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Dr. M. SUMATHY currently working as Professor & Head, Department of Commerce. Former Dean, School of Commerce, Bharathiar University, Coimbatore, TamilNadu has taught Commerce and Management Subjects for three decades. Under her Supervision, 52 M.Phil and 22 Ph.D Scholars have been awarded. She authored 16 Books including edited Volumes and textbooks. She has published 206 research papers including Chapters in various National, International, Refereed, Peer-Reviewed, Scopus, and Web of Science Journals with high impact factor. She has been registered Six copyrights. She acted as a resource person in 135 national and international invited lectures. She is a member of the Editorial Board and Review Board for 15 National and International journals and the Life Member of All India Commerce Association, (ICA) TN 029-Association of Economists of Tamil Nadu, (AET) All India Accounting Association, Indian Institute of Public Administration, New Delhi (IPA) Regional Association for Women Studies (RAWS) Indian Academic Researchers Association (IARA). In recognition of the outstanding contributions made, the Tamil Nadu State Council for Science and Technology is privileged to confer her Esteemed TANSA Award in the Social Sciences Category for the year 2019 and also bestowed Winner in Ist ICSI Gurushreshtha Award 2022 under the Commerce Category.

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POST-MERGER PERFORMANCE ANALYSIS OF THE STATE BANK OF INDIA: A STUDY

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Abstract

Banking sector play 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. Merger and acquisitions are common in India Banking sector and recently the sector witnessed largest merger in the history of banking industry in India which took place on 1April, 2017. State bank of India merged with 5 associate banks namely State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore and BharathiyaMahila Bank. Against this backdrop the present paper aims to examine the financial efficiency of State Bank of India after merger. The researcher has used the five financial parameters like capital, Reserve and surplus, Deposits, Investments, Advances and Net profit to measure the post-mergers performance. For the purpose of analysis, the study will take the past five years financial data of the State Bank of India from its official website.

Keywords*:* Merger, Acquisition, Performance, Consolidation, State Bank of India.

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Banking sector play 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. Merger and acquisitions are common in India Banking sector and recently the sector witnessed largest merger in the history of banking industry in India which took place on 1April,2017. State bank of India merged with 5 associate banks namely StateBank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore and Bharathiya Mahila Bank. Against this backdrop the present paper aims to examine the financial efficiency of State Bank of India after merger. The researcher has used the five financial parameters like capital, Reserve and surplus, Deposits, Investments, Advances and Net profit to measure the post-mergers performance. For the purpose of analysis, the study will take the past five years financial data of the State Bank of India from its official website.

Keywords: Merger, Acquisition, Performance, Consolidation, State Bank of India.

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 globalisation; 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. In 1921, the three presidency banks viz., the Bank of Bengal, the Bank of Bombay and the Bank of Madras were amalgamated into a new bank, named the Imperial Bank of India. Until the formation of RBI in 1935, this bank was functioning as a banker to the government. In May 1955, it was nationalised in the name of SBI under the SBI Act, 1955. The main objectives behind the formation of SBI were to: -

1. Extend the banking facilities to the rural semi urban areas on a large scale
2. Promote agriculture finance and remove obstacles in the agricultural financial system
3. Assist the Government of India in the pursuit of broad economic policies and
4. Assist the RBI in the formulation and implementation of its credit policies.

II. 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 into the need for M&A in Indian banking. And described the benefits gained by ICICI Bank used it as their expansion strategy in rural market to improve customer base and market share.

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

Jai Bansal and Gurudatt Kakkar (2018) in the titled A Research on the Analysis of Merger of SBI with its 5 Associate Banks and Bharatiya 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 this 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 grater 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 Laksmi 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.

III. STATEMENT OF THE PROBLEM

In 2008, the State Bank of India has merged with the State Bank of Saurashtra and in 2010 again it merged with State Bank of Indore. In 2017 it has entered into mega-merger with its associate banks. This mega merger forms a very base for strengthening the banking sector. It saves resources, reduces operation cost, improves risk management and increases the professional standard of the bank. Therefore, there is a necessity to study the financial performance of the bank in the post -merger period to judge the effectiveness of the merger. In this backdrop, this study has been conducted to analyse the post-merger performance of the SBI. These results of the study would provide enough information about the business growth and financial performance of the bank in the post-merger period.

IV. OBJECTIVES OF THE STUDY

1. To analyse the post -merger financial performance of the State Bank of India.

2. To provide appropriate suggestions to improve the performance of State Bank of India.

V. RESEARCH METHODOLOGY

The present study is based on secondary data, the data were collected from the annual reports of SBI during 2017-18 to 2021-22. Statistical tools growth rate, mean and compounded annual growth rate has been used to analyse the financial data.

VI. DATA ANALYSIS AND INTERPRETATION

The study has used the following variables, viz., Share capital Deposits, Advances and Investments, Income, Expenditure and Net profit for the period 2017-18 to 2021-22, to analyse the financial performance of the SBI.

Table:1 Share capital of SBI during the post-merger period (Rs.in Crores)

Year	Capital (i)	Reserve and Surplus (ii)	Shareholders fund (i+ii)	Growth rate (%)
2017-18	892	229429	230321	-------
2018-19	892	233603	234495	1.81
2019-20	892	250167	251059	7.06
2020-21	892	274669	275561	9.75
2021-22	892	300972	301864	9.54
Mean	892	257768	258660	5.63
Max	892	300972	301864	9.75
Min	892	229429	230321	1.81
CAGR (%)	0.04	5.57	5.55	

Source: Annual reports of SBI

Table 1 shows the shareholders fund of the SBI during the Post-Merger period. The analysis revealed that the shareholders fund was Rs.230321 crore in 2017-18 and decreased to 1.81 percent in 2018-19 and registered 9.54 percent growth rate in 2021-22. The average growth rate of the shareholders fund recorded during the study period was 5.63 percent with the maximum growth rate of 9.75 percent in 2020-21 and minimum growth rate of 1.81 percent in 2018-19. The compounded annual growth rate (CAGR) was 5.55 percent. The positive growth rate of the shareholders fund showed that the bank has a strong capital base in the post-merger period.

Table:2 Deposits, advance and Investments of SBI during the post-merger period.

Year	Deposits	Growth rate (%)	Investments	Growth rate (%)	Advances	Growth rate (%)
2017-18	2722178	----	1183794	------	1960118	------
2018-19	2940541	8.02	1119247	-5.45	2226853	13.60
2019-20	3274160	11.34	1228284	9.74	2374311	6.62
2020-21	3715331	13.47	1595100	29.86	2500598	5.31
2021-22	3882799	4.50	1771280	11.04	2634890	5.37
Mean	3307001	9.33	1379541	11.29	2285354	7.72
Max	3882799	11.34	1771280	29.86	2634890	13.60
Min	2722178	4.50	1119247	-5.45	1960118	5.31
CAGR	7.36		8.39		6.09	

Source: Annual reports of SBI

The table 2 exhibits the deposits, advances, and investments of the SBI and its growth rate during the post-Merger period from 2017-18 to 2021-22. It is noted that deposit has increased every year from Rs.2722178 crore in 2017-18 to 3882799 in 2021-22 with the average deposits of Rs.3307002 crore. The maximum and minimum deposit were 3882799 crores in 2021-22 and 2722178 crores in 2017-18 respectively. The average growth rate was 9.33 percent. The CAGR was 7.36 percent. Hence, the increasing trend in the deposit has revealed that the SBI has increased its market share in the post-merger period.

The investment showed an increasing trend except in 2019-20. In 2107-18 it was Rs.1183794 decreased to Rs.1119247 crore in 2018-19, recorded a negative rate of (-)5.45 percent. In 2021-22, the investment of the bank stood at Rs.1771280 crore. The average growth rate of investment was 11.29 percent. The maximum growth rate was 29.86 percent in 2020-21 and minimum growth rate was -5.45 percent in 2018-19. The CAGR was 8.39 percent. The results revealed that the investment of the bank was found satisfactory during post-merger period.

The advances registered an increasing trend from 2017-18 to 2021-22 which indicates that lending performance of the bank during the post-merger was found to be good. The advances in 2017-18 was Rs.1960118 crore and increased to 2634890 crore in 2021-22. The average growth rate of the advances was 7.72 percent. The maximum growth rate was 13.60 percent in 2018-19 and the minimum growth rate was registered with 5.31 percent in 2019-20. The CAGR was 6.09 percent.

Table: 3 Income, Expenditure and Net Profit of SBI in the post-merger period (Rs.inCrores)

Year	Total Income	Growth rate (%)	Total Expenditure (%)	Growth rate (%)	Net Profit
2017-18	306527	------	310714	-----	-4187
2018-19	330687	7.88	327618	3.90	3069
2019-20	368010	11.28	349833	5.44	18176
2020-21	385337	4.70	361058	6.78	24279
2021-22	406973	5.61	363198	0.59	43774
Mean	359499	7.36	342484	4.17	18697
Max	406973	11.28	363198	6.78	43774
Min	306527	4.70	310714	0.59	-4187
CAGR	5.83		3.17		

Source: Annual reports of SBI

The data in the table 3 explains the total income, total expenditure, and net profit of the SBI along with its growth rate during the post-merger period. The total income registered an increasing trend which signifies that the bank has maintained stable earnings in the post-merger period. The total income increased from Rs.306527 crore in 2017-18 to Rs.406973 crore in 2021-22. The average growth rate of the total income was 7.36 percent and CAGR was 5.83 percent. The maximum and minimum growth rate were 11.28 percent per cent in 2019-20 and 4.70 percent in 2020-21.

Total Expenditure showed a mixed trend, this is due to huge operating expenditure during the post-merger period. From the results it is evident that the bank has controlled the growth rate of operating expenditure in the post-merger period. It was 3.90 in 2018-19 and reduced to 0.59 in 2021-22. The amount of total expenditure has increased from Rs.310714 crore to Rs.363198 crore in 2021-22. The average growth rate of total expenditure was 4.17 percent. The maximum and minimum growth rate were 6.78 percent in 2020-21 and 0.59 percent in 2021-22. The CAGR was 3.17 percent. From the data given in the table 3 clearly indicated that the bank has incurred a loss of Rs.4187 crore in 201-18 and in the remaining period it has earned a profit. It is evident that the stress in the loan profitable of associate banks was transferred to the SBI in the post-merger period, the accumulated losses of subsidiaries and huge provisioning of non-performing assets (NPA's) has resulted in losses during 2017-18. The SBI has quickly recovered from the stress of NPA and has earned a good profit amounted to Rs.43774 crore in 2021-22.

VII. SUGGESTIONS

Even though the SBI's performance was found satisfactory in the post -merger period, from the findings of the study, it is suggested that the operating expenditure of the bank need to be controlled to increase the operating profit in future. The bank has incurred losses due to the higher operating cost and accumulated losses if its associates and SBI itself. So, the bank without any delay has to take necessary steps for the recovery of bad loans of associate banks and SBI to avoid huge provisioning for the NPA's.

VIII. CONCLUSION

Expanding business activities by way of organic and inorganic mode is the essential decision for the survival of business in the today's world. Merging is an important development in the banking field and its impact is also durable. From the analysis, it is found that the performance of the SBI was found satisfactory during post-merger period. This merger has moved the SBI to the list of the world's top 50 banks in terms of assets. Even though the bank has incurred losses in the initial period due to NPA's and accumulated losses of associate banks, later on it has earned a good profit and returned to good position. Thu, the post-merger period tremendous success of SBI will provide a road map for the future merger.

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