A Study on Impact of Merger and Acquisition on Financial Performance With Reference to Merger SBI and Five Associate Banks

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Abstract: Merger and acquisition is considered as a popular strategy of corporate restructuring in the present scenario. The merger of five associate banks with SBI is considered as phenomenal in the history of banking sector. Two years have been elapsed since Merger. However, the financial performance of SBI after merger has not yielded the expected results. This paper makes an attempt to present the trends in the performance of SBI after Merger.

***Index Terms* - Merger and acquisition, Financial Performance, SBI and Associate banks.**

I. INTRODUCTION

1.1 Mergers and acquisition

Mergers and acquisitions (M&A) refer to as consolidation of companies. **Mergers** is the combination of two companies to form one, but, **Acquisitions** is one company taking over the other. Mergers and acquisitions are considered as the popular ways of corporate restructuring. Since a decade the number of mergers and acquisitions have become phenomenal in India.

Advantages of merger:

Wealth maximization
Economies of Scale
Increase in market share
Tax considerations

In some situations, mergers may also fail. Some of reasons for failure of merger and acquisition are discussed in this context.

Cultural differences of organizations
Lack of genuine intention
Fear of loss of identity
Lack of transparency among top level executives
Lack of professional approach in handling the issue of restructuring

Despite the above stated issues relating to mergers and acquisitions, it is considered as the most preferable approach in the business scenario.

1.2 Profile of SBI

The History of State Bank of India goes back to the first decade of the 19th century. During the pre-independence period, there were three presidency banks at Kolkata, Mumbai and Chennai. These banks were merged and an imperial bank was constituted. SBI came in to existence after passing the SBI ACT. The SBI took over the imperial bank. In the present scenario, SBI is recognised as one of the major banks in the Indian banking sector in terms of it,s commercial operations, size. SBI is playing a significant role in the development of Indian economy. In the year 2017, SBI witnessed mile stone in its development by acquiring the five associate banks .It is considered as a largest consolidation in the history of banking sector.

The five associate banks which were merged with SBI are mentioned here.

State Bank of Bikaner and Jaipur (SBBJ)
State Bank of Mysore (SBM),
State Bank of Travancore (SBT)
State Bank of Patiala (SBP) and
State Bank of Hyderabad (SBH)

1.3 Reasons for Merger

Economic experts have attributed some of the reasons for merger of associate banks with SBI. Such reasons are highlighted in this context

To avoid competition among the Public-sector banks
To successfully face the competition from private and foreign banks
To strengthen the capital structure of SBI and position SBI as a global leader

II. REVIEW OF LITERATURE

1.Robert.D. Hirich and Michael P.Peters in their work Entrepreneurship published by TATA MC Graw-Hill 2002 have stated that Merger is a transaction which involves two or more companies join together. It is considered as a method of expanding the venture. It is used as a popular strategy for survival and also for growth.

2.Dr. Kapil Choudhary and Rakesh in their article Impact of merger and acquisition published in Intercontinental journal of Finance Research Review ISSN:2321-0354 - Online ISSN:2347-1654 - Print - impact factor:1.552 volume 4, issue 9, September 2016, have stated that corporate restructuring is considered as an important strategic tool I India and also across the globe.

3.Elvis Picardo in his article in Inveso Pedia 2018 on Impact Of merger has stated that a corporate merger can have a profound effect on the growth of a company. It can even transform the existing company. But at the same time, merger and acquisition can also have considerable risk.

4.Honey Gupta in her article on impact of merger of SBI and associate banks published in Zenith International Journal of Multidisciplinary approach, ISSN 2231-5780, 2018 have stated that Globalization of the economy has witnessed increased competition in all the areas including banking sector. In the last two decades banks have adopted a policy of corporate restructuring like merger and acquisition. Various parameters like investment ratios, management efficiency ratios, debt coverage ratios, leverage ratios, profitability ratios and

Profit and loss account ratios are used for analysing the financial position of organization in the post- merger situation.

III. DESIGN OF THE STUDY

The type of study undertaken in this context can be considered as an explanatory or descriptive study which tries to analyse the trend in the growth of SBI in the post merger situation.

3.1Statement of the problem

Merger and acquisitions are considered as strategic decisions for expansion and corporate restructuring. In most of the situations, mergers and acquisitions are fruitful for the expansion of the organization. But in some situations, Merger and Acquisitions may also fail. The study is taken up to understand the trends in the growth of SBI in the post merger situation.

3.2 Significance of the study

The study is significant from the Social and Economic View point of Indian scenario.

The five associate banks which were merged with SBI raised a lot of resentment and criticisms.

The rule of the Government clearly stated that the officers of associate banks would continue to be the employees of SBI. This situation created identity crisis for employees. The general public and the customers of associate banks also raised criticisms. A strong justification was made by the government that merger and acquisition is aimed at making SBI a global leader.

Two financial years have been completed after merger and acquisition. Hence an attempt is made in this study to understand the trends in the growth of SBI after merger and acquisition.

3.3 Objectives of the study

1. To analyse the reasons for merger
2. To understand the trends in the growth of SBI after merger
3. To analyse the future of SBI growth based on the trends

3.4 Hypothesis

Hypothesis 1:

Null hypothesis H_0: Merger and acquisition has no impact on capital liabilities of SBI.

Alternative Hypothesis: H_1: Merger and acquisition has increased the capital liabilities.

Hypothesis 2:

Null hypothesis H_0: Merger and acquisition has no impact on assets of SBI.

Alternative Hypothesis: H_1: Merger and acquisition has increased the assets.

IV. Data Analysis

Table-1: Performance of SBI in 2018-2019

State Bank of India

Balance Sheet as on 31st March, 2018

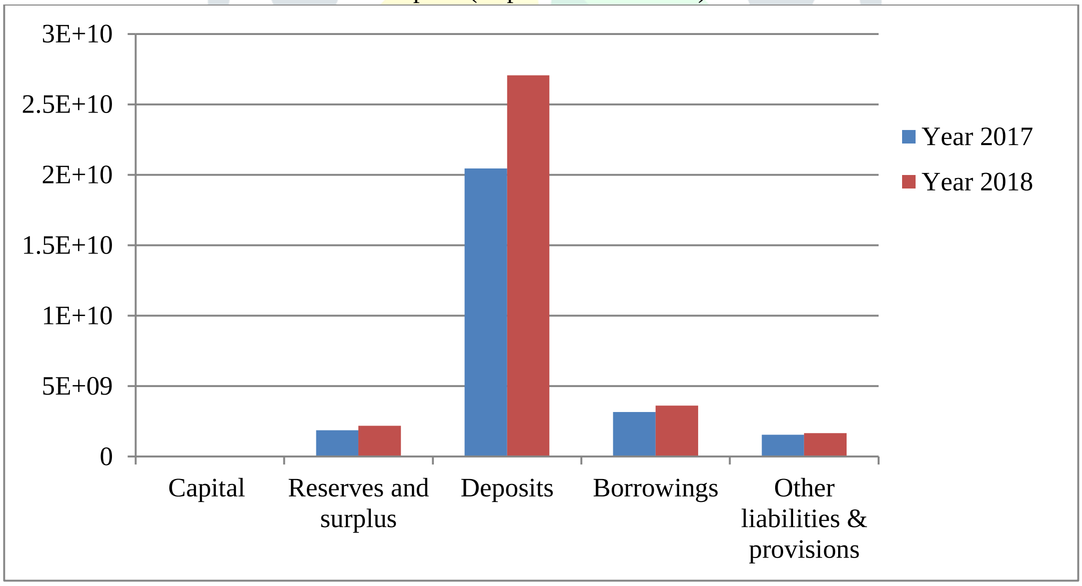
(000s omitted)

	Schedule No.	As on 31.03.2018 (Current Year) ₹	As on 31.03.2017 (Previous Year) ₹
CAPITAL AND LIABILITIES			
Capital	1	892,45,88	797,35,04
Reserves & Surplus	2	218236,10,15	187488,71,22
Deposits	3	2706343,28,50	2044751,39,47
Borrowings	4	362142,07,45	317693,65,83
Other Liabilities and Provisions	5	167138,07,68	155235,18,85
TOTAL		**3454751,99,66**	**2705966,30,41**
ASSETS			
Cash and Balances with Reserve Bank of India	6	150397,18,14	127997,61,77
Balances with Banks and money at call and short notice	7	41501,46,05	43974,03,21
Investments	8	1060986,71,50	765989,63,09
Advances	9	1934880,18,91	1571078,38,11
Fixed Assets	10	39992,25,11	42918,91,79
Other Assets	11	226994,19,95	154007,72,44
TOTAL		**3454751,99,66**	**2705966,30,41**
Contingent Liabilities	12	1162020,69,30	1046440,93,19
Bills for Collection	-	74027,90,24	65640,42,04
Significant Accounting Policies	17		
Notes to Accounts	18		

Schedules referred to above form an integral part of the Balance sheet

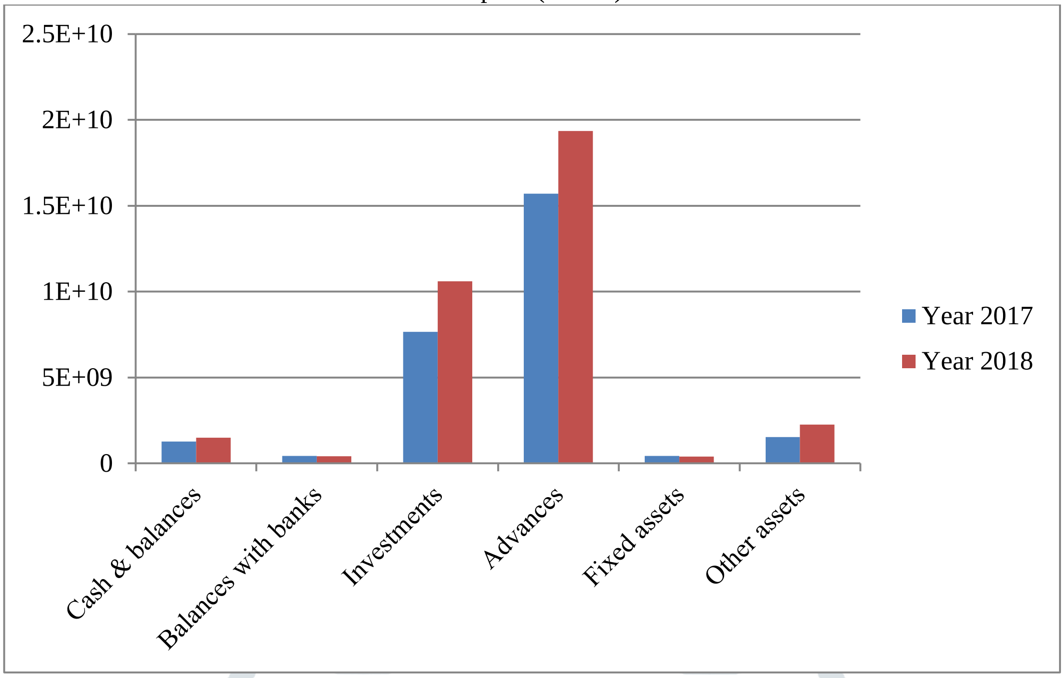
Interpretation: The above table signifies that there is an increase in reserves and surplus and deposits and borrowings in the financial year 2017-18 when compared with the previous year.

Graph-1 (Capitals & liabilities)



Inference: It can be inferred that there is an increase in reserves and surplus and deposits after merger.

Graph-2 (Assets)



Inference: It can be inferred that there is an increase in investments and advances after merger.

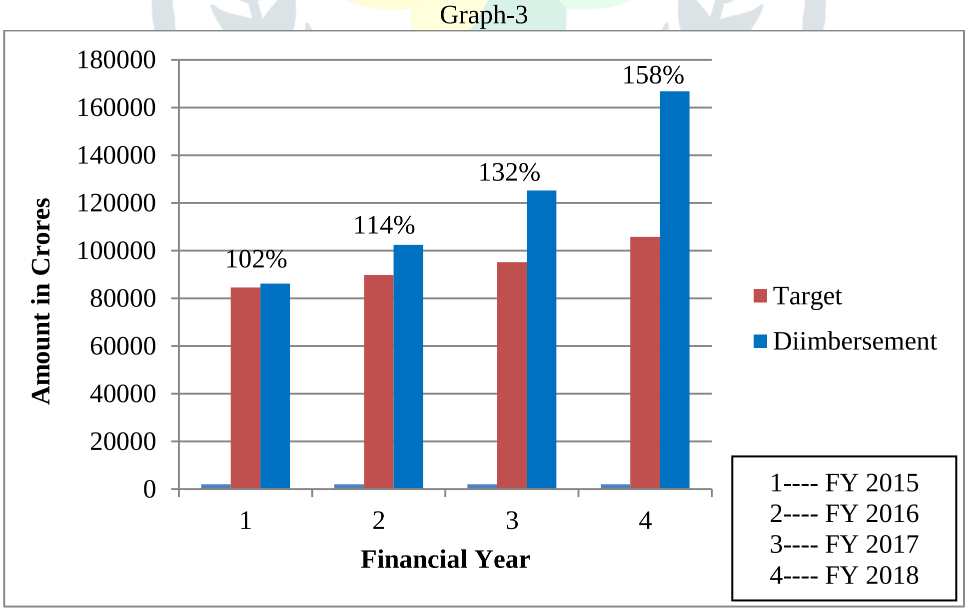
Table-2

Flow of Credit to Agriculture Trend

(₹ in crore)

Year	Target	Disbursement	% Achievement
FY2015	84,500	86,193	102%
FY2016	89,781	1,02,423	114%
FY2017	95,168	1,25,270	132%
FY2018	1,05,741	1,66,819	158%

Graph-3



Interpretation: The above graph indicates that the flow of credit to agriculture in the year 2015 was 102%, followed by an increase of 114%, 132% and 158% in the subsequent financial years 2016, 2017 and 2018 respectively.
Inference: There is an increase in flow of credit to agriculture.

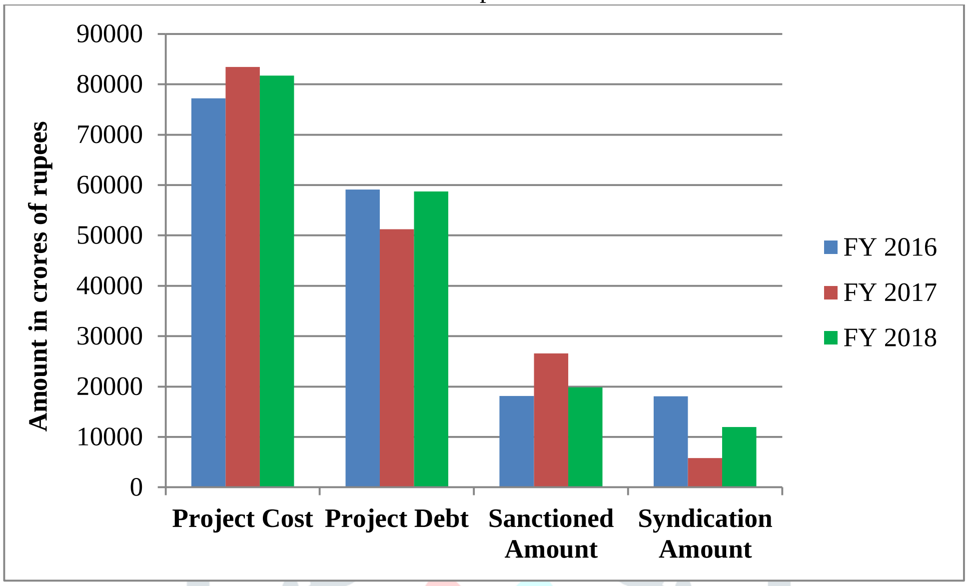
Table 3

Project Finance and Leasing Business Performance

(₹ in crore)

	FY2016	FY2017	FY2018
Project Cost	77,227	83,434	81,701
Project Debt	59,094	51,227	58,754
Sanctioned Amount	18,125	26,557	19,835
Syndication Amount	18,082	5,809	11,937

Graph-4



Inference: There is an increase in the sanctioned amount of project finance in the year 2017. Also, there is an increase in Project Debt and Syndication amount in the year 2018.

Table 4

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Liabilities										
Capital (₹ in crore)	635	635	635	671	684	747	747	776	797	892
Reserves & Surplus (₹ in crore)	57,313	65,314	64,351	83,280	98,200	1,17,536	1,27,692	1,43,498	1,87,489	2,18,236
Deposits (₹ in crore)	7,42,073	8,04,116	9,33,933	10,43,647	12,02,740	13,94,409	15,76,793	17,30,722	20,44,751	27,06,344
Borrowings (₹ in crore)	53,713	1,03,012	1,19,569	1,27,006	1,69,183	1,83,131	2,05,150	3,23,345	3,17,694	3,62,142
other's (₹ in crore)	1,10,698	80,337	1,05,248	80,915	95,404	96,927	1,37,698	1,59,276	1,55,235	1,67,138
Total(₹ in crore)	9,64,432	10,53,414	12,23,736	13,35,519	15,66,211	17,92,748	20,48,080	23,57,617	27,05,966	34,54,752
Assets										
Investments (₹ in crore)	2,75,954	2,85,790	2,95,601	3,12,198	3,50,878	3,98,800	4,81,759	5,75,652	7,65,990	10,60,987
Advances (₹ in crore)	5,42,503	6,31,914	7,56,719	8,67,579	10,45,617	12,09,829	13,00,026	14,63,700	15,71,078	19,34,880
other Assets (₹ in crore)	1,45,975	1,35,710	1,71,416	1,55,742	1,69,716	1,84,119	2,66,295	3,18,265	3,68,898	4,58,885
Total (₹ in crore)	9,64,432	10,53,414	12,23,736	13,35,519	15,66,211	17,92,748	20,48,080	23,57,617	27,05,966	34,54,752
Net Interest Income (₹ in crore)	20,873	23,671	32,526	43,291	44,329	49,282	55,015	57,195	61,860	74,854
Provisions for NPA (₹ in crore)	2,475	5,148	8,792	11,546	11,368	14,224	17,908	26,984	32,247	70,680
operating Result (₹ in crore)	17,915	18,321	25,336	31,574	31,082	32,109	39,537	43,258	50,848	59,511
Net Profit Before Taxes (₹ in crore)	14,181	13,926	14,954	18,483	19,951	16,174	19,314	13,774	14,855	-15,528
Net Profit (₹ in crore)	9121	9,166	8,265	11,707	14,105	10,891	13,102	9,951	10,484	-6,547
Return on Average Assets (%)	1.04	0.88	0.71	0.88	0.97	0.65	0.68	0.46	0.41	-0.19
Return on equity (%)	15.07	14.04	12.84	14.36	15.94	10.49	11.17	7.74	7.25	-3.78
expenses to Income (%) (operating expenses to total Net Income)	46.62	52.59	47.6	45.23	48.51	52.67	49.04	49.13	47.75	50.18
Profit Per employee (₹ in 000)	474	446	385	531	645	485	602	470	511	-243
earnings Per Share (₹)*	143.77	144.37	130.16	184.31	210.06	156.76	17.55	12.98	13.43	-7.67
Dividend Per Share (₹)*	29	30	30	35	41.5	30	3.5	2.60	2.60	Nil
SBI Share (Price on NSE) (₹)*	1,067.10	2,078.20	2,765.30	2,096.35	2,072.75	1,917.70	267.05	194.25	293.40	249.90
Dividend Pay out Ratio % (₹)	20.19	20.78	23.05	20.06	20.12	20.56	20.21	20.28	20.11	NA
Capital Adequacy Ratio (%)										
(₹ in crore)	85,393	90,975	98,530	1,16,325	1,29,362	1,45,845	1,54,491	1,81,800	2,06,685	2,34,056
Basel-II (%)	14.25	13.39	11.98	13.86	12.92	12.96	12.79	13.94	13.56	12.74
(₹ in crore)	56,257	64,177	63,901	82,125	94,947	1,12,333	1,22,025	1,35,757	1,56,506	1,84,146
Tier I (%)	9.38	9.45	7.77	9.79	9.49	9.98	10.1	10.41	10.27	10.02
(₹ in crore)	29,136	26,798	34,629	34,200	34,415	33,512	32,466	46,043	50,179	49,910
Tier II (%)	4.87	3.94	4.21	4.07	3.43	2.98	2.69	3.53	3.29	2.72
(₹ in crore)	N.A	N.A	N.A	N.A	N.A	1,40,151	1,46,519	1,75,903	2,04,731	2,38,154
Basel-III (%)						12.44	12	13.12	13.11	12.60
(₹ in crore)	N.A	N.A	N.A	N.A	N.A	1,09,547	1,17,157	1,33,035	1,61,644	1,95,820
Tier I (%)						9.72	9.6	9.92	10.35	10.36
(₹ in crore)	N.A	N.A	N.A	N.A	N.A	30,604	29,362	42,868	43,087	42,334
Tier II (%)						2.72	2.4	3.20	2.76	2.24
Net NPA to Net Advances (%)	1.79	1.72	1.63	1.82	2.1	2.57	2.12	3.81	3.71	5.73
Number of Domestic Branches	11,448	12,496	13,542	14,097	14,816	15,869	16,333	16,784	17,170	22,414
Number of Foreign Branches /offices	92	142	156	173	186	190	191	198	195	206

*The face value of shares of the Bank was split from ₹10 per share to ₹1 per share - wef. 22nd November, 2014. The data is on ₹1 per share from 2014-15 onwards and ₹10 per share for remaining previous year.

Interpretation: Since the year 2008, there is an increase in the capital and reserves.

Inference: Since 10 years there is a constant increase in capital and reserves.

Testing of hypothesis:

Hypothesis 1: The objective of Hypothesis 1 is to test the hypothesis $H_0 : \sigma_1^2 = \sigma_2^2$ vs $H_1 : \sigma_1^2 < \sigma_2^2$, where σ_1^2 and σ_2^2 denote the population variances of capital liabilities for years 2017 and 2018 respectively. The test is to reject the null hypothesis if $F < F_{n-1,n-1}$, where $F_{n-1,n-1}$ is found from F distribution table with (n-1, n-1) degrees of freedom and the statistic F is calculated using the formula $F = \frac{S_1^2}{S_2^2}$ where s_1^2 and s_2^2 denote the sample variances of capital liabilities for the years 2017 and 2018 respectively. From Table 1, s_1^2 =1.89074x1020 and s_2^2 =2.55651x1020. Also, n=5. Hence, F is obtained as F=0.7395. From F table, $F_{\alpha,4,4}$ =6.3882. Since $F < F_{\alpha,4,4}$, the null hypothesis is rejected and alternative hypothesis is accepted at 5% significance level. Thus, it can be concluded that the Merger and acquisition has increased the capital liabilities.

Hypothesis 2: The objective of Hypothesis 2 is to test the hypothesis $H_0 : \sigma_1^2 = \sigma_2^2$ vs $H_1 : \sigma_1^2 < \sigma_2^2$, where σ_1^2 and σ_2^2 denote the population variances of assets for years 2017 and 2018 respectively. The test is to reject the null hypothesis if $F < F_{n-1,n-1}$, where $F_{n-1,n-1}$ is found from F distribution table with (n-1, n-1) degrees of freedom and the statistic F is calculated using the formula $F = \frac{s_1^2}{s_2^2}$ where s_1^2 and s_2^2 denote the sample variances of assets for the years 2017 and 2018 respectively. From Table 1, s_1^2 =3.75706x1019 and s_2^2 =5.91541x1019. Also, n=6. Hence, F is obtained as F=0.635131. From F table, $F_{\alpha,4,4}$ =5.0503. Since $F < F_{\alpha,4,4}$, the null hypothesis is rejected and alternative hypothesis is accepted at 5% significance level. Thus, it can be concluded that the Merger and acquisition has increased assets.

V. FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 Findings

1. There is an increase in reserves and surplus after merger.
2. There is an increase in flow of agricultural credit after merger
3. Fluctuations are noticed in the area of project finance
4. Merger and acquisition has increased the NPA

5.2 Suggestions

1. SBI has to further consolidate and strengthen its operations.
2. SBI can continue to adopt some of the good policies followed by associate banks
3. They have to focus on commercial loans in order to reduce NPA At present SBI is focusing on personal and home loans only.
4. They have to reorganize the internal organizational in order to improve the efficiency in their operations.
5. Proper policies have to be developed by SBI for strengthening the project finance sanction

5.3 Conclusion

The merger of associate banks with SBI took place with effect from April1st 2017.Two financial years have been completed since merger. The merger of associate banks with SBI is considered as the biggest consolidation in the history of Indian banking sector. However, the objective of merger to make SBI a global leader is yet to be achieved. Turbulence is found in the financial performance after merger. Expected results are not yet achieved in the span of two years. In the coming years SBI has to consolidate the expertise of associate banks strengthen it's financial performance.

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