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# A Study on The Merger of SBI With Its Associate Banks and Bhartiya Mahila Bank

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**Abstract**

On 1st April 2017, the most recent and largest merger took place in the history of banking sector. SBI merged with its 5 associate banks namely, State Bank of Mysore (SBM), State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH),State Bank of Patiala (SBP), State Bank of Travancore (SBT) and Bhartiya Mahila Bank. With this important step SBI entered into Top 50 global banks. But there were many problems in this big merger eg. Unemployment, new working environment, increased working hours etc. This research paper analyses pre and post merger comparison of financial performance of merged banks of SBI and it also study reasons and challenges faced by SBI during merger.

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## Introduction

Bank merger is that situation in which two banks pool their assets and liabilities to become one bank. Globally realized that merger is only way for taking competitive advantage at domestic and international level. In 1960 SBI got control on 7 banks. They were the seven regional banks of former Indian princely states. These banks were renamed, prefixing them with 'State Bank of'. These seven banks were State Bank of Bikaner and Jaipur (SBBJ), Hyderabad (SBH), State Bank of Indore (SBN), State Bank of Mysore (SBM), State Bank of Patiala (SBP), State Bank of State Bank of Saurashtra (SBS) and State Bank of Travancore (SBT). All these banks were given the same logo as the parent bank, SBI i.e., blue circle .On 15 February 2017, the Union Cabinet approved the merger of five associate banks with SBI. The State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore, and Bharatiya Mahila Bank. On 1st April 2017, Bank were merged with State Bank of India .The main reason behind this merger to create synergy that is one plus one is more than two.

## Reasons of Merger

1. After merger, sick and weak banks survived and increased branch network geographically.
2. Merger help to create large customer base and also enhanced market share.
3. Next reason for merger, to get better infrastructure and decrease unhealthy competition and prevent overcrowding of banks and utilize under and unutilized resources so that the banks can compete with foreign banks.
4. Merger allows banks to get efficiency gains by cost reductions (cost synergies) and revenue increase (revenue synergies).
5. After this merger, SBI entered in the list of top 50 banks in the world in terms of assets.
6. It is very tough for weak and sick banks to face competition and risk mitigation norms.
7. After merger SBI can concentrate on defaulters in better way because it had multiple finances with many people. With merger they can make recovery easier under one roof.
8. The merger has become compulsory due to change in banking environment due to create new area for compliance like Basel III, risk management etc., which need heavy investment on technology.

9. After merger, SBI can compete with the largest bank in the world, with an increased assets 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.

**Review of Literature**

Koala 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. This performance was tested on the basis of two grounds i.e., Pre-merger and Post- merger. Finally the study indicates that the banks have been positively affected by the event of merger."

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.

Sony 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.

Deo and Shah (2011), in a work entitled "Shareholder wealth effects to merger announcements in Indian industry" addressed the financial implications of the acquirer 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 acquirer 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.

Sinha & Gupta (2011) studied a pre and post analysis of firms and concluded that it had positive effect as their profitability, in most of the cases deteriorated liquidity. After the period of few years of Merger and Acquisitions (M&As) it came to the point that companies may have been able to leverage the synergies arising out of the merger and Acquisition that have not been able to manage their liquidity. Study showed the comparison of pre and post analysis of the firms. It also indicated the positiveeffects on the basis of some financial parameter like Earnings before Interest and Tax (EBIT), Return on shareholder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency etc.

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&A 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.

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 finding 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. In another study they examined a sample consisting of 20 acquiring firms during the period 2007. They concluded that corporate firms in India appear to have performed better financially after the merger, as compared to their performance in the pre-merger period.

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 acquirer 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) ofbanks in the post-merger scenario.

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.

**Objectives of the Study**

1. To analyze the merger of SBI with its associate banks.
2. To study important reasons of SBI for merging.
3. To study benefits of merger to SBI.
4. To identify the various challenges encountered by SBI during implementation of merger.

**Research Methodology**

This paper is descriptive and analytical in nature. Secondary data is proposed to be used for data collection. The accounting and financial data will be collected from published annual report of SBI banks to examine the impact of merger on the performance of bank selected as sample. Bombay Stock Exchange, National Stock Exchange, various books, journals, web sites etc. will be used for this study.

**Need or importance of Research**

1. The main objective of merger of SBI with its associate banks to create a mechanism so that weak banks could be saved from serious results of liquidation and dissolution because failing of one bank lead to failure of the banking sector and for this caution; RBI was announced with the power to mandatory merge the weak bank with the healthy bank in order to escape losses and liabilities.
2. It is interesting to note that with this step of merger SBI has entered into the list of top 50 global banks because SBI merged with its associate bank in order to get increased balance sheet and economies of scale.

**Benefits of Merger**

1. Currently, no Indian bank features in the top 50 banks of the world. With this merger, visibility at global level is likely to increase.
2. The merger benefits include getting economies of scale and reduction in the cost ofdoing business.
3. Cost savings on account of treasury operations,audit,technology etc would lower cost-to-income ratio in the long term.
4. As of now SBI alone has employee strength of more than 2 lakhs ,combining with all these banks it will cross 3 lakh base and that is huge terms of employment.
5. Gross NPA and net NPA of the combined entity will come down.
6. The merged entity will be able to tap into cheaper funds more easily and it will also be able to rationalize the branches all over the country, to cut down the operation costs.
7. Strong presence in nook and corner of the country.

**What are the challenges in front of SBI**

1. The merger can be a big challenge to the staff members in order to maintain the integration of responsibility, roles, salary and pension structures.
2. Due to rationalization of the many branches, the SBI group may face the problems from the prospects of promotions.
3. The regional customers like customers of SBT(State bank of Tranvancore) may face discomfort to deal with such a major entity, the associate banks are on a totally different footing as they have regional flavor and regional focus compared to nationalistic SBI culture.
4. Post the merger ,SBI's employees costs could rise by Rs 23 crore a month.
5. The increased size of this bank group will result with a huge challenge to the regulators in order to manage and control such a big entity.

**Conclusion**

The study concluded that SBI is still facing employee related issues. It is very tough for SBI to manage more staff members in order to maintain the integration of responsibility, roles, salary and pension structures. Net profit of SBI is decreasing after merger and also stability of the bank is questionable. So SBI should take corrective measures to improve their net profit and to avoid the instability in next financial years. The decline in the performance of merging firms cannot be attributed to merger alone. But there are strong prospects of the improvement in profitability.

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