MERGER OF SBI ASSOCIATE BANKS WITH STATE BANK OF INDIA:

A POST-MERGER EFFICIENCY ANALYSIS

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ABSTRACT

Banking sector plays an important role in financing the economic needs of the country and act as a catalyst to the development and growth of nation. Increased competition and global standards forced the banks to increase their size and achieve maximum efficiency in terms of different parameters. Merger of small and weak banks with large banks is common in India as well as globally. Mergers and acquisitions are common in Indian Banking sector and recently the sector witnessed largest merger in the history of banking industry in India which took place on 1 April, 2017. State Bank of India merged with its 5 associate banks namely State SBBJ, SBH, SBM, SBP, SBT and Bharathiya Mahila Bank. SBI is the largest commercial bank in India and so through this paper an attempt is made to know the impact of mergers of all the Associate banks with SBI on different aspects such as branch size, employee size, profitability, asset quality, branch efficiency and employee efficiency. It is found that there was reduction in the size of employees, branches and profits. But all other indicators including Net NPA to Net Assets ratio .showed favourable change in the post-merger period compared to the pre-merger combined performance. If the figures of pre-merger SBI alone are considered, the merger caused unfavourable change in all the indicators except Net NPA to Net assets, Spread, and Business per employee. SBI has to suffer for a few years to overcome the issues raised consequent to the merger. But the merger is imperative considering the need of the hour.

Keywords: Mergers and Acquisitions, Profitability, Efficiency, Asset quality.

I. Introduction

Banking sector is one of the core sectors in the financial sector of a country. A lot of changes took place in the sector since globalization; the introduction of technology in the banking sector changed the form, concentration and shape of the industry. The manual services were replaced by machines, branch system by technology based services, mass banking by industry or customer oriented banking. Liberalization paved the way for the entry of new Banks both domestic and foreign with a new form of services based on technology and forced the traditional banks to make changes in their existing mode to a new tech based mode. Many new entrants such as new generation private sector banks, small finance banks, micro financial institutions, payment banks, e wallets, fintech companies, Mudra banks etc. accelerated the competition and pace of the sector.

As a result of the high competition prevailing in the industry together with global pressures banks were forced to increase their size whatever ways as possible. This results the merger of small banks with big banks or between big banks. Many mergers and acquisitions were taken place in the Indian banking industry and the merger of all associate banks of SBI with SBI is one among them. Consequent to this, the size of SBI increased and SBI is trying to become one of the biggest banks in the world. The banking sector in India is facing high risks especially the mounting of NPAs, climatic changes, natural calamities, political interventions by means of debt waiver schemes, pandemic situation and threat from rivalries. Until 2016, almost all banks in India were running at a Profit but now majority of banks are running at a loss. Banks are under severe crisis due to the increasing non-performing loans and the increasing tendency of non-repayment of loans.

II.Indian banking sector at a glance

Indian banking sector comprises of the presence of commercial banks, Co-operative banks, payment banks, small finance banks, investment banks, exchange banks, regional Rural Banks etc. Commercial Banks in India is a mix of public sector banks, private sector banks and foreign banks. As on 31st 2020, the numbers of commercial banks in India was 92, out of 18 was in public sector, 22 in private sector, 42 were foreign banks and were 10 small finance banks. As of now, there are only 12 banks in the public sector consequent to the merger of nationalized banks.

III. Bank Mergers in India

The banking system in India had passed through several structural changes right from its inception. Banking Regulation Act 1949, Nationalisation of Imperial Bank and the formation of State Bank of India, Bank Nationalisation in the years 1969 and 1980, Banking Sector Reforms in the year 1991 and introduction of

prudential norms, formation of payment banks, Small Finance Banks, Fintechs, technology revolution, Basel Norms and mergers and acquisitions had made significant changes in the financial sector of India. Mergers and acquisitions aimed to increase the size of the banks, venture into new fragments or addition piece of the pie and develop incomes and increment benefits. The sector witnessed the Mergers of many banks before and after liberalization. The recent mergers were the merger of the associate banks of SBI with SBI and the merger of small sized nationalised banks with big nationalized banks. After this massive amalgamation, the total number of Public Sector Banks (PSBs) in India has come down from 27 banks in 2017 to 12 in 2020. They include five small PSBs namely IOB, Punjab and Sind Bank, Central Bank of India, UCO Bank, Bank of Maharashtra and seven large sized banks Viz., PNB, CB, BOI, BOB, SBI, Indian Bank and Union Bank of India. PSBs' amalgamation will mark a new dawn for the Indian Banking sector. Bigger and stronger PSBs will be able to offer faster loan processing, banking @ home, need-driven credit and specialized products for customers and better global competitiveness.

Recent mergers in Indian Banking Industry

Sl.No.	Anchor Bank	Banks merged with Anchor bank
1	Stare Bank of India (SBI) (From 1.4.2020)	Five associate banks of SBI viz., State Bank of Mysore, State Bank of Travancore, State Bank of Hyderabad, State Bank of Patiala, State Bank of Bikaneer and Jaipur and Bharathiya Mahila Bank.
2.	Punjab National Bank (PNB) in 2020	Oriental Bank of Commerce, united bank of India
3	Canara Bank(CB) in 2020	Syndicate Bank
4	Indian Bank(IB) in 2020	Allahabad Bank
5	Bank of Baroda (BOB) in 2020	Dena Bank and Vijaya Bank
6	Union Bank of India (UBI) in 2020	Andhra bank and Corporation Bank

IV. Review of Literature

Many studies were conducted to examine the effect of mergers and acquisitions in the banking industry. Few relevant studies which the researcher has gone through are given below.

Goyal K.A. & Joshi Vijay (2011) in their paper looked in to the need for M&A in Indian banking. And described the benefits gained by ICICI Bank Ltd. ICICI Bank used it as their expansion strategy in rural market to improve customer base and market share.

Suresh Kumar (2013) in his paper titled Impact of Bank Mergers on the Efficiency of Banks: A study of merger of Bharat Overseas Bank with Indian Overseas Bank analysed likely impact of mergers and size of the banks on the efficiency and profitability parameters of banks. He pointed out that with size; a bank is able to leverage economies of scale and economies of scope. This will also help them to expand the capital base and global competitiveness. The pre-merger and post- merger average values for different variables such as Business per employee, Profit per employee, Investment and Advances, Interest Income, Other income, Return on Advances and NPAs have recorded a positive change.

Monika (2014) she concluded that the mergers & acquisitions expressed value mixed motives to attract the investors by way of corporate level strategy and use behavioral theories to understand the philosophy behind the decisions to adopt a form of consolidation.

Kotnal Jaya Shree (2016) examined the impact of acquisitions of SBI on its profitability and found that banks have been affected positively but the overall development and financial illness of the banks can't be solved through mergers and acquisitions. The financial parameters like gross profit margin, net profit margin, operating profit margin, and return on equity and debt equity ratio were used for the study.

Farman Ali, Anshul Sharma (2019) in his paper titled 'Pre-Merger and Post-Merger Operating Performance of SBI' analyzed the financial position before merger and after merger of SBI and found that there was an increase in the profitability by few parameters in short run while it gives the hike in performance as well as in efficiency for long term basis because of low operating cost. It has been observed that after the merger, bad loan pile up, suddenly the profit of the bank come down, during this period when the entire economy of India was facing the pressure of demonetization and GST regime in India while SBI was thinking to be indexed in top 50 banks of the world. He also stated that for short period of time, after merger the SBI did not perform well but after two years it has not only increased its profitability but also increase the efficiency by minimizing the operating cost.

Jai Bansal and Gurudatt Kakkar (2018) in the paper titled A Research on the Analysis of Merger of SBI with its 5 Associate Banks and Bhartiya Mahila Bank studied the important factors influencing companies to undergo merger and acquisition, challenges encountered by merged entities and the bank's performance in terms of profitability.

Ishwarya J (2019) in his paper titled 'A Study on Mergers and Acquisition of Banks and a Case Study on SBI and its Associates' indicates that the pre and post- Mergers and Acquisitions of selected banks in India have no greater changes in profitability ratio; a few banks are satisfactory during the study period. Further mergers led to higher level of cost efficiencies for the merging banks. Merger between distressed and strong banks did not yield any significant efficiency gains to participating banks. However, the forced merger among these banks succeeded in protecting the interest of depositors of weak banks but stakeholders of these banks have not exhibited any gains from mergers.

Patil Jaya Lakshmi Reddy, Mahesh Chandra (2020) in the paper titled Mergers of Banks in Economy – Indian Scenario measured the post-merger performance of Punjab National Bank, Canara Bank, Union Bank of India and Indian Bank and its impact on Indian economy. They opined that consolidation is a huge instrument in maintain liquidity, ensuring transparency in business and effective administration, but the fact that a single bank would be exposed to instable and unexpected system risk. They found that after the merger, the new banks net profit will be reduced and the stability of banks is questionable.

Lot of works were done in the area of mergers and acquisitions and even in the merger of associate banks of SBI with SBI But the effect of merger on the different aspects of SBI alone and SBI as a group in the pre-merger and post-merger period is not yet done.

V. Objectives of the study

1. To examine the effect of merger on the branch size and employee size of SBI.
2. To analyse the profitability performance of SBI before and after merger.
3. To assess the branch level and employee level performance of SBI in the pre-merger and post- merger period.

VI. Methodology of the study

Sources of data: Data were collected from the websites of Reserve Bank of India, Indian Banks Association, Publications of the Government of India, websites of SBI, associate banks & Bharathiya Mahila Bank and Published Journals.

Period of study: For the pre-merger period data, data as on 31.3.2017 and for post- merger period, data as on 31.3.2019 were taken. Data for the year FY2019-20 was not considered due to the reflection of the Kovid19 pandemic effect on the bank's financial records.

Analysis of data: simple averages are used for analyzing data and for presentation, graphs and tables are also used.

IV. Results and Discussions

The effect of the merger of five associate banks of SBI with SBI is analysed in terms of different indicators such as branch size, employee size, asset quality, capital to risk weighted assets ratio, profitability, branch level efficiency and employee efficiency.

7.1 Branch size

Table 1
Branch size of SBI

Sl. No.	Banks	Branches (Pre-merger) 31.3.2017	Post –merger 31.3.2019	%ge Change
1	SBI	18331	23464	9.06 % decrease
2	SBT	1256		
3	SBM	1257		
4	SBP	1442		
5	SBH	2071		
6	SBBJ	1445		
	Total	**25802**	**23464**	**-2338**

Source: Compiled by the author

The number of branches of SBI in the post- merger period has been decreased from 25802 to 23464 (9.06%).

7.2 Employee size

Table 2
Number of employees

Sl. No.	Banks	No. of employees (Pre-merger) 31.3.2017	Post –merger 31.3.2019	%ge Change
1	SBI	209572	257252	8.09% decrease
2	SBT	14094		
3	SBM	10120		
4	SBP	14799		

5	SBH	18285		
6	SBBJ	13045		
	Total	**279915**	257252	**22663**

Source: Compiled by the author

The number of employees of SBI in the post- merger period has been decreased from 279915 to 257252 (8.09% decrease). It is evident that the number of branches as well as the number of employees has been decreased in the post-merger period i.e., within a period of two years which may lead to huge loss of employment opportunities in the banking sector in the future.

7.3 Asset quality

Quality of assets of the bank is a major criterion which determines the profitability and survival of the company. Asset quality is analysed on the basis of the ratio of Net NPA to Net Advances. CRAR is also considered to identify the effect of different types of assets on the basis of risk factor.

7.3.1 Net NPA to Net Advances

Table 3

Net NPA to Net Advances

Sl. No.	**Banks**	**(Pre-merger) 31.3.2017**	**Post – merger 31.3.2019**	**%ge Change overall**	**Pre -merger SBI to Post- merger SBI**
1	SBI	6.17	3.01	Decreased, Favourable change	Decreased, Favourable change
2	SBT	10.22			
3	SBM	16.89			
4	SBP	15.48			
5	SBH	12.84			
6	SBBJ	10.53			
	Overall average	**12.02**	**3.01**	**-74.95%**	**-51.21%**

Source: Compiled by the author

7.3.2 Capital Adequacy Ratio

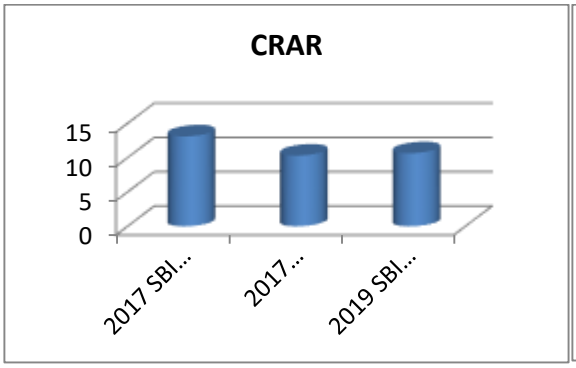
Table 4

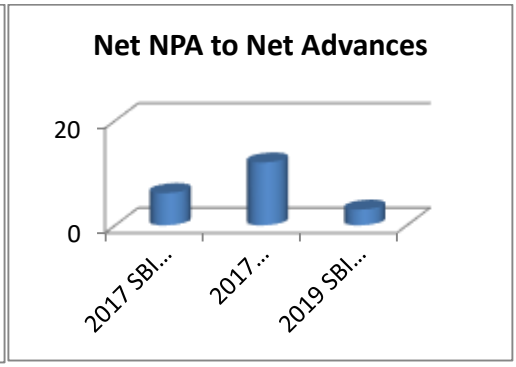
Capital Adequacy Ratio (CRAR)

Sl. No.	**Banks**	**(Pre-merger) 31.3.2017**	**Post – merger 31.3.2019**	**%ge Change overall**	**Pre -merger SBI to Post- merger SBI**
1	SBI	13.11		Increased, Favourable change	Decreased, unfavourable
2	SBT	12.19			
3	SBM	12.41			
4	SBP	12.43			
5	SBH	11.73			
6	SBBJ	9			
	Overall average	**10.31**	**10.65**	**3.29%**	**18.76% decrease**

Source: Compiled by the author

The NNPA to Net Advances ratio of SBI in the pre-merger period (as of 31.3.2017) was 6.17 and average ratio of all banks including SBI was 12.02. But in the post-merger period, some positive signs could be seen in the ratio by the reduction of 74.95% from average and 51.21% from the ratio of SBI in the pre-merger period. Regarding CRAR, Post-merger ratio increased by a slight rate (@3.29%. but considering SBI alone the ratio decreased by 18.76 %.





7.4 Profitability

Profitability is a major yardstick used to analyse the efficiency of banks. Return on Assets (ROA), Return on Equity (ROE), Net Profit, total business and Spread (net interest margin) are considered to get the impact of merger.

7.4.1 Return on Asset (ROA)

Table 4
Return on Asset (ROA)

Sl. No.	Banks	No.of employees (Pre-merger 2017)	Post –merger 31.3.2019	%ge Change	Pre -merger SBI to Post- merger SBI
1	SBI	0.41	0.02	Increased favourable change	Decreased Adverse change
2	SBT	-1.75			
3	SBM	-2.29			
4	SBP	-2.8			
5	SBH	-1.55			
6	SBBJ	-1.22			
	Overall average	**-1.53**	**0.02**	**102.60 % decrease**	**95.12% decrease**

Source: Compiled by the author

The figures showed that the merger resulted negative impacts on ROA(decreased by 95.12 percent) as SBI alone is considered. But as a group, the post merger position has been improved from -1.53 to 0.02 (102.6 percent).

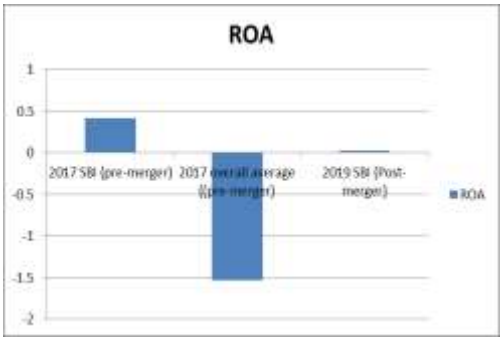
7.4.2 Return on equity (ROE)

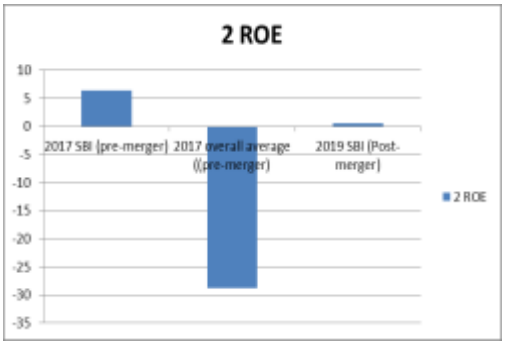
Return on Equity, one of the key factor which influence the shareholders was showed negative impact on SBI in the post-merger period as SBI alone is considered (6.13 to 0.48, 52 percent decrease.) But as a whole the ratio improved from -128.76 to 0.48 (101.66 percent increase).

Table 5
Return on equity (ROE)

Sl. No	Banks	No.of employees (Pre-merger) 31.3.2017	Post – merger 31.3.2019	%ge Change	Pre -merger SBI to Post- merger SBI
1	SBI	6.31	0.48	Increased Favourable change	Decreased Adverse change
2	SBT	-41.25			
3	SBM	-44.37			
4	SBP	-43.75			
5	SBH	-28.62			
6	SBBJ	-20.9			
	Overall average	**-28.76**	**0.48**	**101.66% decrease**	**52% decrease**

Source: Compiled by the author





7.4.3 Net Profit

Table 6
Net Profit

Sl. No	Banks	(Pre-merger) 31.3.2017	Post –merger 31.3.2019	%ge Change	Pre -merger SBI to Post-merger SBI
1	SBI	10484	862.23	Decreased Adverse change	Decreased Adverse change
2	SBT	-2152			
3	SBM	-2006			
4	SBP	-3579			
5	SBH	-2760			
6	SBBJ	-1368			
	Overall average	**-1381**	**862.23**	**160.26% decrease**	**91.77% decrease**

Source: Compiled by the author

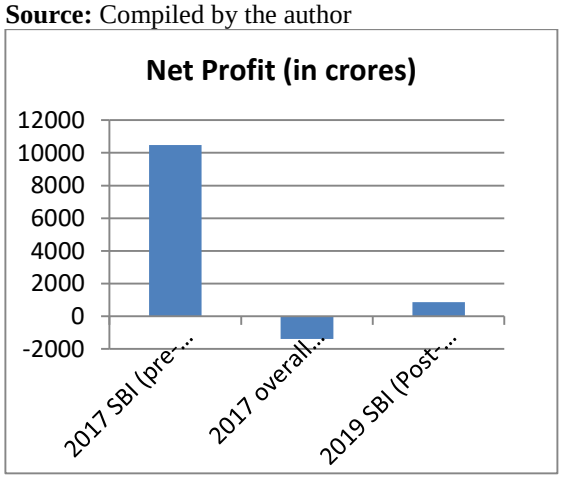
One of the most noticeable factors was that SBI paid much through the merger in terms of net profit. Its net profit in the pre-merger period was reduced from Rs. 10484 Crores to Rs.862.23 Crores (91.77 Percent decrease). At the same time the post-merger period showed improvement in the net profits of the group compared with the pre-merger period**.**

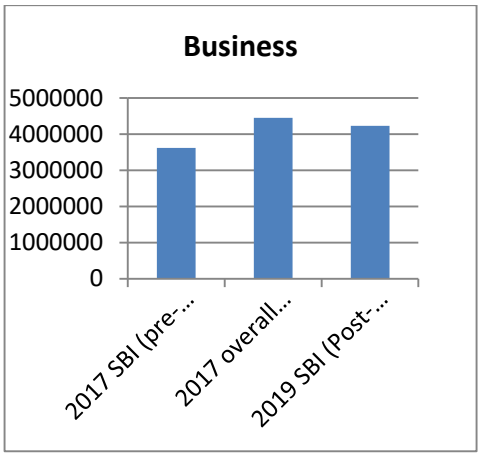
7.4.4 Business

Table 7
Total Business (Deposits + Advances)

Sl. No.	Banks	(Pre-merger) 31.3.2017	Post –merger 31.3.2019	%ge Change
1	SBI	3615649	4230628	Decreased-unfavourable
2	SBT	163307		
3	SBM	112949		
4	SBP	170814		
5	SBH	221275		
6	SBBJ	168389		
	Total	**4452383**	**4230628**	**4.98 % increase**

Source: Compiled by the author





7.4.5 Net Interest Margin (Spread)

Table 8
Spread (Interest income –Interest expended)

Sl. No.	Banks	(Pre-merger) 31.3.2017	Post –merger 31.3.2019	%ge Change
1	SBI	61859	**88349**	Increased-Favourable
2	SBT	2437		
3	SBM	1873		
4	SBP	2262		
5	SBH	3799		
6	SBBJ	2879		
	Total	**75109**	**88349**	**17.62 % increase**

Source: Compiled by the author

With regard to total business, there was decrease by 4.98percent which is not a good signal to the largest bank in India. The net interest margin (Spread) increased by 17.62 percent in the post-merger period compared to the pre-merger period.

7.5 Branch efficiency

Merger of banks aimed to improve the branch level efficiency. The major criterions used were business per branch and profit per branch.

7.5.1 Business per Branch (BPB)

Table 9
Business per Branch

Sl. No.	Banks	(Pre-merger) 31.3.2017	Post – merger 31.3.2019	%ge Change	Pre -merger SBI to Post-merger SBI
1	SBI	197.24	180.30	Increased-Favourable	Decreased Adverse change
2	SBT	130.02			
3	SBM	89.85			
4	SBP	118.45			
5	SBH	106.84			
6	SBBJ	116.53			
	Overall average	**126.49**	**180.30**	**42.54 % increase**	**9.09% decreased**

Source: Compiled by the author

Business per branch (BPB) of the group in the post-merger period was increased by 42.54 percent but the BPB of SBI alone decreased from 197.24 Crores to 180.30 Crores (9.09 percent).

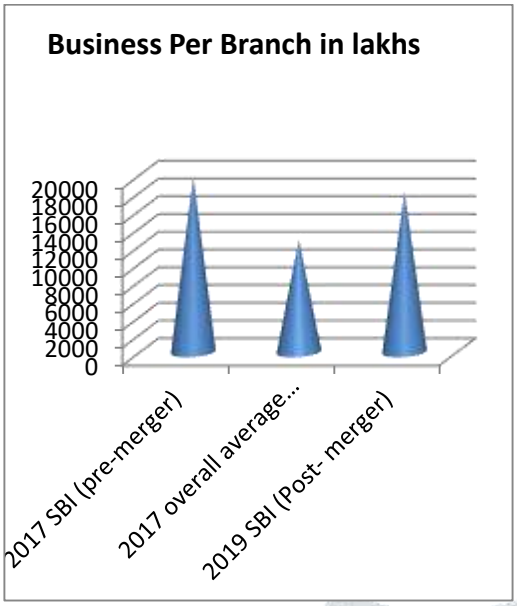
7.5.2 Profit per Branch (PPB)

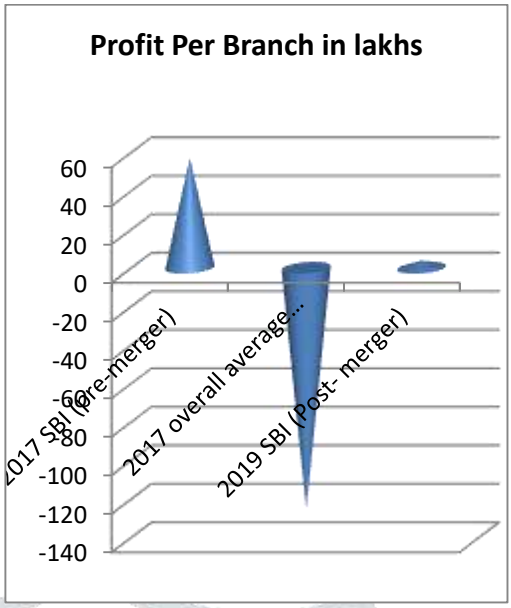
Table 10
Profit per branch

Sl. No	Banks	(Pre-merger) 31.3.2017 (in Cr.)	Post –merger 31.3.2019	%ge Change	Pre -merger SBI to Post- merger SBI
1	SBI	0.57	0.037	Increased-favourable	Decreased Adverse change
2	SBT	-1.71			
3	SBM	-1.59			
4	SBP	-2.48			
5	SBH	-1.33			
6	SBBJ	-0.97			
	Overall average	-1.25	**0.037**	**103% increase**	**93.50% decrease**

Source: Compiled by the author

Profit per branch (PPB) of the group in the post-merger period was increased by 103 percent (from -1.25 crores to 0.037 crores). But the PPB of SBI alone has been decreased from 0.57 crores to 0.037 Crores (93.50 percent).





7.6 Employee efficiency

Employees are the most important assets of the bank who has direct access to the public and the back bones behind customer satisfaction. So the efficiency of employees is a crucial factor which determines the performance of banks. Here two indicators namely, business per employee and profit per employee are considered for analysis.

7.6.1 Business per Employee (BPE)

Table 11

Business per employee

Sl. No.	Banks	(Pre-merger) 31.3.2017 in Cr.	Post –merger 31.3.2019	%ge Change	Pre -merger SBI to Post-merger SBI
1	SBI	16.24	18.77	Increased-Favourable	Increased Favourable change
2	SBT	12.37			
3	SBM	12.45			
4	SBP	12.28			
5	SBH	12.92			
6	SBBJ	13.52			
	Overall Average	**13.29**	**18.77**	**41.23% increase**	**17.90% increase**

Source: Compiled by the author

Business per employee (BPE) of the group in the post-merger period was increased only by 41.23 percent (from 13.29 crores to 18.7 crores). But the BPE of SBI alone has been increased from 16.24 crores to 18.77 Crores (17.90 percent).

7.6.2 Profit per Employee (BPE)

Table 12

Profit per employee (in lakhs)

Sl. No.	Banks	(Pre-merger) 31.3.2017	Post –merger 31.3.2019	%ge Change	Pre -merger SBI to Post- merger SBI
1	SBI	05.11	0.33	Increased-Favourable	Decreased Adverse change
2	SBT	-16.00			
3	SBM	-19.87			
4	SBP	-25.00			
5	SBH	-16.45			
6	SBBJ	-11.00			
	Overall average	**-13.86**	**0.33**	**102.38% increase**	**99.67% decrease**

Source: Compiled by the author

Profit per employee (PPE) of the group in the post-merger period was increased by 102.38 percent (from -13.86 lakhs to 0.33 lakhs). But the PPE of SBI alone has been decreased from 5.11 lakhs to 0.33 lakhs (99.67 percent).

Conclusion

A strong and efficient banking sector is imperative for the economic development and growth of nation. Global conditions and development of the economy pushed banks to increase their size achieve maximum efficiency in terms of different parameters. Merger of small and weak banks with large banks protect and strengthen the interests of the stakeholders also. The merger of 5 Associate banks of SBI and Bharathiya Mahiala Bank with State Bank of India took place on 1 April, 2017 will result positive impacts on our economy. Considering the short run effects of the merger on few indicators in the short run showed unfavourable changes in terms of branch size, business, number of employees etc. in terms of comparing the performance of SBI alone in the pre-merger period with the performance in the post-merger period is quite desperate. But the post-merger performance of SBI is hopeful as the indictors such as net profit, ROA, ROE, CRAR, branch efficiency and employee efficiency showing good signs of revival from the pre-merger combined position. SBI has to suffer for a few years to overcome the issues raised consequent to the merger specially to protect the interest of the nation. But the merger is imperative considering the need of the hour.

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