Mergers And Acquisitions Performance of SBI

Priti Kumari*

Abstract:-This paper reveals that the banking sector occupies a very important place in every economy and is one of the fastest growing sectors in India. The competition is intense and irrespective of the challenge from the multinational players, domestic banks - both public and private are also seen rigorous in their pursuit of gaining competitive edge by acquiring or merging with potential opportunities as present today. As a result, Mergers and acquisitions are the order of the day. Indian commercial banks are witnessing sweeping changes in the regulatory environment, huge growth in off balance sheet risk management financial instruments, the introduction of e-commerce and online banking, and significant financial industry consolidation. All of these forces have made the Indian banking industry highly competitive. In this context, the study of performance of the banks after the merger assumes importance. The objectives of the Study are

1. To analyse the performance of key parameters of Select Banks
2. To analyse the Employee Productivity of Select Banks
3. To analyse the Branch Productivity of Select Banks
4. To analyse the Profitability of Select Banks

The study is based on secondary data. CAGR; T test; Correlation and Regression are employed for analysing the data.

KeyWords:-Banking Sector; Mergers; Public Sector; Private Sector; CAGR; Employee Productivity; Branch Productivity

Introduction-Banking sector occupies a very important place in every economy and is one of the fastest growing sectors in India. The competition is intense and irrespective of the challenge from the multinational players, domestic banks - both public and private are also seen rigorous in their pursuit of gaining competitive edge by opting for mergers and acquisitions. As a result, Mergers and acquisitions are the order of the day. Indian commercial banks are witnessing sweeping changes in the regulatory environment, huge growth in off balance sheet risk management financial instruments, the introduction of e-commerce and online banking, and significant financial industry consolidation. All of these forces have made the Indian banking industry highly competitive[1]. Mergers and acquisition in banks are very common all over the globe. These trends were seen in the early 50 s in the countries like USA, United Kingdom, Japan, and European countries.

***Research Scholar, Department of Commerce,Veer Kunwar Singh University, Ara**

Mergers in India-Mergers in India in general have experienced an increased number in various sectors especially after the New Economic Policy in the year 1991 which has opened the doors for global markets. Banking Sector in India has witnessed many Mergers during the years for various reasons such as Restructuring of Weak Banks; Economies of Scale; Expansion of Market; Business Consolidation etc. Looking into the history of Mergers in Banking Sector in India, initially they have taken place as a measure to protect the interests of the customers of the weak banks but subsequently a few Mergers also have take place voluntarily in the Post Liberalisation Period between various banks for several reasons**.** The Indian economy, which is one of the fastest growing economies in the world, is poised to maintain its leading position, despite the global financial crisis and economic slowdown. India has managed to beat the global financial turmoil due to sound regulation, prudent financial supervision and proactive policies. India’s growth is driven predominantly by domestic consumption and investment and the Indian banking system had no direct exposure to the US sub-prime mortgage assets or to the failed institutions. During this period two mergers have taken place in Indian Banking Sector one between two profit making Public Sector Banks in the lines of consolidation and the other one was between two profit-making Private Sector Banks for the synergies of merger. In this context, the study of performance of the banks that have merged voluntarily assumes importance.

Review of Literature-A. Kaleichelvan[1] has looked at the M&A activity in the banking industry during the period 1993-94 – 2004-**5** Subramanya Prasad[2], has evaluated the post-merger efficiencies of Indian commercial banks (acquiring banks) which have undergone mergers during the post-reform period and analyzed the factors influencing the commercial bank efficiency in the Indian context and concluded with a positive note stating that the select banks efficiency improved post mergerAnand Manoj & Singh Jagandeep (2008)[3] studied the impact of merger on the share holders of five banks Times Bank with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the

Global Trust Bank with the Oriental Bank of commerce and the Bank of Punjab with the Centurion Bank. The study revealed that the announcement of merger of Banks had positive and significant impact on share holder s wealthKuriakose Sony & Gireesh Kumar G. S (2010)[4] analyzed the strategic and financial similarities of merged Banks, and relevant financial variables of respective banks and found that only private sector banks were in favour of the voluntary mergers.

Azeem Ahmed Khan (2011)[5] explored various motivations of Merger and Acquisitions in the Indian banking sector. The result of the study indicated that the banks have been positively affected by the event of Merger and acquisitions. These results also suggested that merged banks could obtain efficiency and gains through Merger and Acquisitions and could pass the benefits to the equity share holders in the form of dividend.

Devarajappa S, (2012)[6] explored various motives of merger in Indian banking industry. It also compared 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. Finally the study indicates that the banks have been positively affected by the event of merger.

Research Gap-The above review of literature points to the fact that, studies have been made on Mergers relating mainly to the performance of select banks; analyse the problems of mergers; benefits to the stakeholders; Financial performance of the transferee bank after the merger. However an analysis relating to certain key parameters; Employee Productivity; Branch Productivity and the Profitability of the select Transferee Banks before and after the Merger till 31st March 2017 has not been done in the recent past. Hence, the study is undertaken to fill the research gap.

Objectives Of The Study

The objectives of the Study are

1. To analyse the performance of key parameters of Select Banks
2. To analyse the Employee Productivity of Select Banks
3. To analyse the Branch Productivity of Select Banks
4. To analyse the Post Merger performance of Select Banks

Methodology

Sources of Data:-The study is based on Secondary Sources which includes the Annual Reports of the Select Banks; RBI Database-Profile of Banks –various issues; research publications etc.

Period of Study:-The Period of the Study is the Post Liberalisation Period i.e., from 1991 to 31st March 2017.

Sample Selection:- During the Post Liberalisation Period i.e., from 1991 to 31st March 2017, 22 Mergers have taken place in the Banking Sector in India between various Banks. Some of them were forced mergers (Private Sector Bank merged with Public Sector Bank) and a few were voluntary in nature. SBI & HDFC Banks took the first step to move on with merger for several reasons during the period of global financial crisis. Therefore, the study is undertaken to analyse the performance of the select Banks that have participated in the merger activity voluntarily. Incidentally, these two are the leading banks in Public and Private Sectors in Indian Banking Sector respectively in India.Deposits and Advances represent the volume of the business of the banks. These two parameters will have an impact on the profits of the bank. Therefore, the following hypothesis are framed and tested.

Hypothesis

1. Ho: There is no significant difference in the Deposits per Employee and per Branch of the Select Banks before and after Merger
   H1: There is a significant difference in the Deposits per Employee and per Branch of the Select Banks before and after Merger
2. Ho: There is no significant difference in the Advances per Employee and per Branch of the Select Banks before and after Merger
   H1: There is a significant difference in the Advances per Employee and per Branch of the Select Banks before and after Merger
3. Ho: There is no significant difference in the Profits per Employee and per Branch of the Select Banks before and after Merger
   H1: There is a significant difference in the Profits per Employee and per Branch of the Select Banks before and after Merger
4. Ho: There is no significant difference in the Productivity ratios of both the banks during the post merger period
   H1: There is a significant difference in the Productivity ratios of both the banks during the post merger period

Tools for Analysis: The following tools are used for the analysis of the data apart from Percentages and Averages.

Employee & Branch Productivity ratios for evaluating the employee efficiency and branch efficiency

CAGR: to analyse the growth in Deposits; Advances and Profits of the select Banks

T test: to test the Hypothesis as to whether there is any significant difference in the performance of the select Banks before and after the Merger.

Pearson's Multiple Correlation: to test the measure of the strength of the association between the dependent and independent variables

Regression Analysis: is used to understand which among the independent variables are related to the dependent variable.

Mergers In Banking Sector-The Government announced a New Economic Policy on July 24, 1991. The new policy deregulated industrial economy in a substantial manner. One of the steps taken to liberalize and globalize Indian economy were the wide-ranging Financial Sector Reforms in the Banking, Capital Markets, and Insurance Sectors, including the deregulation of interest rates, strong regulation and supervisory systems, and the introduction of foreign/private sector competition (www.iasscore.in). This period has witnessed the increased participation of Indian Private Sector Banks. The bank mergers in India during the Post Liberalisation Period are presented in table 1.

Table 1: Mergers in Banking Sector in India (1st April 1991-31st March 2017)

Sl. No	Transferor Bank	Transferee Bank	Date of Merger	No
1.	New Bank of India	Punjab National Bank	04-09-1993	1
2.	Bank of Karada Ltd.	Bank of India	1993-1994	1
3.	Kashinath Seth Bank	State Bank of India	1995-1996	1
4.	Punjab Co-op. Bank Ltd	Oriental Bank of Commerce	1996-1997	2
5.	Bari Doab Bank Ltd	Oriental Bank of Commerce	1996-1997	
6.	Bareilly Corp. Bank Ltd	Bank of Baroda	03-06-1999	2
7.	Sikkim Bank Ltd	Union Bank of India	22-12-1999	
8.	Times Bank	HDFC Bank Ltd	26-02-2000	1
9.	Bank of Madura	ICICI Bank	Mar-2001	1
10.	Benares State Bank Ltd	Bank of Baroda	20-07-2002	1
11.	Nedungadi Bank Ltd	Punjab National Bank	01-02-2003	1
12.	South Gujarat Local Area Bank	Bank of Baroda	2004	2
13.	Global Trust Bank	Oriental Bank of Commerce	24-07-2004	
14.	Bank of Punjab	Centurion Bank of Punjab	Oct-2005	1
15.	Ganesha Bank of Kurundward	Federal Bank Ltd	Jan – 2006	
16.	United Western Bank	IDBI	2006	4
17.	Lord Krishna Bank	Centurion Bank of Punjab	2006	
18.	Sangli Bank	ICICI Bank	2006	
19.	**Centurion Bank of Punjab**	**HDFC Bank**	**25-02-2008**	2
20.	**State Bank of Sourastra**	**State Bank of India**	**Aug-2008**	
21.	Bank of Rajasthan	ICICI Bank Ltd	13-08-2010	1
22.	ING Vysya Bank	Kotak Mahindra Bank	01-04-2015	1
Total				**22**

Source: K. Srinivas, Mergers And Acquisitions In Indian Banking Sector- A Study Of Selected Banks.

State Bank of India (**SBI**)-Is an Indian multinational, public sector banking and financial services company. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. On 1st April, 2017, State Bank of India, which is India's largest Bank merged five of its Associate Banks (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 with itself. This is the first ever large scale consolidation in the Indian Banking Industry. With the merger, SBI will enter the league of top 50 global banks with a balance sheet size of 33 trillion, 278,000 employees, 420 million customers, and more than 24,000 branches and 59,000 ATMs. SBI's market share will increase to 22 percent from 17 per cent. It has 198 offices in 37 countries; 301 correspondents in 72 countries. The first step towards unification occurred on 13 August 2008 when State Bank of Saurashtra merged with SBI, reducing the number of associate state banks from seven to six. An attempt is therefore, made to study the impact of the merger on the performance of the bank, for the purposes of which certain parameters are identified and discussed in the following tables. Pre and post merger Key parameters such as Deposits; Advances; Profits; Number of Employees and Number of Branches of SBI are presented in table 2.

Pre & Post Merger Key Parameters Of SBI

Table 2Pre Merger Key Parameters of State Bank of India

Years	Deposits	Advances	Net Profit	No of Employees	No of Branches
2000-01	242828	113590	1604	214845	9078
2001-02	270560	120806	2433	209462	9102
2002-03	296123	137758	3105	208998	9088
2003-04	318619	157934	3681	207039	9107
2004-05	367048	202374	4304	205515	9161
2005-06	380046	261801	4407	198774	9468
2006-07	435521	337336	4541	185388	9679
2007-08	537404	416768	6729	179205	10683
Base Year	742073	542503	9121	205896	12022
CAGR	**13.22 %**	**18.97%**	**21.30%**	**-0.47%**	**3.17%**
Mean	356018.63	218545.86	3850.5	201153.3	9420.75
Median	342833.5	180154	3992.5	206277	9134
SD	96378.54	111037.3	1554.646	12579.1	555.2234
Kurtosis	0.484581	-0.35464	0.901001	-0.25621	4.457196
Skewness	0.881675	0.932432	0.49884	-1.01389	2.081629

Note: Base year is 2008-09.

Source: Compiled by the Authors

Table 3Post Merger Key Parameters of State Bank of India

Years	Deposits	Advances	Net Profit	No of Employees	No of Branches
Base Year	742073	542503	9121	205896	12022
2009-10	804116	631914	9166	200299	13039
2010-11	933933	756719	7370	222933	14350
2011-12	1043647	867579	11686	215481	14902
2012-13	1202740	1045617	14839	228296	15564
2013-14	1394409	1209829	**10,891**	222033	16059
2014-15	1576793	1300026	**13,102**	213238	16333
2015-16	1730722	1463700	**9,951**	207739	16784
2016-17	2044751	1571078	**10484**	209567	17170
CAGR	**11.92%**	**12.54%**	**1.56%**	**.20%**	**4.04%**
Mean	**1341388.923**	**1105807.851**	**10936.09**	**214948.3**	**15525.13**
Median	1298574	1127723	10687.64	214359.5	15811.5
SD	425454.7	338044.6	2314.978	9187.357661	1372.151
Kurtosis	-0.81987	-1.39946	0.196524	-0.668664275	-0.00617
Skewness	0.416457	-0.03792	0.277795	-0.107177778	-0.7451

Source: Compiled by the Authors

Deposits; Advances; Net Profit; Number of Employees & Branches of SBI eight years before the merger and eight years after the merger of State Bank of Sourashtra with itself in the year 2008-09 are presented in Tables 2&3. The year of merger 2008-09 is taken as a base year for calculating CAGR. The Deposits and Advances of State Bank of Sourashtra at the time of the merger were Rs. 419425 and Rs. 12309.29 crores; Net Profit Rs. 35.45crores; Employees 7399 and the Bank had a network of 460 branches against that of SBI which had Deposits of Rs. 7, 42,073 crores and Advances of Rs. 5, 42,503 crores; 2, 05,896 crores of Profits; had 12,022 Employees and a branch network of 9,121. The Deposits and Advances of SBI, post merger grew by 11.92 % and 12.54% as against 13.22% and 18.97 % during the pre merger period; Profits have recorded a CAGR of 1.56 % as against pre merger CAGR of 21.30%; Number of Employees increased by .20% during the post merger period and its CAGR was in negative during the pre merger period and the Number of Branches increased by 4.04% as against 3.17 % during the pre merger period.

It is evident from the above tables that, there has been an increase in the two parameters Deposits; Advances all through; there is increase in the profits year after year excepting in the years 2013-14 and 2015-16; Number of Branches increased during the overall study period excepting in the year 2002-03 during the premerger period; in case of Employees it is observed that from the year 1999-2000 there has been a consistent fall year after year in the number of Employees during the pre and post merger periods with an exception to the years

2010-11 and 2012-13 and recorded a lowest growth rate of .20 % during the post merger period against a negative growth rate of -3.00% during the pre merger period.

Conclusion-Merger in general is considered as a strategic tool for the participants in merger activity for gaining certain synergies. The study focused on the pre and post merger performance of SBI, who have participated in mergers for different reasons. Overall growth is observed in the performance of both the banks in key parameters, and productivity ratios, and the same is ascertained by employing the statistical tools.

References

[1]. A. Kaleichelvan, "Efficacy of Merger and Acquisition in Indian Banking Industry" (A Study With Reference To Select Merged Ban ks In India)

[2]. D. Subramanya Prasad, "Mergers and Acquisitions in the Indian Banking Sector: An Analytical Study"

[3]. Manoj Anand & Singh Jagandeep, (2008). Impact of Merger Announcements on Shareholders' Wealth: Evidence from Indian Private

Sector Banks. Vikalpa: Journal for Decision Makers, January-March, Vol. 33, No. 1, pp. 35-54.

[4]. Kuriakose Sony & Gireesh Kumar G. S (2010), "Assessing the Strategic and Financial Similarities of Merged Banks: Evidence from Voluntary Amalgamations in IndianBanking Sector", Scienece & Society, Vol. 8, No. 1, 2010.

[5]. Azeem Ahmed Khan (2011), "Mergers and Acquisitions in Indian Banking Sector in Post Liberalisation Regime", International Journal of Contemporary Business Studies Vol 2, No: 11 November 2011

[6]. Devarajappa S, IRJC (2012), "Mergers in Indian Banks: A Study on Mergers of HDFC Bank Ltd and Centurion Bank of Punjab Ltd", International Journal of Marketing, Financial Services & Management Research Vol. 1 Issue 9, September 2012

[7]. www.iasscore.in

\[8]. Srinivas K, "Mergers and Acquisitions in Indian Banking Sector-A Study of Selected Banks"