PRE AND POST MERGER PROFIT ANALYSIS OF STATE BANK OF INDIA AND ITS ASSOCIATES BANKS

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Abstract:

In the global economy, competition between foreign and domestic banks and tough technology, there was a quick change in the banking industry in last two decades. In order to overcome these problems, most of the banks had adopted a corporate restructuring strategy like merger and acquisitions. The aim of this research is to analyze the profitability of pre and post-merger financial performance of State Bank of India and its associate banks. Independent sample t-test is applied for the purpose of testing the statistical significance of pre and post-merger parameters. This study depends on secondary data covering five years annual data of pre-merger and one year annual data of post-merger.

Keywords: Profitability analysis, comparative profit, merger and acquisition.

Introduction:

A bank is a financial institution which manages with depository and advances and other related services. It allows money from those who want to save in the formality of deposits and it loins money to those who want it. Running a bank is normal as difficult as analyzing it for investment intention. A bank's management must seem at the subsequent criteria before it decides how many loans to enlarge, to whom the loans can be granted, what rates to set, and early.

Bank in common terminology is advert to as a financial organized or a corporation which is authorized by the nation or central government to deal with funds by accepting depository, giving out loan and investment in securities. The principal roles of Banks are Economics advancement, Expansion of the economy and provide funds for investment. In recent times the banking sector has been sustaining a lot of innovating in conditions of order and effects of globalization. With the changing environment, many other strategies have been adopted by this sector to endure efficiently and to surge onward in the global cirque. One such strategy is through the process of a combination of banks that emerged as one of the most profitable strategies. There are several ways to compact the banking business; the most usually adopted by banks is a merger.

The Indian Banking System

The Indian banking system is the central bank of India known as Reserve Bank of India. The Reserve bank of India is responsible for the Indian banking system since 1935, the commercial banks in India are select into Public sector banks, Private sector banks and foreign banks. All these banks fall under the Reserve Bank of India's classification of table mercantile banks (SCBs). Public sector, Private sectors, and foreign banks as they are embodied in the second scheduled of the reserve bank of India Act 1934. The Public sector was wholly owned by the regulation of India before the reforms. The PSBs are the biggest player in the Indian banking system and the explanation for 70% of the property of timeline shop banks in India.

The merger can be defined as two or more entities' assets and liabilities are brought into a single entity. The merger is a process of combining two business entities under common ownership. Merger and Acquisition in Indian banking sectors have been initiated through the recommendations of Narasimham Committee II. The committee recommended that "merger between strong bank/ financial institutions would make for greater economic and commercial sense and would be a case where the whole is greater than the sum of its parts and have a "force multiplier effect".

Statement of the problem

State bank of India is a largest commercial bank in India, its having so many affiliate banks. So the central government of India has approved the merger of state bank of India and Its associate banks (5 banks) are to be consolidated in the banking sector. After This approval the finance minister Arun Jaitley was announced in the union Budget. The merger was happen from 1st April 2017 and we believed that the long-term benefits of the merger will significantly outweigh the near-term challenges. The resulting cost advantage; enhanced reach; and economies of scale from this merger, will help SBI sustain its mission of being an enduring value creator.

Objectives:

1. The primary objective of this research is to analyse pre and post-merger profit of SBI and its associates banks.

Literature review

1. **CMA Jai Bansal and Dr. Gurudatt Kakkar (2018)** merger will bring closely a quarter of all outstanding loans in India's banking sector to SBI's account book. With this footstep SBI has begin into the list of top 50 world-wide banks. However, there were many imponderables involved in this great merger, alike, employees upshot related with redeployment or failure of jobs, on pass, new operation conditions, increased practical hours, etc.
2. **Dr Jyoti Singhal (2017)** examined the possessions of merger and acquisition on the performance of banks pre and post mergers and consolidation. The outcome showed that it neither improved financial performance nor improved financial efficiency owing to merger and acquisition. Overhead efficiency ratio has increased after merger of banks in most of cases.
3. **Ritesh Patel (2017)** these paper compare with the before and after fusion assertion of extended name profitability with consider to chosen Indian banks for a age of 2003-04 to 2013-2014. The fiscal performance is rate on the base of changeable variables. The meditation found an indirect blowy of fusion on revert on equity, return on property, Net profit ratio, yield on accelerate and yield on investment. However, variables, namely, the Earnings per Share, Profit per employee and Business per agent have shown positive bend and full-grown after the merger. It has been observed that after the merger, the Assets, Equity, and Investment and adduce of all banks increment, but due to underutilization, their own yield loss.
4. **Daniya et al. (2016)** analyze the pre- and post-merger financial performance of 24 Nigerian banks and concludes that the after the merger the financial performance improved and, as a result, the profitability ratios increased significantly.
5. **Dr. Jayashree R Kotnal (2016)** the purpose of the present writing is to out search different reason of merger in Indian banking manufacture. This embraces various aspects of bank mergers. It also get before and inform-merger fiscal performance of incorporate banks with the help of financial parameters probably, Gross Profit margin, Net Profit security, operating Profit margin, Return on Capital Employed, Return on Equity, and Debt Equity Ratio. Through literature Review it comes know that most of the toil done high cheer the stroke of merger and Acquisition on different party. The data of Merger and Accusations since frugal relaxation are collected for adjust of uncertain fiscal

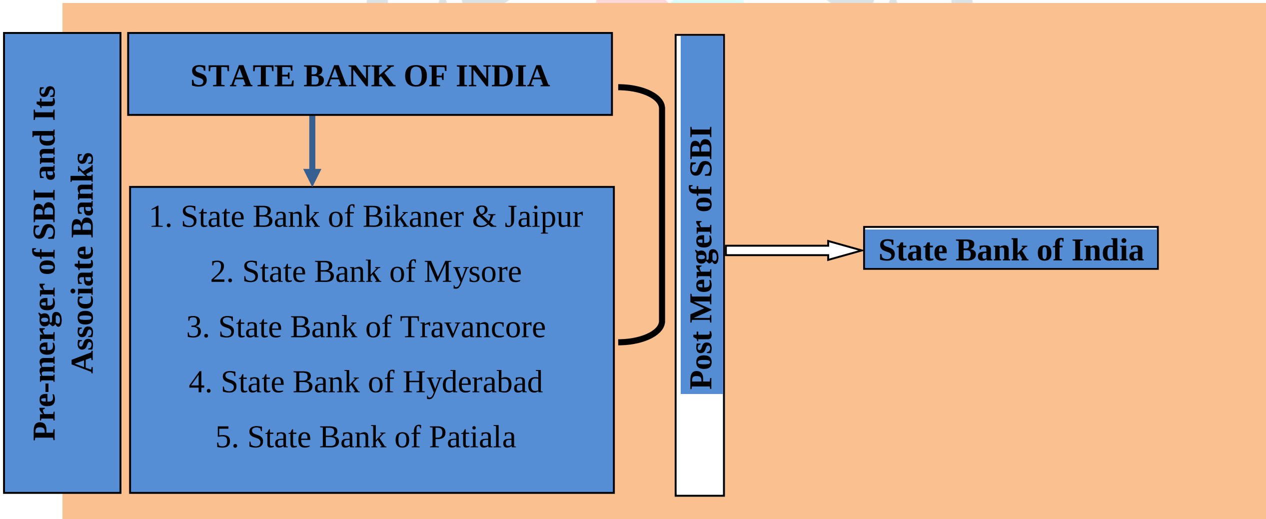
parameters. Independent T-test usefulness for proof the statistical significance and this proof is applied not only for proportion analysis but also result of fusion on the completion of banks. This work being tested on the base of two grounds such as Pre-merger and Post- merger.

Research Methodology

This research has carried out under the descriptive method. The intention of this research is to analyze the pre and post profit value of State Bank of India and its Associates banks. This methodology deals in detail about the various methods and measures adopted and followed by the researcher to conduct the study in a scientific manner.

Sampling Design

On the basis of gathered data from the various sources of SBI and its associate banks before 5 years merger and after 1 years merger from the date of merger on 1st April 2017. Accordingly the sample of the study will consist of SBI and its five associate banks. The list of such banks is given below



SOURCES OF DATA

The data used in the research consist of only secondary data. The data has been gathered from official website of RBI, published annual reports, SBI websites, annual books, journals, published and unpublished thesis, money control website, Newspaper and magazine etc…

H0: There is no significant difference between operating profit of pre and post-merger on SBI and its Associates Banks

H1: There is a significant difference between operating profit of pre and post-merger on SBI and its Associates Banks

Table No-1

SBI & ITS ASSOCIATE BANKS IN INDIA (OPERATING PROFIT)

(Rs.in Crores)

S.No	Name of the sample Banks	Pre & Post Merger	2012-2013	%	2013-2014	%	2014-2015	%	2015-2016	%	2016-2017	%	2017-2018
1	State Bank of Bikaner And Jaipur	Pre-Merger	1489.61	3.74	1712.87	4.30	1694.66	4.19	2104.11	4.31	2305.03	4.29	NIL
2	State Bank of Hyderabad		2652.99	6.67	2788.44	7.00	2690.99	6.65	2913.67	5.96	3292.66	6.13	NIL
3	State Bank of India		**31573.54**	**79.36**	**31081.72**	**78.08**	**32109.24**	**79.33**	**39537.27**	**80.92**	**43257.81**	**80.51**	**NIL**
4	State Bank of Mysore		1059.61	2.66	1331.03	3.34	1164.44	2.88	1330.98	2.72	1251.52	2.33	NIL
5	State Bank of Patiala		1762.90	4.43	1541.81	3.87	1448.31	3.58	1599.45	3.27	1827.64	3.40	NIL
6	State Bank of Travancore		1248.80	3.14	1351.01	3.39	1369.69	3.38	1372.16	2.81	1798.33	3.35	NIL
7	SBI	Post-Merger	NIL		NIL		NIL		NIL		NIL		**59510.96**
	Total		**39787.45**	**100.00**	**39806.88**	**100.00**	**40477.32**	**100.00**	**48857.64**	**100.00**	**53733.00**	**100.00**	**59510.96**

Secondary data

The above table reveals that operating profit from 2012-13 to 2016-17 (pre- merger) and 2017-18 (post-merger) of State bank of India and its Associates banks. In pre-merger case state bank of India and its associate banks were keep on increasing the profit. After the post-merger State Bank of India has increased the operating profit value more than pre-merger. Hence it is concluded that after the merger the bank was earning the operating profit more. It is concluded that merger is very good condition for SBI and its associate's banks.

Table No-2

Group Statistics					
	SBI & Associates banks	N	Mean	Std. Deviation	Std. Error Mean
Operating Profit	Pre-Merger	5	44532.4580	6415.75220	2869.21161
	Post- Merger	1	59510.9600	.	.

The above statistics table reveals that the mean value of post-merger is more than the mean value of pre- merger. According to this study the operating profit of SBI and Its associates banks in post- merger is good. It is concluded that merger is a very good process to the bank.

Table No-3

Independent Samples Test

		t-test for Equality of Means						
		T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower	Upper
Operating profit	Equal variances assumed	-2.131	4	.100	-14978.50200	7028.10440	-34491.64807	4534.64407
	Equal variances not assumed				-14978.50200			

According to independent T- Test, the significant value of two-tailed as more than at 5% level (p-0.100), hence its concluded there is no significant difference between operating profit of pre and post-merger on SBI and its Associates Banks

H0: There is no significant difference between net profit/loss of pre and post-merger on SBI and its Associates Banks

H1: There is a significant difference between net profit/loss of pre and post-merger on SBI and its Associates Banks

Table No-4

SBI & ITS ASSOCIATE BANKS IN INDIA (PROFIT (LOSS) DURING THE YEAR)

(Rs.in Crores)

S.No	Name of the sample Banks	Pre & Post Merger	2012-2013	%	2013-2014	%	2014-2015	%	2015-2016	%	2016-2017	%	2017-2018
1	State Bank of Bikaner And Jaipur	Pre-Merger	652.03	4.25	730.24	4.11	731.69	5.35	776.87	4.77	850.60	7.34	NIL
2	State Bank of Hyderabad		1298.27	8.47	1250.22	7.03	1019.52	7.46	1317.13	8.08	1064.92	9.19	NIL
3	State Bank of India		**11707.29**	**76.35**	**14104.98**	**79.32**	**10891.17**	**79.68**	**13101.57**	**80.37**	**9950.65**	**85.86**	**NIL**
4	State Bank of Mysore		369.15	2.41	416.10	2.34	274.24	2.01	408.80	2.51	357.85	3.09	NIL
5	State Bank of Patiala		796.45	5.19	666.76	3.75	447.60	3.27	362.06	2.22	(-972.40)	(-8.39)	NIL
6	State Bank of Travancore		510.46	3.33	615.04	3.46	304.34	2.23	335.53	2.06	337.73	2.91	NIL

7	SBI	Post-Merger	NIL		NIL		NIL		NIL		NIL		-6547.45
	Total		**15333.64**	**100.00**	**17783.34**	**100.00**	**13668.57**	**100.00**	**16301.95**	**100.00**	**11589.36**	**100.00**	**-6547.45**

Secondary data

The above table reveals that net profit/ loss from 2012-13 to 2016-17 (pre- merger) and 2017-18 (post-merger) of State bank of India and its Associates banks. In pre merger case state bank and its associate banks were getting reasonable profit from 2012-13 to 2015-16. In 2016-2017 state bank of Patiala had loss Rs. (-972.40) and other banks got profit value. After the merger State Bank of India incurred a huge loss (-6547.45). Hence it is concluded that after the merger the bank incurred a huge loss, due to the merger expenses and provisions and contingencies.

Table No-5

Group Statistics					
	SBI & Associates banks	N	Mean	Std. Deviation	Std. Error Mean
Net profit	Pre-Merger	5	14935.37	2394.664	1070.926
	Post- Merger	1	-6547.45	.	.

The above statistics table reveals that the mean value of pre-merger is more than the mean value of post-merger. According to this study profit of SBI and Its associates banks in pre-merger was good, but the post-merger loss may be compensate for the upcoming years.

Table No-6

Independent Samples Test								
		t-test for Equality of Means						
		T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
Net Profit	Equal variances assumed	8.189	4	.001	21482.822	2623.223	14199.588	28766.056
	Equal variances not assumed				21482.822			

It is concluded that the significant value of two-tailed as lesser than at 5% level (p-0.001), hence it is understood that there is high significant difference between net profit/loss of pre and post-merger on SBI and its Associates Banks.

Findings:

1. It is find that the operating profit on pre and post-merger of SBI and its associates banks, it has been keep on increasing. So the performance of SBI and its associates banks in pre and post-merger was good.
2. In this study the researcher has found that the pre-merger net profit of SBI and its associate banks was little good except state bank of Patiala. But after merger SBI had a huge loss.
3. After the post-merger the provisions and contingencies expenses huge, due to consolidate the all banks.
4. It is found that in the year 2014 all the banks profit level has reduced due to some financial crises.

Conclusion:

Merger is the advantageous tool for developing and expansion of the state bank of India. It was helpful for survival of weak associates banks by merging into state bank of bank. This study shows the profitability analysis of pre and post-merger on state bank of India. The researcher took as sample examine that merger led to a profitable situation or not. For this a comparison between pre and post-merger profitability performance in terms of operating profit and net profit margin.

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