation of banks they also recommended that there should be 3 to 4 big banks with strong lending capacity. The following table consist of bank mergers post-liberalization.

TABLE-1 BANK MERGERS POST-LIBERALIZATION

YEAR	Bank Acquired	Banks Merged
1993	Punjab National Bank	New Bank Of India
1994	Bank Of India	Bank Of Karad Ltd
1995	State Bank Of India	Kashinath State Bank
1996	Oriental Bank Of Commerce	Punjab Co-Op Ltd
1997	Oriental Bank Of Commerce	Bari Doab Bank Ltd
1999	Bank Of Baroda	Bareilly Co- Op Ltd
2000	HDFC Bank Ltd	Times Bank Ltd
2001	ICICI Bank	Bank Of Madura
2002	ICICI Bank	ICICI Ltd
2003	Punjab National Bank	Nedungadi Bank Ltd
2004	IDBI	IDBI Bank Ltd.
2004	Bank Of Baroda	South Gujarat Local Area Bank
2004	Oriental Bank Of Commerce	Global Trust Bank
2005	Bank Of Punjab	Centurion Bank
2006	Federal Bank	Ganesh Bank Of Kurandwad
2006	Industrial Development Bank Of India	United Western Bank
2006	ICICI Bank	Sangli Bank
2007	Indian Overseas Bank	Bharat Overseas Bank
2007	Centurion Bank Of Punjab	Lord Krishna Bank
2008	HDFC Bank	Centurion Bank Of Punjab
2008	State Bank Of India	State Bank Of Saurashtra
2009	State Bank Of India	State Bank Of Indore
2010	ICICI Bank	Bank Of Rajasthan
2014	Kotak Mahindra Bank	ING Vysya Bank
2017	State Bank Of India	Bhartiya Mahila Bank(BMB) State Bank Of Bikaner And Jaipur (SBBJ) State Bank Of Hyderabad (SBH) State Bank Of Mysore (SBM) State Bank Of Patiala (SBP) State Bank Of Travancore (SBT)
		Source:- bankersadda

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SBI and its Subsidiaries at glance:-

State bank of India has its roots in our country from pre- independence era becoming one of the oldest financial institutions in the country. SBI has its roots with establishment of Bank of Calcutta in 2 June 1806 that was renamed to Bank of Bengal. With Bank of Bengal, the other presidency banks where, Bank of Bombay and Bank of madras. All the three presidency banks were amalgamated into imperial bank of India in the year 27 January 1921. With formation of state Bank of India act in 1955, RBI acquired maximum stake in Imperial Bank of India and renamed it to State Bank of India on 30 April 1955. On enactment of SBI (Subsidiary Banks) Act in 1959, enable to takeover banks in eight princely states before nationalization. The full-fledged control on subsidiary bank acquired in the year 1960. Government of India acquired entire stakes in SBI from Reserve Bank of India in the year 2008.

Bhartiya Mahila Bank formed especially to provide banking services to women. The bank was established in the year 2013 and inaugurated by former Prime Minister Mr. ManMohan Singh deposits were allowed from all sources but credit loans and advances were given precisely to women only.

On 15 February 2017, the Government of India approved the merger proposal with effective from 1 April 2017. This merger is the largest merger in India's Banking History. Stat Bank of India ranked at 54^{th} position among top 1000 global banks after this merger.

Table – 2 Details of State Bank of India & Associate Banks and Bhartiya Mahila Bank

Particulars	State Bank Of India	State Bank Of Bikaner And Jaipur	State Bank Of Hyderabad	State Bank Of Mysore	State Bank Of Patiala	State Bank Of Travancore	Bhartiya Mahila Bank
Founded	2 June 1806	1963	8^{th} august 1941	2^{nd} October 1913	1917	12^{th} September 1945	19^{th} November 1913
Head quartered	Mumbai	Jaipur	Hyderabad	Bengaluru	Patiala	Thiruvananthapuram	Delhi India
Owner	Government Of India	State Bank of India	State Bank of India	State Bank of India	State Bank of India	State Bank of India	Government Of India
No of branches	17140	1316	1924	1074	1343	1187	104
No of Employees	209572	13045	18285	10120	14799	14094	501

2. Literature Review:-

The strategic decision of mergers and acquisition has gained a great importance in recent times. Many researches have done to find out the operational efficiency and impact of M&A on the financial performance of the banks.

Sharma & Sidana (2017) conducted research on impact of the merger on the financial condition of SBI and concluded that this big merger will create a good rapport with the customers, there will be better diversification and changes of getting fail in the system will be less due to better management and supervision of the bank.

Dr. Raju, Dr. Naidu and D Satyanarayan (2017) in their research paper have discuss about the key strengths of SBI, factors that triggered to the decision of the merger i.e. is political and economic factors and challenges SBI had to face from this merger.

Jyoti Rani (2017) in her research paper studied about procedure, impact merger on State Bank of India and challenges faced by SBI post-merger. The author concluded this merger would be beneficial for SBI to become worlds one of the largest banks

Prajapati (2018) studied about some important issues regarding mergers in Indian banks especially PSU's with keeping focus on SBI &its Associates as well as Bhartiya Mahila Bank. The researcher concluded that profitability all the associates banks was going down and the strategic decision helped them but contrary the acquirer i.e. SBI faced losses due to accumulated loss of associate banks.

Jayshree & Sridhar in there research paper have studied about the effects and process of merging SBI and its subsidiaries with the help of digital technology, the consequences SBI and its subsidiaries had to face in terms of financial aspect like gross and net NPA, profitability, growth in deposits and advances etc.

Research Methodology:-

Source of data:-

For present study, data is collected from secondary sources through State Bank of India & Associate Banks Annual reports, RBI official website, journals, and news articles.

Sample Size:-

The sample size for present study includes public sector banks i.e. State Bank of India, State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP), State Bank of Travancore (SBT), and Bhartiya Mahila Bank.

Period of the study:-

The present study is based on pre-merger financial year i.e. 2016-17 and post-merger financial year 2017-18.

Objectives: -

The main objectives of the study are as follows:-

- To study and understand the current scenario of Indian Banking Sector
- To study pre-merger financial performance of SBI & its Associate Banks.
- To study post-merger financial performance of SBI.
- To analyse the postmerger financial performance of SBI and associated Banks

Limitations of the study:-

- The study is based on selected public sector banks i.e. SBI & Associates and BMB.
- The study is based on only financial year 2016-17 & 2017-18.
- As the topic and case are recent ,few research papers were available for Literature review

3. Results& Analysis:-

Pre- Merger positionof SBI &Associates and BMB:-

Table-3

Particulars	State Bank Of India	State Bank Of Bikaner And Jaipur	State Bank Of Hyderabad	State Bank Of Mysore	State Bank Of Patiala	State Bank Of Travancore	Bhartiya Mahila Bank	Total/Average
(As of March 2017)(Amount Rs In Crores)								
Total Deposits	**2044751.4**	**104008.7**	**141898.9**	**787474.2**	**100794.6**	**114688.9**	**975.8**	**3294592.5**
Total Advances	**1571078.4**	**64830**	**79375.6**	**34474.6**	**70019**	**48617.6**	**576.3**	**1868971.5**
Net Profit	**1048.4**	**(1368.3)**	**(2760.3)**	**(2006.3)**	**(3579.4)**	**(2152.5)**	**4.3**	**10814.1**
Gross NPA	**112343**	**10676.8**	**18211.9**	**9914.6**	**17847.4**	**8817**	**55**	**177865.7**
Net NPA	**58277.4**	**6829.7**	**10193.8**	**5824.3**	**10840.3**	**4966.6**	**46.2**	**96978.3**
CRAR	**13.11%**	**9%**	**11.72%**	**12.41%**	**11.18%**	**12.19%**	**139.29%**	**29.84%**
Gross NPA Ratio	**6.90%**	**15.52%**	**20.77%**	**25.68%**	**23.15%**	**16.79%**	**9.54%**	**16.91%**

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Net NPA Ratio	**3.71%**	**10.53%**	**12.84%**	**16.89%**	**15.48%**	**10.22%**	**8.85%**	**11.22%**
Credit to deposit Ratio	**76.83%**	**62.33%**	**55.94%**	**43.93%**	**69.47%**	**42.39%**	**59.06%**	**58.56%**
CASA Ratio	**44.57%**	**45.63%**	**43.38%**	**39.91%**	**35.83%**	**35.93%**	**32.26%**	**39.64%**
Net Interest Margin	**2.44%**	**2.54%**	**2.32%**	**2.18%**	**1.78%**	**2.03%**	**4.45%**	**2.53%**
Return on Equity	**6.31%**	**-20.90%**	**-28.62%**	**-44.37%**	**-43.5%**	**-41.25%**	**0.42%**	**-24.56%**
Return on Assets	**0.41%**	**-1.22%**	**-1.55%**	**-2.29%**	**-2.80**	**-1.75%**	**0.91%**	**-0.4078%**
								Source:- rbi.org.in

Findings

- SBI & Subsidiaries with BMB had total deposits of Rs 32945925 Million and advances of Rs 18689715 Million.
- Only SBI and BMB bank had posted profits on the contrary Subsidiary banks of SBI had total loss of Rs 118668 Million.
- Capital adequacy of all the banks was adequate adhering the norms of RBI.
- All the banks excluding SBI had Gross NPA and Net NPA in the range of 10% to 20%, which clearly indicates that asset quality has been deteriorated at great extent.
- All the banks had optimum utilization of their deposits for lending.
- All the banks had average CASA ratio of 39.64%.
- Only SBI and BMB had positive returns on equity and assets whereas Associate banks had negative returns due to consistent losses.

Post- merger position of SBI:-

Table-4

Particulars As of March 2018	State Bank Of India (Rs In Crores)
Total Deposits	**2706344**
Total Advances	**1934880**
Net Profit	**(6547)**
Gross NPA	**223427**
Net NPA	**110854**
CRAR	**12.6%**
Gross NPA Ratio	**10.91%**
Net NPA Ratio	**5.73%**
Credit to deposit Ratio	**71.49%**
CASA Ratio	**45.68%**
Net Interest Margin	**2.16%**
Return on assets	**-0.19%**
Return on equity	**-3.78%**
	Source:- Annual Report of SBI

Findings:-

- Total deposits of Associate banks & BMB was Rs 1249841.1 Crores andtotal advances were Rs 297893.1 Crores. This provided an advantage to SBI from this merger that it could acquired1/4th market share of the Indian Banking Sector becoming the largest PSU bank as well as largest among all types of banks in India.[Market share of Deposits-22.84% and Advances is 19.92%].
- SBI reported losses for financial year 2018 of Rs 6547 Crores in comparison with pre-merger profit of Rs10484 Crores in financial year 2017 the major reason behind this may be the accumulated losses of Rs 11866.8 Crores in associate banks as well as increased level of Non-performing assets and higher requirement of provision for the same. It is the first time in decade since 2007-08 the biggest bank in the country has reported losses.
- The Gross Non-performing assets increased by 401basis points and stood up to 10.91% post- merger of State Bank of India due to addition of NPA of Rs 110855 Crores including of associate banks NPA.
- Net NPA of Associate banks 10.53%, 12.84%,16.89%,15.48%,15.48%, 10.22% and BMB 8.85% respectively, whereasNet Non-performing assets of State Bank of India had marginal increase post-merger to 5.73% in comparison with pre-merger 3.71%.
- Capital adequacy shows the strength of the bank that can be able to absorb all kinds of shocks and losses during crisis. The capital adequacy has seen a marginal decreased post-merger of 51 bps but still higher than the regulatory requirements of the central bank.
- All the associate banks had great amount of deposits but theydid not optimally utilize them for giving credit, which is shown by credit to deposit ratio. On other hand, SBI had 76.83 % pre-merger ratio and post – merger Ratio of 71.49%. The too lower ratio says that funds are under-utilized and too higher the ratio states that there is stressed on the bank funds.
- SBI's CASAratio 45.68% had a growth of 111bps. The higher the CASA helps banks to lower the cost of deposits hold by them.
- Due to increasing volume of Non-performing assets and provisions, for the same has a tremendous impact on the interest earnings and profitability of the banks which has given negative returns on equity as well as assets for associate banks and after amalgamation also SBI due to losses has posted negative returns.

4. Conclusion:-

This amalgamation of all associate banks with the parent bank being the biggest in the history of banking has created lots of expectation for all government, stakeholders, employees, other PSU banks etc. irrespective of financial results SBI has been able to optimally utilized the synergies of the associate banks and BMB. They had been able to rationalize the excess branches throughout India, properly managing the huge staff count within itself as well as addition from other banks. Mergers between a strong bank and distressed banks did not yield results as expected but this merger always protects the interest of the depositors in the banking system. With this merger, a way has been provided for other such kind of big mergers but with proper groundwork and analysis of Non-performing assets, profitability, provisions for NPA, management of branchesetc. before proposing such merger among PSU Banks. If all the things sets at its right place, the next phase of bank consolidation will be a revolutionary phase towards restructuring the entire Indian banking sector.

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