Mergers and Acquisition of SBI with its others Associate Banks: An analysis

Dr. Kamini Kumari

Department of Commerce

Magadh University, Bodh-Gaya, Bihar

E-mail: sharma.kamini1123@gmail.com

ABSTRACT

The most recent and largest merger in the history of banking industry took place on 1 April, 2017. State Bank of India merged with its five associate banks namely 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 Bharatiya Mahila Bank. Shares of State Bank of India (SBI) and its listed associate banks (State Bank of Bikaner, State Bank of Mysore and State Bank of Travancore) gained 3-13 percent on the back of approval from the cabinet for their merger. The merger will bring nearly a quarter of all outstanding loans in India's banking sector to SBI's books. With this step SBI has entered into the list of top 50 global banks. However, there were many imponderables involved in this big merger, like, employees issues related with redeployment or loss of jobs, transfers, new working conditions, increased working hours, etc.

Keywords: **Gained, Redeployment, Mergers, Acquisition, public policy.**

Introduction:

Growth is the norm in the present times of cut throat competition. A firm can achieve growth either internally by expanding its operations, establishing new units or externally through mergers and acquisitions (M&As), takeover, amalgamations, joint venture etc. With the level of competition getting intense day by day, Mergers and Acquisitions have emerged as the most preferred long term strategy of corporate restructuring and strengthening in the present globalised world. Merger refers to combination of two or more companies to form one. With an objective of wealth maximization, companies keep evaluating different opportunities through the route of merger or acquisition because it is believed that two separate companies together create more value compared to being on an individual stand. The main rationale behind the Mergers and Acquisitions is to create synergy that is one plus one is more than two.

Merger and Acquisition is one of the major aspects of corporate finance world. M&A in financial sector of India appear to be driven by the objective of leveraging the synergies arising out of the consequences of M&A process. However, such structural changes in the financial system can have some public policy implications. Banking sector plays a crucial role in the economic growth and development of a nation. Globalization, deregulation of economies coupled with technological development has changed the banking landscape dramatically. The important roles of banks are economic growth, expansion of the economy and provide funds for investment. In the recent times banking sector has been undergoing a lot of changes in terms of regulation and effects of globalization. These changes have affected this sector both structurally and strategically. One such strategy is through the process of consolidation of banks emerged as one of the most profitable strategy. With the fast changing environment, the banking sector is resorting to the process of consolidation, corporate restructuring and strengthening to remain efficient and viable. For this, Mergers and Acquisitions have become the preferred strategy for growth in the size of banks which in turn play a significant role in entering the global financial market. Besides Mergers and Acquisitions are widely used for achieving higher market share, overall productivity and profitability, expanding branch networks, strengthen their capital base, cost rationalization, economies of scale and manpower efficiency. This can be achieved through Cost Reduction and Increasing Revenue. The important part over here is that why do we need consolidation in Indian Banking and what is the Challenges Ahead. The role of the Central government is also very necessary to be analyzed in the entire process as they play a crucial role in the policy formation required for the growth of Indian Banking.

Importance of the Research:

As per the objectives of the government consolidation has been aimed as a tool of creating world size banks irrespective of the challenges that have been posed. When initially incorporated as a provision in the Banking Regulation Act, 1949; the prime objective was to create a mechanism so that weak banks could be prevented from serious consequences of liquidation and dissolution. Failing of one bank would lead to failure of the banking industry and for this caution; RBI was entrusted with the power to compulsorily merge the weak banks with the healthy ones in order to escape losses and liabilities. But as evident from the case studies, M&A in banking is being sought for some other purposes. No doubt, consolidation is a big tool in maintain liquidity, ensuring transparency in business and effective supervision, but the fact that a single bank would be exposed to uncertain and unpredicted systemic risk. It is interesting to note that the government aims of few international banks through the consolidation process, whereas banks view some of them to be exposed to international competition. SBI merged with its associate banks in order to have increased balance sheet and economies of scale. With this merger SBI has entered into the league of top 50 global banks.

Reasons of Merger:

* After this merger, SBI will probably join the league of top 50 Banks in terms of Assets.
* To decrease unhealthy competition among Public Sector Banks (PSBs).
* It is difficult for smaller outfits to sustain the pace of competition and regulatory / risk mitigation norms.
* The merger has been necessitated on account of change in banking environment due to emergence of new area for compliance like Basel III, risk management etc., which require heavy investment on technology and compliance.
* After merger, SBI is expected to compete with the largest bank in the world, with an asset base of Rs 37 lakh crore, or over $555 billion, with 22,500 branches and 58,000 ATMs. It will have over 50 crore customers.
* Now, Bank can better focus on defaulters. Many people had availed multiple finances.

With merger, they can be brought under one roof which makes recovery easier.

Literature Review:

Under this study the researcher reviewed research papers for the purpose of providing an insight into the work related to Merger and Acquisitions (M&As). After going through the available relevant literature on M&As and it comes to know that most of the work done high lightened the impact of M&As on different aspects of the companies. A firm can achieve growth both internally and externally. Internal growth may be achieved by expanding its operation or by establishing new units, and external growth may be in the form of Merger and Acquisitions (M&As), Takeover, Joint venture, Amalgamation etc. Many studies have investigated the various reasons for Merger and Acquisitions (M&As) to take place, Just to look the effects of Merger and Acquisitions on Indian financial services sector.

Kotnal Jayashree (2016) explored in her paper titled, "The economic impact of merger and acquisition on profitability of SBI" various motives of merger in Indian banking industry. It also compares pre and post-merger financial performance of merged banks with the help of financial parameters like, Gross Profit margin, Net Profit margin, operating Profit margin, Return on Capital Employed, Return on Equity, and Debt Equity Ratio. Independent T-test used for testing the statistical significance and this test is applied not only for ratio analysis but also effect of merger on the performance of banks.

Tamragundi & Devarajappa (2016), examined in their study titled, "Impact of mergers on Indian Banking Sector: A comparative study of Public and Private Sector merged Banks" the impact of mergers on performance of selected commercial banks in India. The impact of mergers on performance of the banks has been evaluated from three prospective i) Physical Performance of merged banks, ii) Financial Performance of Merged Banks and iii) Share price performance. The study concludes that, Merger is a useful strategy, through this Banks can expand their operations, serve larger customer base, increases profitability, liquidity and efficiency but the overall growth and financial illness of the bank can't be solved from mergers.

Singh & Gupta (2015), Conducted a study on, "An Impact of Mergers and Acquisitions on Productivity and Profitability of Consolidation Banking Sector in India". The current paper examined the performance, strengthens and weakness of the sample two banks i.e. one public and one private sector banks based on the financial ratios from the perspective of pre and post – merger grounds. The collection of data covers financial performance of selected banks from 2004-05 to 2014- 15. The study concluded that the banks have been positive effects when distinguished between pre – mergers and post- merger period.

Sai and Sultana (2013), evaluate that the performance of the selected two banks based on the financial ratios from the perspective of pre and post - merger. To analyze the impact of merger paired t-test was applied to the various financial ratios for before and after merger data. Based on the analysis of Indian overseas bank data, it can be concluded that Net Profit Margin, Operating Profit Margin, Return on Capital Employed, Return on Equity and Debt- Equity Ratio there was significant difference but no significant difference with respect to Gross profit margin.

Soni and Jain (2013) compared pre and post-merger of banks with use of financial ratios-Gross Profit Margin, Net Profit Margin, Operating Profit Margin, Return on Capital Employed, Return on Equity and Debt Equity Ratio. This study shows the changes represent in the acquired firms based on financial parameters. The tools used t-test for testing the statistical significance and effect of Merger and Acquisitions on the performance of banks. To be concluded that the banks have been positively affected by the event of Merger and Acquisition.

Dutta and Dawn (2012), in a paper "Merger and acquisitions in Indian banks after liberalization: An analysis" investigates the performance of merged banks in terms of its growth of total assets, profits, revenue, deposits, and number of employees. The performance of merged banks is compared taking four years of prior-merger and four years of post-merger. The study findings indicate that the post-merger periods were successful and saw a significant increase in total assets, profits, revenue, deposits, and in the number of employees of the acquiring firms of the banking industry in India.

Azhagaiah & Kumar (2011), in their study tested hypothesis concerning whether there is significant improvement in the corporate performance of Indian manufacturing corporate firms following the merger event using paired t-test. The study findings indicate that Indian corporate firms involved in M&A have achieved an increase in the liquidity position, operating performance, profitability, and reduce financial and operating risk.

Antony Akhil (2011), in an analysis "Post-merger profitability of selected banks in India" examined the impact of the banks merged in India from 1999 to 2011. Between 1999 and 2011, around 18 M&A took place in the Indian banking sector. The study samples were six acquire banks selected, three of them were public sector banks and three were private sector banks. The study used paired t-test. The study findings indicate that there is a significant difference in the profitability ratios, like (growth of total assets ratio, growth of net profit ratio, return on assets ratio, return on equity ratio, and net interest margin ratio) of banks in the post-merger scenario.

Deo and Shah (2011), in a work entitled "Shareholder wealth effects to merger announcements in Indian industry" addressed the financial implications of the acquire and target shareholders wealth in the Indian information technology industry (IT) that occurred from January 2000 to June 2010. The study which consisted of a sample of 28 merger announcements both by independent and controlling bidder firms, applied a constant market model to evaluate acquire and target shareholders wealth. The study findings indicate that merger announcements in the IT sector have no significant impact on the bidder portfolio. M&A create significant positive abnormal returns for target shareholders only.

Khan (2011) explained that the purpose of this paper was to explore various motivations of mergers and acquisitions in the Indian banking sector. It was helped to get the benefits of greater market share and cost efficiency. The studied investigate the detail of merger and acquisitions (M&As) with greater focus on the Indian banking sector in post – liberalization period. It also compares pre and post-merger financial performance of merged banks with use of financial parameters such as Gross Profit Margin, Net Profit Margin, Operating Profit Margin, Return on Capital Employed, Return on Equity and Debt- Equity Ratio through literature review it comes to know that most of the work done high lightened the impact of Mergers and Acquisitions on different aspects of the companies. The data of mergers and acquisitions since economic liberalization were collected for a set of various financial parameters. In his journal papers examined that the changes occurring in the acquiring firm on the basis of financial ground and t-test method evaluates testing the statistical significance and ratios analysis for performance of pre and post –merger regime period. The results of the study indicates that the banks have been positively affected and increased the performance of banks after the mergers and acquisitions (M&As).

Goyal & Joshi (2011) in their paper, gave an overview on Indian banking industry and highlighted the changes occurred in the banking sector after post liberalization and defined the Merger and Acquisitions as per AS-14. The need of Merger and Acquisition in India has been examined under this study. It also gave the idea of changes that occurred after M&As in the banking sector in terms of financial, human resource & legal aspects. It also described the benefits come out through M&As and examined that M&As is a strategic tools for expanding their horizon and companies like the ICICI Bank has used merger as their expansion strategy in rural market to improve customers base and market share.

Sony & Kumar (2010) in their paper, they assessed the strategic and financial similarities of merged Banks, and relevant financial variables of respective Banks were considered to assess their relatedness. The result of the study found that only private sector banks are in favor of the voluntary merger wave in the Indian Banking Sector and public sector Bank are reluctant toward their type of restructuring. Target Banks are more leverage (dissimilarity) than bidder Banks, so the merger lead to attain optimum capital Structure for the bidders and asset quality of target firms is very poor except the cases of the HDFC Vs the CBOP merger in 2007. The factor behind voluntary amalgamation are synergies, efficiency, cost saving, economies of scale. The merging partners strategically similarities and relatedness are very important in the synergy creation because the relatedness of the strategic variable have a significant impact on the Bank performance and the effect of merger on the stock market.

Research Gap:

It is seen that, most of the works have been done on trends, policies & their framework, human aspect which is needed to be investigated, whereas profitability and financial analysis of the mergers have not give due importance. The present study tries to investigate the detail of Merger and Acquisition (M&As) took place in State Bank of India with its 5 associate banks namely 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 Bharatiya Mahila Bank.. The study will also discuss the pre and the post merger performance of banks. An attempt is made to predict the future of the ongoing Merger and Acquisitions (M&As) on the basis of financial performance.

Objectives:

* To study the important factors influencing companies to undergo merger and acquisition.
* To identify the challenges encountered by merged entities.
* To evaluate the banks performance in terms of profitability.

Conclusion:

Despite all the factors taken into consideration and analysis, consolidation through M&A is a boon for the industry in the times of need. However, the journey to „international banks is still far as there had been a few mergers in the Indian banking space, it had happened due to „exigencies and were rather „forced consolidation . The proposed study is significant in order to answer the following issues:

i. To know what matters the big size of SBI (post merger) to Indian Economy.
ii. To analyze the employees related issues of this merger
iii. To examine the effect this merger on the share price of SBI and its associate banks
iv. To compare the benefits and cost of merger
v. To decide whether it should be promoted for other Public sector or not.

References:

1. Altunbas, Y., & Marques, D. (2008). Mergers and Acquisitions and Bank Performance in Europe: The Role of Strategic Similarities. Journal of Economics & Business, 60, 204 222
2. Antony Akhil, K. (2011), "Post-Merger Profitability of Selected Banks in India," International Journal of Research in Commerce, Economics and Management, Vol. 1, No. 8, (December), pp. 133-5.
3. Arif M, Can L (2008). Cost and profit efficiency of Chinese banks: A non-parametric analysis. China Econ.Rev. 19(2):260-273.
4. Arun Kumar Agariya and Deepali Singh (2012), "CRM Scale Development & Validation In Indian Banking Sector "Journal of Internet Banking and Commerce , vol. 17, no. 1,
5. Ashok Kumar Panigrahi , "Capital Structure of Indian Corporate: Changing Trends",Asian Journal Of Management Research ,2010
6. Ashvin Parekh, "Industry structure: M&A in IndianBanking", Ernst and Young, December 2010.
7. Biswas Joydeep, (2004) : Corporate Mergers & Acquisitions in India Indian Journal of Accounting Vol. XXXV(1), pp.67-72
8. Dr. K B Das & CA (Dr) Sanjeev Singhal, "Impact of Reforms on Efficiency of the Commercial Banks in India", Indian Journal of Accounting, Vol. XLV (1) Dec 2013, Pg no. 32-44.
9. Dr. V R Nedunchezhin, K Premalatha (2011);"Analysis of pre and post merger public sector bankefficiency: A DEA analysis", International Journal of Applied Research and Studies, Volume 3, Issue1(Jan 2014), Pp-1-12.
10. Garima Malik and Ajay Prakash (2008), "The impact of newprivate sector banks on old private sector banks in India", Asia – Pacific Business Review.
11. Kalluru Siva Reddy (2009), "Ownership Structure, Performance and Risk in Indian Commercial Banks", Journal of Applied Finance, Vol. 15 Nbr.8.
12. Kamatam Srinivas (2011) "M&A in Indian Banking Sector-A Study of Selected Banks" Himalaya Publication House, Bengaluru, Pp. 111-141.
13. Kar R N (2006), Mergers and Acquisition of Enterprises: Indian and Global Experiences, New Century publications, New Delhi.
14. Kumar and Rajib (2007) "Characteristics of Merging firms in India: An Empirical Examination"Vikalpa,Vol. 32(1),Pp 27-44.
15. Kumar, R., (2009). "Post-Merger Corporate Performance: an Indian Perspective", Management Research News 32 (2), pp. 145-157.
16. Wikipedia, State Bank of India, https://en.wikipedia.org/wiki/State_Bank_of_India,
17. State Bank of India (SBI), http://www.iloveindia.com/finance/bank/nationalised-banks/statebank-of-india.html,