PRE AND POST SBI CONSOLIDATION & ITS IMPACT ON FINANCIAL PERFORMANCE

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ABSTRACT: Over the years, the Indian banking sector has undergone a series of reforms aimed at enhancing its asset expansion to support growth in the national economy. To achieve this purpose, there is ample evidence that the RBI has relied heavily on bank capital reforms in tackling problems of under-performance in the sector. This study is to examine the pre and post merger and acquisition bank performance. The profitability ratios were adopted as proxies for bank's performance. The study employs convenient sampling technique and covers a period of two years before and two year after the 2017 banks recapitalization exercise. Data on the variables were examined using the paired sample tests. The study finds that there is non-significant difference in the financial performance in the pre- and post merger and acquisition period. The study therefore concludes that mergers and acquisitions have insignificant impact on banking performance considering 2 years pre and post observation period. The short term observation and analysis may not absolutely leads to reveals the success rate of mergers and acquisition. The study recommend that due diligence should adopted in the identification and selection of compatible partners in order to achieve desired synergy

Key words: Mergers and acquisition, financial performance, profitability, correlation,

I. INTRODUCTION

Following incessant cases of bank distress in India (particularly between 1993-2006) with its attendant negative impact on public confidence and economic stability, the Reserve Bank of India raised minimum bank capital requirement in order to foster stability in the sector as well as enhance its capacity to deliver quality service to the economy. A vital component of banking sector mergers and acquisitions are the attainment of a strong, competitive and reliable banking system. Mergers and Acquisitions encourage banks to gain global reach and better synergy and allow banks to acquire the stressed assets of weaker banks. A complete combination of two separate corporations involving in a business is referred as business merger. Acquisitions on the other hand are take-over. In this case one company actually buys another company.

Indian banks have been welcoming towards the technological advances so far. This has substantially given a rise to competition in the market and hence, several bank mergers have been witnessed in India, over the years. Here is a run through of the mergers that have taken place among Indian banks.

Table—1.1 List of Indian Banks Mergers and Acquisitions

Before 1990		
Name of the Banks Acquired	**Name of the Banks got Merged**	**Year of Merging happened**
Allahabad Bank	United Industrial Bank Limited	1989
Bank of Baroda	Traders Bank Ltd	1988
Punjab National Bank	Hindustan Commercial Bank Ltd	1986
State Bank of India	Bank of Cochin Ltd	1985
Canara Bank	Lakshmi Commercial Bank Ltd	1985
Union Bank of India	Miraj State Bank Ltd	1985
State Bank of India	National Bank of Lahore Ltd	1970

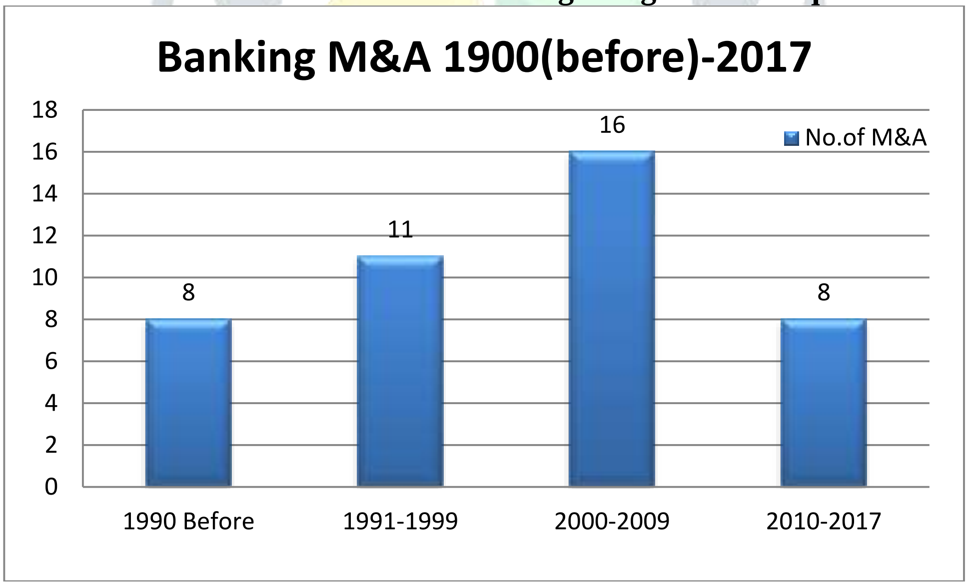
State Bank of India	Bank of Bihar Ltd	1969
From 1990 to 1999		
Name of the Banks Acquired	**Name of the Banks got Merged**	**Year of Merging happened**
Bank of Baroda	Bareilly Corporation Bank Ltd.	1999
Union Bank of India	Sikkim Bank Ltd.	1999
Oriental Bank of Commerce	Bari Doab Bank Ltd.	1997
Oriental Bank of Commerce	Punjab Co-operative Bank Ltd.	1996
State Bank of India	Kashinath State Bank Ltd	1995
Bank of India	Bank of Karad Ltd.	1994
Punjab National Bank	New Bank of India	1993
Bank Of India	Parur Central Bank Ltd.	1990
Central Bank Of India	Purbanchal Bank Ltd.	1990
Indian Bank	Bank of Thanjavur Ltd.	1990
Indian Overseas Bank	Bank of Tamilnadu Ltd	1990
From 2000 to 2009		
Name of the Banks Acquired	**Name of the Banks got Merged**	**Year of Merging happened**
HDFC Bank	Centurion Bank of Punjab	2008
ICICI Bank Ltd	Sangli Bank	2007
Indian Overseas Bank	Bharat Overseas Bank	2007
Centurion Bank of Punjab	Lord Krishna Bank	2006
Federal Bank	Ganesh Bank of Kurandwad	2006
Nainital Bank	Bank of Baroda	2006
IDBI Ltd	United Western Bank	2006
IDBI Ltd	IDBI Bank	2005
Bank of Punjab(POB)	Centurion Bank	2005
Bank of Baroda	South Gujarat Local Area Bank	2004
Oriental Bank of Commerce	Global Trust Bank	2004
Punjab National Bank	Nedungadi Bank Ltd.	2003
ICICI Bank	ICICI Ltd.	2002
Bank of Baroda	Benares State Bank Ltd.	2002
ICICI Bank Ltd	Bank of Madura Ltd	2001
HDFC Bank Ltd.	Times Bank Ltd.	2000
From 2010 to 2017		
Name of the Banks Acquired	**Name of the Banks got Merged**	**Year of Merging happened**
State Bank of India	Bharatiya Mahila Bank (BMB)	2017
State Bank of India	State Bank of Travancore (SBT)	2017
State Bank of India	State Bank of Bikaner and Jaipur (SBBJ)	2017

State Bank of India	State Bank of Hyderabad (SBH)	2017
State Bank of India	State Bank of Mysore (SBM)	2017
State Bank of India	State Bank of Patiala (SBP)	2017
Kotak Mahindra Bank	ING Vyasa Bank	2014
ICICI Bank	Bank of Rajasthan Ltd.	2010

As per Raghu Ram Rajan Committee reveals, in the month of April 2009, the recommend a regulatory system, which may reduce boom-bust financial cycles. The following suggestions made by the committee

- India is a vast nation in itself, hence, given this fact, it is practically impossible to control the **flow of capital** and therefore, the economy will always be uncertain and volatile.
- In order to develop into **large banks**, it is required that an entry point be offered in the system, which can be used by the bodies.
- **Technological advances** may help in evolving small banks and reduce the costs of operation.
- **Encouragement** must be provided to the professional markets, in full swing.
- Underperforming PSU's were suggested to be **sold**.
- Markets to be **banned**, in order to reduce or eliminate creation of slightest uncertainty among the investors.
- The regulation of trade to be brought under the control of SEBI (Securities and Exchange Board of India).
- He also suggested an open-minded **outlook towards merger of banks and takeovers**.
- Encouragement should be given to participation in the domestic market by the foreign firms.
- Must aim to create such an **environment** for the investors, that has high scope for innovation and is accepting towards the same.

Chart No-1 Number of Banking Mergers and Acquisitions



Above chart clearly shows that, the majority of the transaction takes place in 2000-2009. Out of 43 banking mergers and acquisition 35% of the activities happened in above said year. Mergers and acquisitions have definitely shaped the Indian Banking sector. Though there seem to be different opinions on this particular matter, yet there is always hope for an improvement in the current situation after bank mergers.

II. THEORETICAL BACKGROUND

Finance is regarded as lifeblood of any business organization, thus it is very much essential to evaluate the financial performance business organization. The purpose of financial analysis is to diagnose the current & past financial condition of a company & to give some picture about its future condition. Financial performance analysis is vital for the triumph of an enterprise. Financial performance analysis is an appraisal of the feasibility, solidity and fertility of a Business.

The research paper considers ratio analysis to evaluate the financial performance of State Bank of India in ore and post Acquisition period. The ratio analysis is an effective tool in controlling the whole business & planning for future needs.
Ratio is the relationship b\w the two figures expressed mathematically. They provide numerical relationship b\w two relevant financial data. They are calculated from data provided in balance sheet & profit & loss account. They provide easy understanding, comparison & interpretation .To compare & analyze the liquidity, solvency & profitability. To know the ability of the company to earn profit, get return on investment, ability to meet obligation, value of assets, extent & nature of liabilities.

Ratio analysis helps to express the relationship b\w two accounting figures in such a way that user can draw conclusion about the performance, Strength & weakness of a company.

III. REVIEW OF LITERATURE

Okoye, Lawrence Uchenna, Modebe, Nwanneka J.et.al(2016) focus on ascertaining the financial performance by considering a study period of pre 9 years and post 9 years and also the study found that there is non-significant negative difference in the performance of return on asset in the pre- and post merger and acquisition periods. Bank asset ratio shows significant positive difference between the pre- and the post-merger and acquisition periods. However, the result shows significant negative difference for capital adequacy ratio between the periods. Muhammad Rizwan Ullah, Ahsan Ali et.al (2016) study has analyzed five mergers cases in banking industry of Pakistan. Different variables like change in growth of capital, deposits, advances and investment pattern were taken to investigate effect of pre and post mergers. It was concluded that latest mergers and acquisitions providing benefits to the banking sector in term of synergy.

Parveen Kumari (2014) objective of this paper is to assess the impact of Mergers and Acquisitions in Indian Banking Industry, their position before and after Mergers & Acquisitions. The suggests Merger and acquisition in Indian banking so far has been to provide the safeguard and hedging weak bank against their failure. The merger cult in India has yet to catch fire with merchant bankers and financial consultants acquiring skills in grinding the banks to absorb unviable banks and put them again on successful operations.

IV. RESEARCH GAP

"All marriage are heaven, it's the life afterwards that makes troubles". The studies of both national and international journals are encouraging on the work relating to comparative study of pre and post corporate integration through Mergers and acquisitions. Maximum studies were already conducted on the value effect the merger and acquisition on stock prices and share holders wealth. But only a few studies have been done on the long term performance of bidder firm (Ross and Westerfield) after merger and acquisition. The study tries to provide conclusive evidence that merger and acquisition is efficiency or not.

V. OBJECTIVES OF THE STUDY

- To identify the financial performance of the State Bank of India.
- To ascertain the changes in pre and post profitability performance.

- To determine the significant relationship between the pre and post financial performance ratios.

VI. RESEARCH METHODOLOGY

a) Research Method: analytical research method is used evaluate the financial performance of selected automobile companies by considering the study period of 4 years from 2015to 2018 with the use of selected financial performance ratios. The year 2017 is considered as transaction year. Henceforth, the study consider 2015&2016 as pre and 2017 &2018 considered as post acquisition period for the data analysis.

b) Sampling Method: the study is based on convenient sampling method. The banking sector has reported high growth performance which reported in the recent years. Therefore the present study restricted to 6 banking companies consolidation by State Bank of India in the year 2017.
Sample: the following automobile companies are selected for the study. The details of the selected firms are shown in table.

c) Period of the study: the study period considered 5 years from 2015to 2018.

d) Source of data: the essential data for the study have been collected from the annual reports, Journals, Research Paper, Articles, Books and Websites. The financial data and information gathered from the secondary source AGM Reports.

e) Tools for the Study: in order to identify the overall performance of selected automobile companies several financial ratios were used and all tabulated data are evaluate with the use Statistical tools for proving or disproving the hypotheses. Paired t-test, Karl Pearson correlation, Partial correlation and descriptive statistics use to analyse the implications of ratios on financial performance.

f) Hypotheses of the study: the following hypotheses are framed to analyzing the financial performance of State Bank of India.

- Ho: there is no significant relationship between the pre and post financial performance ratios
- H0: there are no significant changes in pre and post profitability performance.

VII. DATA ANALYSIS & INTERPRETATION

In order to compare the financial performance of State Bank of India, ratios have used, several ratios were estimated and the mean were computed. The mean were compared to find out the statistical significance change and the relationships among the variables (Ratios) of mega consolidation State Bank of India. This study use paired sample t-test, correlation and Descriptive Statistics.

Table -2 Financial Performance Ratios

	Pre			Transaction Yr Post	
Financial parameters	**2014**	**2015**	**2016**	**2017**	**2018**
Profitability Ratios					
Interest Spread(IS)	5.76	6.26	5.72	6.36	6.65
Adjusted Cash Margin(%)(ACM)	7.89	8.12	6.07	6.05	-1.36
Net Profit Margin(NPM)	7.98	8.59	6.07	5.97	-2.96
Return on Long Term Fund(%)(RLTF)	87.39	90.88	83.57	82.01	66.97
Return on Net Worth(%)(RONW)	9.20	10.20	6.89	6.69	-3.37
Return on Assets (ROA)	158.43	172.04	185.85	196.53	217.69
Balance Sheet Ratios					
Capital Adequacy Ratio(CAR)	12.96	12	13.12	13.11	12.60

Advances / Loans Funds(%)(ALF)	82.04	77.39	78.34	72.78	71.25
Leverage Ratios					
Current Ratio(CR)	0.03	0.04	0.07	0.07	0.08
Quick Ratio(QR)	13.81	10.78	10.84	11.94	13.83
Earnings Per Share(EPS)	14.59	17.55	12.82	13.15	-7.34
Book Value(BV)	158.43	172.04	185.85	196.53	217.69

Source: Author's Calculation- AGM Reports Database

From the above table represents the financial performance ratios of State Bank of India considering the study period from 2015-18. The post -profitability ratios were comparatively lower except return on Assets and Interest spread. In case of Return on Equity, Adjusted Cash Margin, Earning per share and Net Profit Margin have resulted negative in post acquisition period-2018. The balance sheet ratio has reported marginally low compare to pre acquisition. The leverage ratios were comparatively higher in post acquisition. Due to the asset expansion the reported book value at maximum and that result in declining in the EPS in post acquisition period.

Table -3 Descriptive Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRIS	6.01	2	0.35355	0.25
	POIS	6.505	2	0.20506	0.145
Pair 2	PRACM	8.005	2	0.16263	0.115
	POACM	2.345	2	5.23966	3.705
Pair 3	PRNPM	8.285	2	0.43134	0.305
	PONPM	1.505	2	6.31446	4.465
Pair 4	PRRLTF	89.135	2	2.4678	1.745
	PORLTF	74.49	2	10.63489	7.52
Pair 5	PRRONW	9.7	2	0.70711	0.5
	PORONW	1.66	2	7.11349	5.03
Pair 6	PRROA	165.235	2	9.62372	6.805
	POROA	207.11	2	14.96238	10.58
Pair 7	PRCAR	12.48	2	0.67882	0.48
	POCAR	12.855	2	0.36062	0.255
Pair 8	PRALF	79.715	2	3.28805	2.325
	POALF	72.015	2	1.08187	0.765
Pair 9	PRCR	0.035	2	0.00707	0.005
	POCR	0.075	2	0.00707	0.005
Pair 10	PRQR	12.295	2	2.14253	1.515
	POQR	12.885	2	1.33643	0.945
Pair 11	PREPS	16.07	2	2.09304	1.48
	POEPS	2.905	2	14.48862	10.245
Pair 12	PRBV	165.235	2	9.62372	6.805
	POBV	207.11	2	14.96238	10.58

Source: Author's Calculation- SPSS Database

Table -3 represents the descriptive Statistics of selected financial ratios considering pre and post acquisition period from 2015 -2018. It clearly shows that the mean value of adjusted cash margin, Net Profit Margin, Earning per Share and Return on Networth has decreased by 75%. Current ratio was increased by more than 50%. It also reported 25% increase in return on Assets and Book Value in post acquisition period.

Table – 4 Paired Sample Correlation

		N	Correlation	Sig.
Pair 1	PRIS & POIS	2	1.000	0.000
Pair 2	PRACM & POACM	2	-1.000	0.000
Pair 3	PRNPM & PONPM	2	-1.000	0.000
Pair 4	PRRLTF & PORLTF	2	-1.000	0.000
Pair 5	PRRONW & PORONW	2	-1.000	0.000
Pair 6	PRROA & POROA	2	1.000	0.000
Pair 7	PRCAR & POCAR	2	1.000	0.000
Pair 8	PRALF & POALF	2	1.000	0.000
Pair 9	PRCR & POCR	2	1.000	0.000
Pair 10	PRQR & POQR	2	-1.000	0.000
Pair 11	PREPS & POEPS	2	-1.000	0.000
Pair 12	PRBV & POBV	2	1.000	0.000

Source: Author's Calculation- SPSS Database

Table- 4 represents the paired sample correlation of State Bank of India with 12 paired samples of financial ratios comparing pre and post acquisition period. The overall paired samples resulted statistically significant. The interest spread, return on assets, capital adequacy ratio, advances to long term funds, current ratio and book value were positively correlated. Except those the remaining paired sample correlation has resulted negative.

Table – 5 Paired Samples Test

	Paired samples	**t**	**df**	**Sig. (2-tailed)**
Pair 1	PRIS - POIS	1.253	1	0.429
Pair 2	PRACM - POACM	-1.576	1	0.360
Pair 3	PRNPM - PONPM	-1.629	1	0.350
Pair 4	PRRLTF - PORLTF	-2.535	1	0.239
Pair 5	PRRONW - PORONW	-1.774	1	0.327
Pair 6	PRROA - POROA	2.408	1	0.251
Pair 7	PRCAR - POCAR	0.510	1	0.700
Pair 8	PRALF - POALF	-2.491	1	0.243
Pair 9	PRCR - POCR	4.000	1	0.156
Pair 10	PRQR - POQR	1.035	1	0.489
Pair 11	PREPS - POEPS	-1.501	1	0.374
Pair 12	PRBV - POBV	2.408	1	0.251

Source: Author's Calculation- SPSS Database

Table- 5 represents the paired t-test of State Bank of India with 12 paired samples of financial ratios comparing pre and post acquisition period. The overall paired samples resulted statistically insignificant. Therefore, it is proven that there is no significant change in financial performance of State Bank of India in pre and post acquisition period.

VIII. RESULTS AND DISCUSSION

- Out of 43 banking mergers and acquisition 35% of the activities happened in between 2000-2009.

- Majority of the profitability and return ratio are resulted negative.
- The mean value of adjusted cash margin, Net Profit Margin, Earning per Share and Return on Networth has decreased by 75%.
- Current ratio was increased by more than 50%. It also reported 25% increase in return on Assets and Book Value in post acquisition period.
- Due to the asset expansion the reported book value at maximum and that result in declining in the EPS in post acquisition period.
- Return on Equity, Adjusted Cash Margin, Earning per share and Net Profit Margin have resulted negative in post acquisition period-2018
- The overall paired samples resulted statistically significant. Therefore the study proven that there is a significant relationship between pre and post acquisition financial performance ratios.
- The overall paired samples resulted statistically insignificant. Therefore, it is proven that there is no significant change in financial performance of State Bank of India in pre and post acquisition period.

IX. CONCLUSION

This research paper is an attempt to determine the pre and post mergers and acquisition and its impact on financial performance of State Bank of India by using financial performance parameters, It can be concluded that the anticipated inputs to this study to the firm is to assist strategic thinkers pay attention to the appropriate actions that apply latent and strong affect on their banking performance. This research facilitates a comprehensive model for examining the financial performance and the major findings of this research will give a important parameters and helps to fill a similar gaps in the literature

Further research, need to consider longer study period , that may resulted in positive impact of post merger and acquisition at present the short study period resulted with negative impact and its proven that, there is no statistically significant change. The researcher can also use multiple regression models to check out the accuracy of mergers and acquisition. Considering a study period more than 5-7 years will be resulted satisfactory results as other authors also supported the said statement - normal gestation period 7-10 years in case of mergers and acquisitions. The short term observation and analysis may not absolutely leads to reveals the success rate of mergers and acquisition. The study recommend that due diligence should adopted in the identification and selection of compatible partners in order to achieve desired synergy.

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