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PRE AND POST MERGER PERFORMANCE OF SBI

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Abstract-*Mergers are playing a crucial role in the growth of Indian banking sector. Mergers took place by considering various catalysts that leads to inorganic growth of the firm, increases capital base and expansion of business growth. The study at present mainly focuses on the merger that took place in one of the biggest banks of India i.e. SBI with its associate banks (which are running into losses).This research mainly focuses on the financial performance of the SBI bank before and after merger with special reference to key performance indicators (KPI) and focuses on the area of profitability, liquidity, efficiency and risk. The study also focuses on finding out the reasons on the performance of the banks after merging*

Keywords: *Mergers, Key performance indicators, profitability, liquidity.*

I INTRODUCTION

Mergers are increasingly becoming strategic choice for organizational growth and achievement of business goals including profit, empire building, market dominance and long term survival. The ultimate goal of this strategic choice of inorganic growth is, however, maximization of shareholder value. The phenomenon of rising Merger activity is observed world over across various continents, although, it has commenced much earlier in developed countries (as early as 1895 in US and 1920s in Europe), and is relatively recent in developing countries. In India, the real impetus for growth in Merger activity has been the ushering of economic reforms introduced in the year 1991, following the financial crisis and subsequent implementation of structural adjustment Programme under the aegis of International Monetary Fund (IMF). In recent times, though the pace of Merger has increased significantly in India too and varied forms of this inorganic growth strategy are visible across various economic sectors. The term mergers encompasses varied activities of stake acquisition and control of assets of different firms. Besides, there are several motives for different types of mergers seen in corporate world.

Sherman and Hart define Merger as "a combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably different organization after the merger, it retains its original identity." In other words, in a merger one of the two existing

Companies merges its identity into another existing company or one or more existing companies may form a new company and merge their identities into a new company by transferring their businesses and undertakings

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including all other assets and liabilities to the new company (hereinafter referred to as the merged company). The shareholders of the company (or companies, as the case may be) will have substantial shareholding in the merged company. They will be allotted shares in the merged company in exchange for the shares held by them in the merging company or companies, as the case may be, according to the share exchange ratio incorporated in the scheme of merger as approved by all or the prescribed majority of the shareholders of the merging company or companies and the merged company in their separate general meetings and sanctioned by the court.

II IMPACT OF MERGER IN BANKING SECTOR

To overcome the challenges and threats posed at present and in fore future and give a new direction to banking reforms, government is considering the merging of banks for better performance and strengthen the financial intake of banks. Technical inefficiency is one of the main factors responsible for banking crisis. The scale of inefficiency is more in case of small banks. Hence, merger would be good. The size of each business entity after merger is expected to add strength to the Indian Banking System in general and Public Sector Banks in particular. Synergy of operations and scale of economy in the new entity will result in savings and higher profits. The new financial institution formed after the merger is more financially sound as it carries with it lower is the probability that banks will be exposed to the risk of insolvency, that merging on its own cannot achieve strong, efficient and competitive banking systems because performance is dependent on several factors.

III REVIEW OF LITERATURE

- ***Manas Baidya (2018) Efficiency Study on Proposed Merger Plan of State Bank of India SBI and its Subsidiaries: A DEA Perspective***: Merger of State Bank of India with its subsidiary banks has been the largest merger in the Indian banking industry. The study examines the technical efficiency of SBI and its subsidiaries before and after their merger. The study has utilized the two basic Data envelopment analysis models and the results reveal that the merger proposal of SBI associates may bring in fully technical efficiency but not fully scale efficiency of the merged entity.
- ***D Satyanarayana (2018) a case study on mega merger of SBI with its five Subsidiaries:*** The merger is expected to bring the state-owned entity at par with global lender. The merger is seen as win-win for both SBI and its associate banks. There are several economic and strategic advantage to the merged entity. However, researcher thinks the new entity is not free from challenges, and should gear up to face new challenges that are yet to come.
- ***Anil Kumar Yadav (2017) impact of mergers on Indian banking sector: a comparative study of public and private sector merged banks:*** Merger is a useful strategy and researcher lists out the several factors that are needed for merger operation process and challenges and gives an overview regarding how Banks can expand their operations, serve larger customer base, increases profitability, liquidity and efficiency.
- ***Bharat Khurana (2017) analysis of merger of sbi & its associates :*** this is study regarding SBI and its associated banks. Researcher reveals that when subsidiaries are running into losses it needed to

reconstructed and the overall performance of Sbi is not up to the mark and resulted in losses to the investors.

- ***Dr.Prashanta Athma (2017) Mergers in Banking Sector in India: An Analysis of Pre & Post Merger Performance of sbi & HDFC Bank***: Mergers and acquisitions in 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 much more importance.
- ***Ms. Jaspreet Kaur (2017) a case study on mega merger of sbi with its associate banks and Bharatiya Mahila bank:*** the merger will affect the seniority of top officials of Associate Banks and will also result in redeployment or loss of jobs of some workmen and closure of branches and finally, the banks might lose some of their regular customers. The revenue will increase, but losses are to be bared by the amalgamated entity.
- ***Srinivasan M.R (2017) Impact of merger and acquisition on the efficiency of Indian banks: a pre-post analysis using data envelopment analysis:*** merger on large size is just a facilitator, but no guarantee for improved profitability on a sustained basis. Hence, the thrust should be on improving risk management capabilities, strategic business planning and corporate governance. In the short run, attempt options like outsourcing, strategic alliances, etc. can be considered. Banks need to take advantage of this fast changing environment, where product life cycles are short and could be a decisive factor in deciding who wins in future
- ***Ritesh Patel 2016 Pre-Merger and Post-Merger Financial & Stock Return Analysis: A Study with reference to selected Indian Banks:*** In the study he considered and selected 4 banks for the measurement of improvement in financial performance and stock return performance after merger. It is concluded that stock return performance is improved only in one of the private Bank. It is also concluded that the impact of merger and acquisition can be positive and negative. The merger decisions can be proved positive if the proper pre-merger analysis is done otherwise it may be worthless.
- ***Oduro and Agyei (2013) Mergers & Acquisition and Firm Performance: Evidence from the Ghana Stock Exchange:*** conducted an accounting based study of M&A's of firms listed in the Ghana Stock Exchange. Their study found significant differences in profitability in the pre and post-merger period and it had affected profitability of the firms negatively. He pointed out that level of risk and firm size had negative relationship with firm profitability while debt capital and firm growth enhance firm *profitability.*
- ***(Sharma, 2013) Mergers & Acquisitions and Corporate Valuation :*** His study had shown the impact of merger on the financial performance of merging companies by examining some premerger and post-merger financial ratios. He has taken 9 BSE listed companies of metal industry involved in mergers during 2009-10 and found that there is no impact in case of liquidity and leverage but the profitability results showed significant

decline. The author said that success of M&A deals depends on post integration process, timely action and to keep check on the cost of integration process

Particulars	2016	2017	2018
Return on equity	7.05	-0.17	-1.8

IV OBJECTIVES OF STUDY

- To examine the need and objective of SBI merger
- To analyze the financial performance of SBI before and after merger.

V ANALYSIS

Based on profitability

Profitability is the important factor for any firm especially to banking sector. The main areas where banks focuses is on increasing the interest of investors by sharing adequate profit to them irrespective of external factors. It can be possible through earning per share and price earnings ratio. And also the amount of return the investors expects on assets and equity. So the profitability ratios has been calculated before and after the merger based on the values taken from balance sheet and profit and loss accounts which is purely taken from secondary data.

From the above table the results for three years i.e. (2016, 2017 and 2018) has been listed. In the year 2016 EPS is positive with 16.41 per share and merged year i.e. 2017 SBI runs into losses, as a result the concerned EPS is negative (-0.48) and even it has become worsened in the year 2018 with -4.69 per share. Even the same repeats with price earnings ratio which is 15.24 before merger (2016) and after merger it is negative (2017= -64.62, 2018= - 63.09). Before the merger return on assets and return on equity is positive with 0.0042 and 7.05. After the merger the results of both the ratios began to fall towards negative trend i.e. return on assets (2017= -0.0001, 2018= - 0.0011) and return on equity (2017= -0.17, 2018=-1.8). Below the 4 profitability graphs flows

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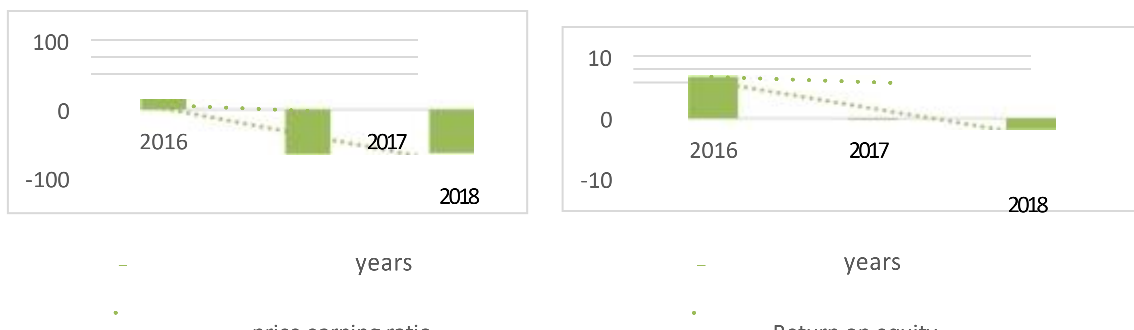
towards the negative trend (from left to right bottom). And profitability ratios says that the higher the ratio, the higher the profitability to banks.

Based on Liquidity:



As the bank mainly deals with deposits and advances it is important to have an adequate liquidity to meet the contingent liabilities in the form of demand deposits, short loans from other banks and matured deposits. And liquidity ratios like current ratio, credit asset ratio and pure liquid ratios like cash to total deposit ratio, cash to total asset ratio. So the liquidity ratios has been calculated before and after the merger based on the values taken from balance sheet and profit and loss accounts which is purely taken from secondary data.

Particulars	2016	2017	2018

From the above table the current ratio in the year 2016 is 0.07 and after the merger the ratio began to rise towards 0.09 and 0.08 in 2018. All over the three years there has been a consistent trend maintained in current ratio. Credit asset ratio which mainly focuses on how advance credits is set towards assets of banks and in the year 2016 credit to asset ratio is around 0.62 and in 2017 is has decreased to 0.55 and 0.54 in 2018 and the higher this ratio the higher the counter party default so the ratio calculated from above results shows banks are controlling well. Pure liquid ratios like cash to total deposit and cash to total assets are decent in the year 2016 with 0.09 and 0.06 ,these ratios says the higher the ratio the more the liquidity available to banks but there is a chance for lower profitability. In the merged year it has been increased to 0.10 in CTD and 0.07 in CTA and later on the ratio is settled at 0.07 in CTD and 0.05 in CTA. The below graph shows consistent trend all over the three years.

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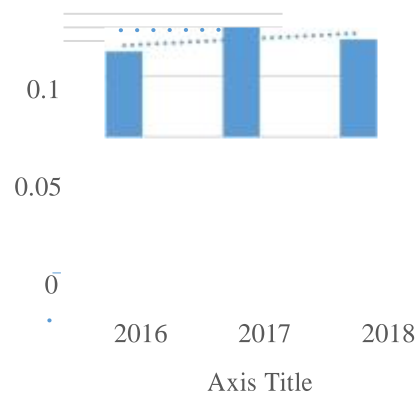
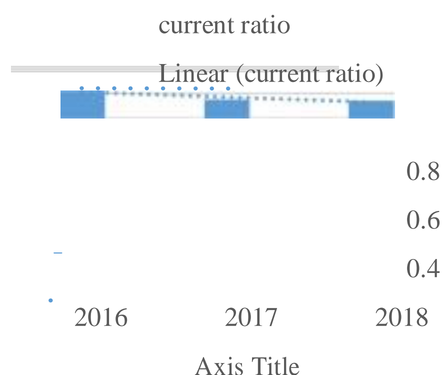




credit asset ratio

Linear (credit asset ratio)

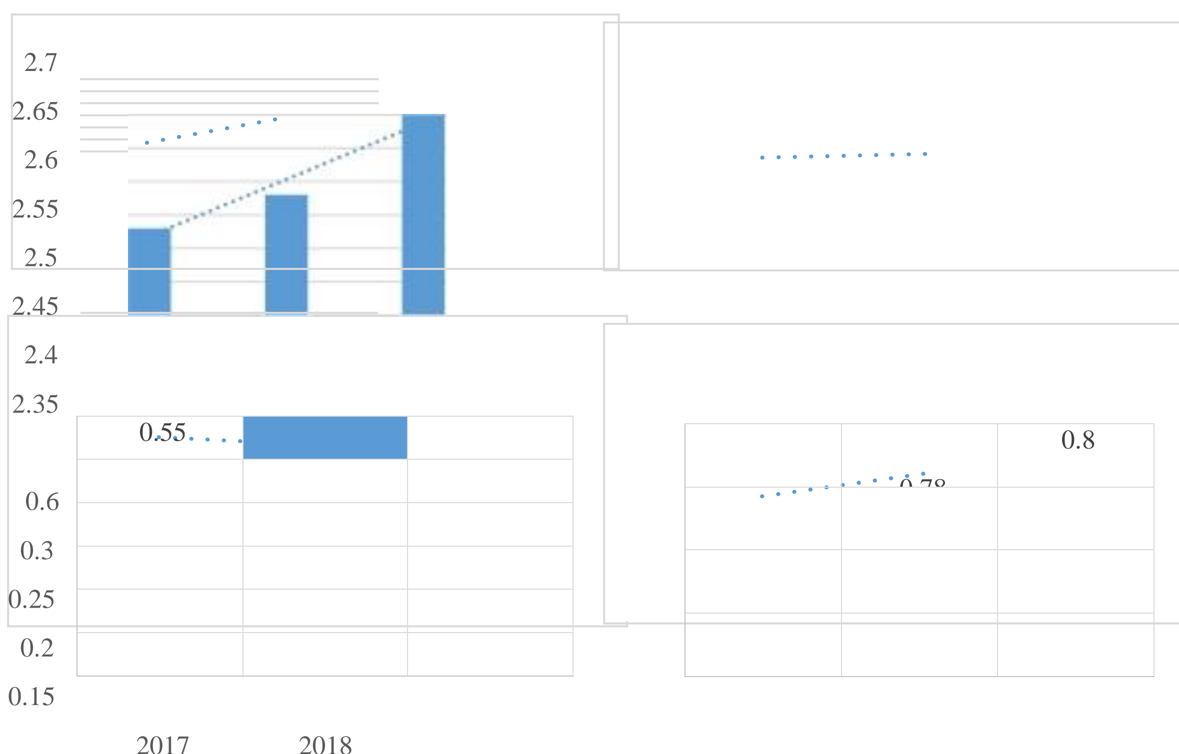
Based on Efficiency:

This ratio mainly focuses on the ability of the firm to meet the day to day requirements of banks which mainly covers the area pertaining to cost of funds, operations and overhead factors and also how well the banks are controlling expenses in producing revenues to the firm. Since banking sector mainly deals with the financial terms, it has to maintain decent efficiency ratio. Efficiency ratios are mostly volatile in nature and changes from time to time depend upon the external factors. So the efficiency ratios has been calculated before and after the merger based on the values taken from balance sheet and profit and loss accounts which is purely taken from secondary data.

Particulars	2016	2017	2018

From the above table the operating efficiency ratio is 2.48 in the year 2016 later on after the merger it has increased to 2.53 in 2017 and 2.65 in the year 2018. In the operating efficiency, the lower the ratio the more efficient is the bank but there is a considerable rise in the operating efficiency after the merger. In the year 2016 Cost of funds is 0.55 and after the merger it has been decreased to 0.44 in 2017 and 0.39 in the year 2018. In the cost of funds the lower the ratio, the lower the variable costs for the banks and there is a positive vibe after the merger because there is a decrease in the cost of funds. And there is a considerable rise in the efficiency ratio from 0.19 in 2016 to 0.22 in 2017 and it is further increased to 0.25 in 2018 and this ratio should be higher for feasible results. Even overhead ratio is adjusted at 0.71 in 2016 and has increased to 0.78 in 2017 and 0.80 in 2018 and from this overhead ratio says higher the ratio, higher the efficiency of banks to meet non interest expenses. From the graphs below there is an increasing trend in the efficiency, operating and overhead ratios

and there is a decreasing trend in cost of funds.



Based on Risk:

Risk is the future uncertainty of earning income and outcome in case of failure. Financial institutions face many losses on loans and investments. As banks mainly deals with money, risk is the inherent factor which cannot be completely removed but can be r educed to some extent so as to avoid bankruptcy. These days' banks face a major risk in the form of Nonperforming assets which mainly shows impact on credit, operational and market risk. CAR is one of the important factor that need to be considered while calculating risk. . So the risk ratios has been calculated before and after the merger based on the values taken from balance sheet and profit and loss accounts which is purely taken from secondary data.

Particulars	2016	2017	2018

From the above table, the net NPA to assets ratio is 1.87 in the year 2016 and in the later years after the merger it has been in volatile nature i.e. 1.69 in 2017 and increased to 3.06 in 2018. The portion of NPA to equity is 0.30 in 2016 which is decent and later it has been decreased to 0.26 in 2017, finally settled at 0.48 in 2018. Here both the ratios defines the higher the ratio the higher the risk will be to banks. Equity multiplier is on decreasing trend from starting 2016 to 2018 and higher the ratio higher the risk will be to the banks. In the year 2016 the ratio is highest with 16.54 later on it has been decreased to 15.86 in 2017 and 15.70 in 2018. Capital adequacy ratio defines the lower the ratio lower the risk factor to banks, where the capital to risk weighted assets is 10.81 in 2016 and later on it has been increased to 11.22 in 2017 and 11.84 in 2018. From the below graph there is an increasing trend in Net NPA to assets, Net NPA to equity and capital adequacy ratio. And decreasing trend follows in Equity multiplier.

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