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Impact of Merger and Acquisition on the State Bank of India: Evidence from 2017

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Abstract – *The study was conducted on the performance of State Bank of India (SBI) for the year 2012-2021, where it was observed that the impact of the mergers of five associates - State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH) and State Bank of Patiala (SBP) and Bharatiya Mahila Bank into SBI in the year 2017 proved to be positive. It was concluded from the study that the mergers enhance the performance of banks in the Indian economy.*

1. Introduction

The Banking sector plays a major role in economic development of a country, with a huge amount of lending capacity and credit creation activities. The banking industry has witnessed significant change due to technological upgradation, economic reformation etc. leading to cutthroat competitiveness which has pushed the banks into a new era of banking services. Banks are trying every technique to be financially strong and sustain in the market.

The Indian banking industry has also undergone substantial changes due to liberalization in 1991. As the banking licenses were issued to the private banks and the industry saw a boom due to increased competitiveness. Since then, the banking sector has been showing signs of improvement in performance and efficiency.

The corporate restructuring has been seen in many industries as a phenomenon to grow and improve profitability. Where organizations use Mergers & Acquisition (M&A) as a tool for growth and expansion of their business and products. A merger is the merging of two or more firms into one, or the merging of one or more companies into existing companies, or the formation of a new company to join two or more existing companies. Acquisition, on the other hand, is when one corporation takes over another and clearly identifies itself as the new owner. The M&A help the organizations in gaining a greater market share, reducing volatility in earnings and reach levels of production by economies of scale.

The Indian banking industry has seen unprecedented transformation as a result of M&A activities. Due to the rising trend in bank's non-performing assets (NPAs), mergers in the banking industry in India have mostly taken place to improve the banking system by uniting loss-making or inefficient institutions with stable or profitable banks. However, mergers between good and strong banks are also taking place to achieve synergies or to become the largest banks in operation in terms of rankings.

The one of the biggest merger in India – the merger of State Bank of India with its five associates - State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH) and State Bank of Patiala (SBP) and Bharatiya Mahila Bank in the year 2017.

2. Literature Review

(Kumari, 2014) The purpose of this study is to evaluate the impact of mergers and acquisitions in the Indian banking industry, as well as their position before and after mergers and acquisitions, and the causes behind these mergers and acquisitions. Secondary data was employed in the study, which was gathered through articles in magazines, newspapers, books, and websites.

(Adhana & Raghuvanshi, 2020) The current research is based on a review of total business, deposits, and non-performing assets in public sector banks (NPA). The government's intention to merge the ten public sector banks into four big institutions is also examined as part of the paper's attempt to strengthen these lenders' capital bases. Finally, the study looks at the implications of PSBs merging and how customers are likely to be affected.

(Liargovas & Repousis, 2011) The influence of Greek mergers and acquisitions on the performance of the Greek banking sector from 1996 to 2009 is examined in this article. We refute the "semi-strong version" of the Athens Stock Exchange's Efficient Market Hypothesis (EMH) using event research techniques. We discovered that ten days before a merger and acquisition is announced, shareholders earn substantial and large positive cumulative average anomalous returns (CAARs). Furthermore, the data demonstrate that the announcement of horizontal and diversification bank agreements leads in considerable positive CAARs. Overall, the findings show that bank mergers and acquisitions have little effect on wealth creation. We also assess the Greek banking sector's operational performance by calculating twenty financial ratios. Following mergers and acquisitions, operating performance does not increase, according to the findings.

(Khan, 2011) According to the research, mergers and acquisitions have had a good impact on the banks (M&As). These findings imply that amalgamated banks can achieve efficiency and gains through mergers and acquisitions (M&As) and pass the advantages on to equity shareholders as dividends.

(Senger et al., 2021) This research looks at the financial performance of two Indian banks after they merged. Quantitative research approach is used, with a focus on trend and hypothesis analysis of major financial indicators. The t-test is used to confirm the hypothesis. The findings of the trend analysis demonstrate that all the important financial indicators grew steadily after the merger. The hypothesis analysis shows the acquirer and acquired financial characteristics increasing and decreasing. The study's findings describe the benefits acquired by the acquirer and confirm the merger's effectiveness.

(Reddy & Chandra, 2020) The federal government's decision to merge these large banks will be a good step toward reaching a $5 trillion economy in the next five years. This merger would assist to stimulate the Indian economy, which is suffering from a high proportion of nonperforming assets (NPAs). In this study work, an attempt is made to determine if the influence of bank performance after merger will accelerate the pace of economic growth. The conclusion is that the new banks' net profit will be lowered because of the merger, and bank stability would be questioned. As a result, new banks must consider these criteria to boost their profit and stability, which will lead to an increase in share value in the future.

(Sai & Sultana, 2013) A paired t-test was performed to the various financial ratios for before and after merger data to examine the impact of the merger. Based on the study of data from Indian overseas banks, it can be determined that there is a substantial variation in Net profit margin, Operating profit margin, return on capital used, Return on equity, and Debt-Equity ratio, but no significant difference in Gross profit margin. Based on a review of HDFC bank data, it was determined that there is no substantial difference in Net profit margin, Operating profit margin, return on capital used, Return on equity, and Debt-Equity ratio before and after the merger. However, there is a big variation in terms of gross profit margin.

(Patel, 2018) For the years 2003-04 to 2013-2014, the study evaluates the long-term profitability status of selected Indian banks before and after merger. The financial performance is assessed based on several factors. The merger had a negative impact on return on equity, return on assets, net profit ratio, yield on advance, and yield on investment, according to the research. However, following the merger, several metrics, such as earnings per share, profit per employee, and business per employee, have exhibited a favorable trend and increased. It has been noted that following the merger, all banks' assets, equity, investments, and advances grow, but their respective yields decline due to underutilization. Optimal human resource utilization, on the other hand, has boosted business per employee and profit per employee.

(Sethy, 2017) The study discovered that SBI, along with State Bank of Indore, State Bank of Patiala, and State Bank of Saurashtra, were the better performers during the study period, and that the merger had a positive impact on SBI's financial performance, proving that there is no significant difference between the banks.

(Devarajappa, 2012) Since economic liberalisation, data on mergers and accusations has been gathered for a variety of financial metrics. The independent T-test is a statistical significance test that is used not just for ratio analysis but also for evaluating the impact of mergers on bank performance. This performance is being evaluated on two different levels: pre-merger and post-merger. Finally, the analysis concludes that the merger event had a favourable impact on the banks.

(Ambica, 2017) The bank's analysis concluded that there is a significant difference between Net Profit Margin, Operating Profit Margin, Return on Capital Employed, Return on Net Worth, Interest Coverage, Deposit per Employee, and Credit Deposit Ratio, but GPM-(Gross Profit Margin), NPM-(Net Profit Margin), OPM-(Operating Profit Margin), ROCE-(Return on Capital Employed), D/E Ratio-Debit/Equity Ratio.) When comparing the pre-merger and post-merger periods, the study determined that the banks had favourable benefits.

(S & S B, 2020) The purpose of this research is to compare and contrast the financial performance of a public sector bank, Bank of Baroda, with a private sector bank, Kotak Mahindra Bank. The data is gathered using secondary data from a variety of sources. Ratio analysis, percent change, and T-test were used to assess the financial performance. The research demonstrates that the merger had a significant negative impact on Bank of Baroda's profitability, liquidity, and growth, whereas the merger had a favourable impact on Kotak Mahindra Bank's profitability, liquidity, and growth. To achieve desired synergy, according to this study, due diligence should be used in the identification and selection of banks to be combined.

(Gite & Jape, 2020) The financial performance of the merged bank previous to the merger for the financial year 2016-17 and post-merger for the financial year 2017-18 will be examined in this paper. The current research will also look at whether the strategic move to consolidate banks can help them recharge for improved performance in the next years. Mergers between strong banks and troubled banks have not always produced the desired results, but this merger always safeguards the depositors' interests in the financial system.

(Pahuja & Aggarwal, 2016) The paper investigates the impact of mergers on Indian bank's pre- and post-merger performance. The effect of mergers and acquisitions on the performance of acquiring organisations has been studied using various ratios and event research methodologies for both prior and post-acquisition periods. The findings show that mergers and acquisitions have no statistically significant influence on business profitability as determined by various ratios.

3. Research Methodology

Data was collected from the director's report of State Bank of India. The data includes Net Profit, Operating Profit, Total Assets, Net Interest Income, Non-Interest Income and Gross NPA from the year 2012-13 to 2020-21. Return on Assets was calculated for the data using the formula (Profit after tax/Av. Total assets) *100 which was taken from the RBI website.

Analysis is done for the different variables separately to understand the trend and a t test is performed for (pre and post) merger data excluding the year of merger. Four years data is taken in pre-merger, viz year ended 2013, 2014, 2015 and 2016. For post-merger data the years taken were year ended 2018, 2019, 2020 and 2021. The paired t test is performed in SPSS.

It would be analysed from the study if the mergers had a positive impact or a negative impact on the State Bank of India's performance.

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4. Findings & Analysis

Chart 1. (In crores)

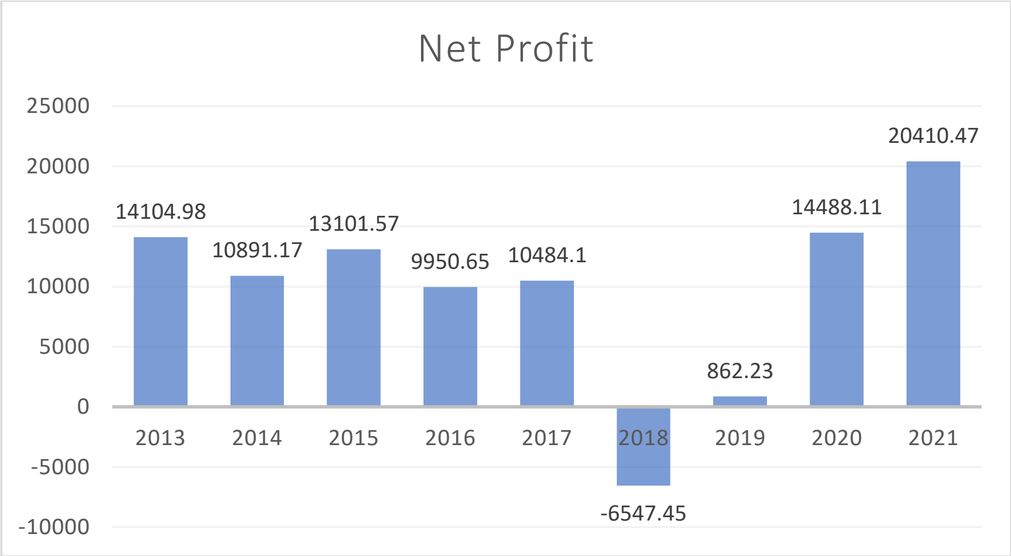

Chart 1. The State Bank of India incurred huge losses after the merger in the financial year ended 2018. Before, the bank was making profits in a growing and declining trend. The net profits increased to Rs 20410.47 crore in the year ended 2021 which shows a positive impact of the mergers on the bank.

Chart 2. (In crores)

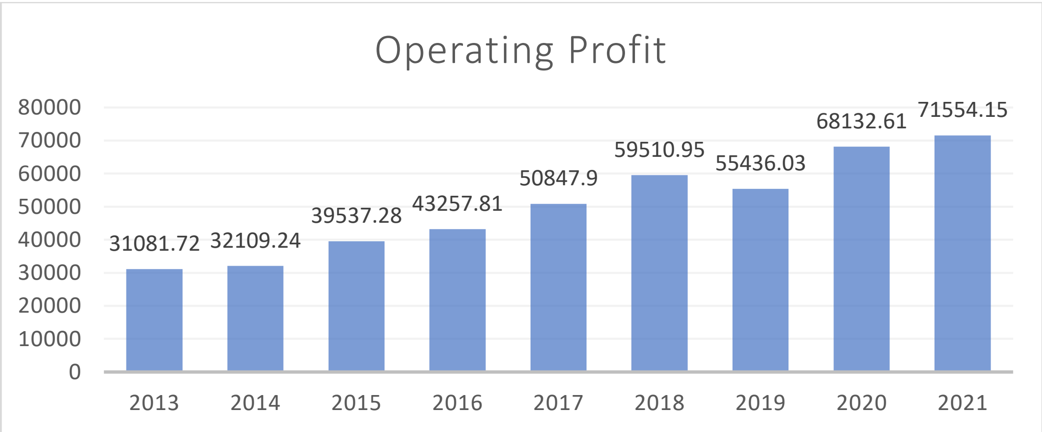

Chart 2. The operating profit for the bank has been growing constantly for the bank, except in the year 2019 it fell to Rs 55436.03 crore which was due to the impact of increased NPA in the bank after the merger. Post that there is a growth in the operating profit of the bank where it has reached Rs 71554.15 crore in the year ended 2021.

Chart 3. (In crores)

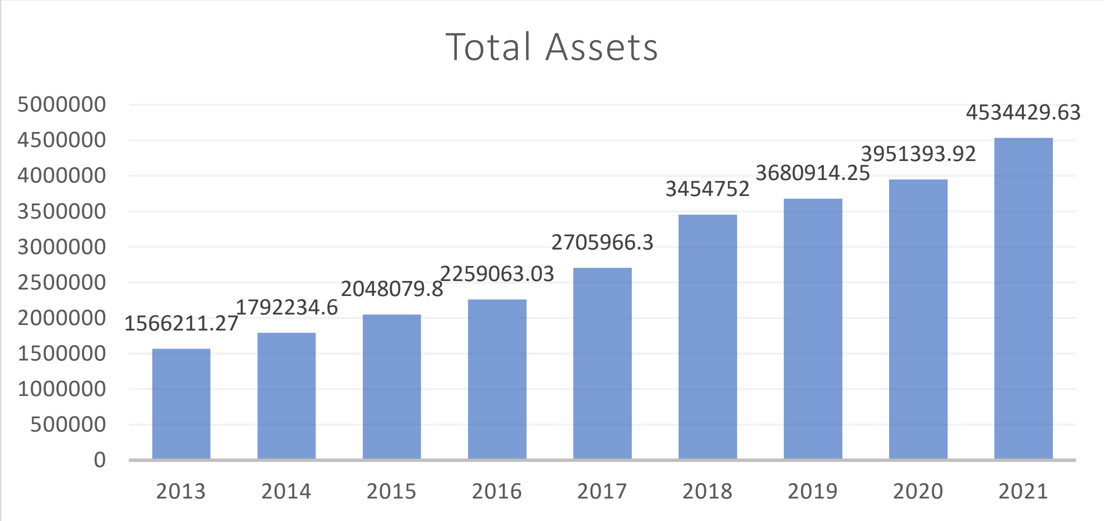

Chart 3. The total assets are increasing on yearly basis for the bank and a huge jump can be seen in the year 2018 after the impact of merger. The assets increased from Rs 2705966.3 crores in the year 2017 to Rs 3454752 crore in the year 2018.

Chart 4. (In crores)

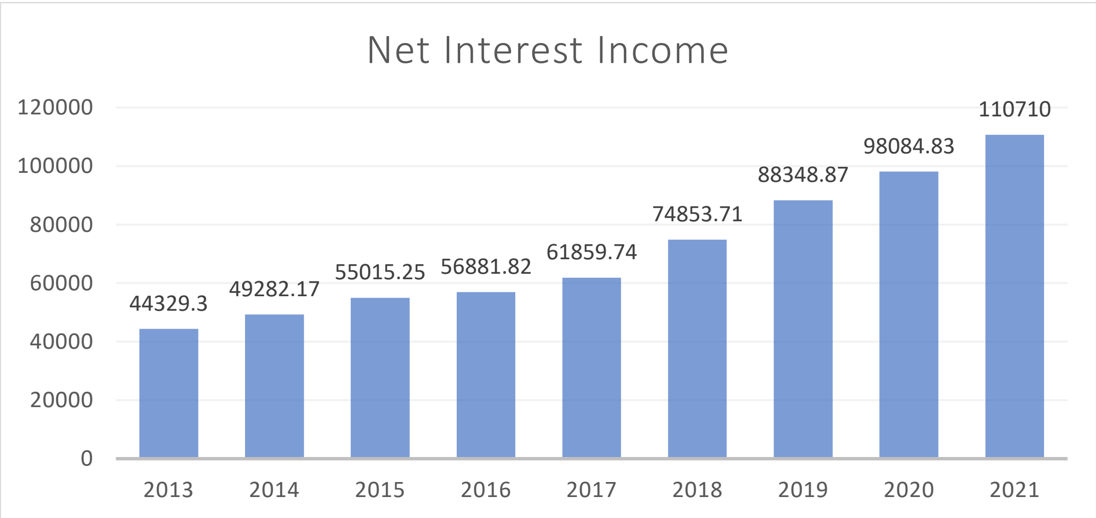

Chart 4. The interest income has shown an increasing trend for the bank pre-merger, but post-merger the growth rate for interest income is significant. It was at Rs 56881.82 crores in the year ended 2016 and had reached Rs 110710 crores in the year 2021. It has almost doubled due to the impact of the merger activity.

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Chart 5. (In crores)

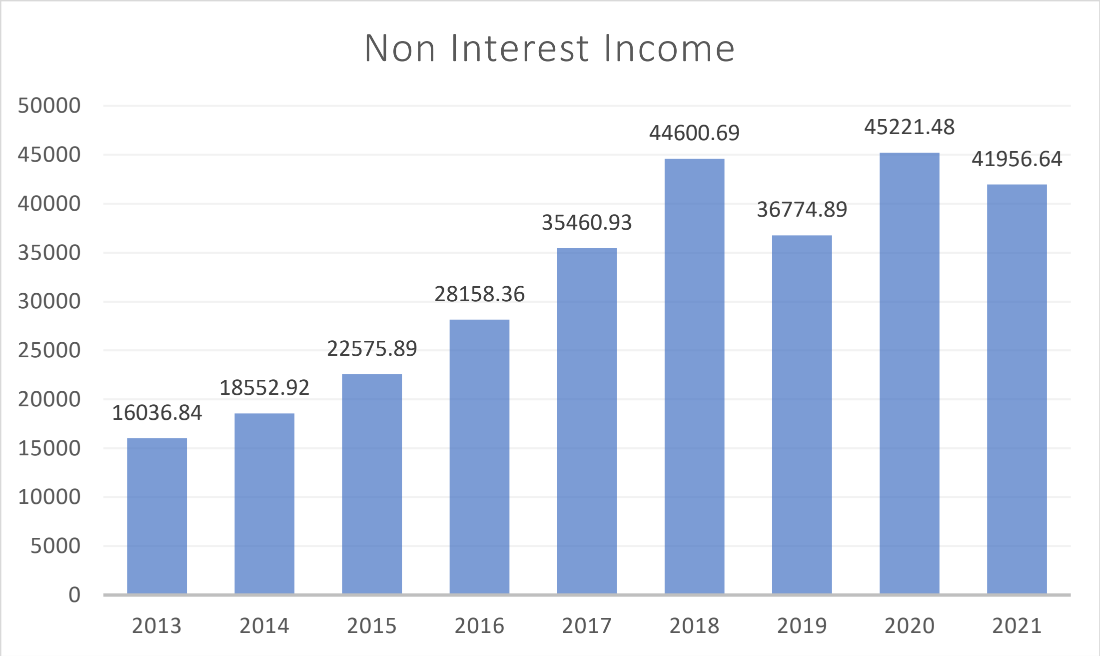

Chart 5. Unlike interest income, non-interest income has seen a decline in the year 2019 to Rs 36774.89 crores from Rs 44600.69 crores in the year 2018. Another decline is noticed in the year 2021, this shows the investment of the merging banks were as efficient as that of State Bank of India.

Chart 6.

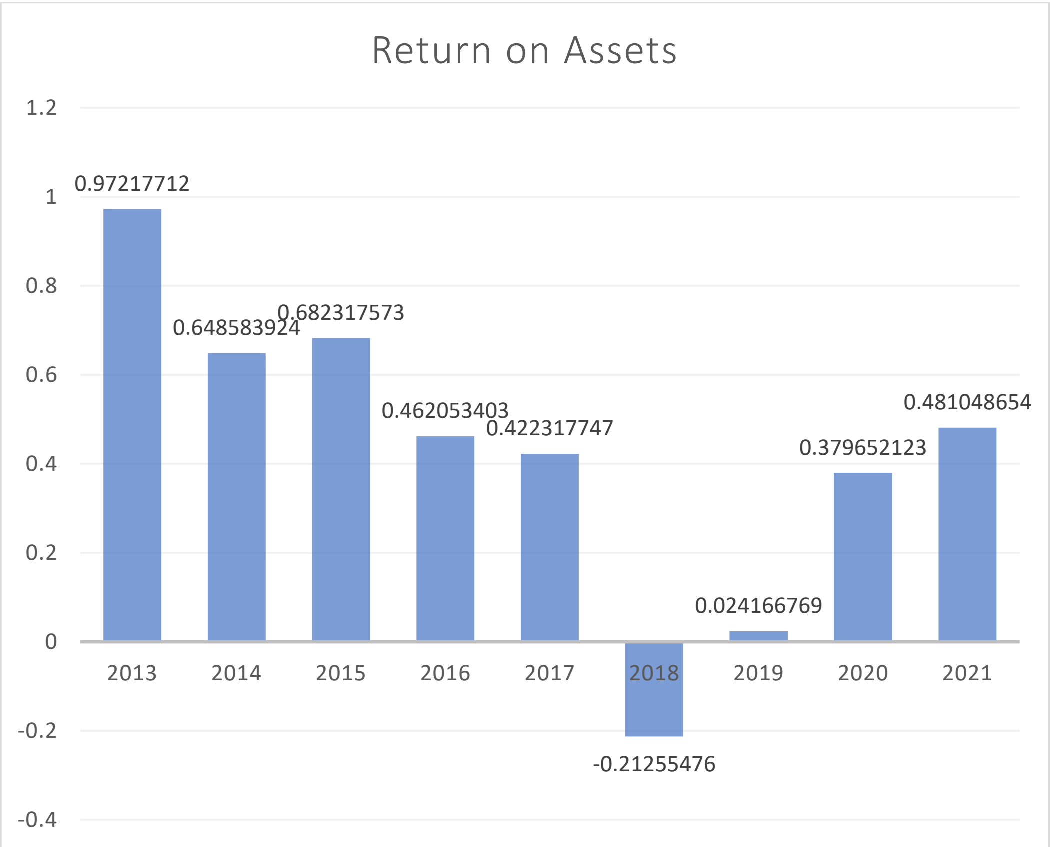

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Chart 6. The Return on Assets for the bank had been decreasing before the merger and has even declined to a negative return in the year 2018 at approx. -0.21. Though the assets have increased significantly but the return for those assets must match up too. The return bounces back from 0.024 in the year 2019 to 0.379 in the year 2020. This shows the efficiency of the new management.

Chart 7. (In crores)

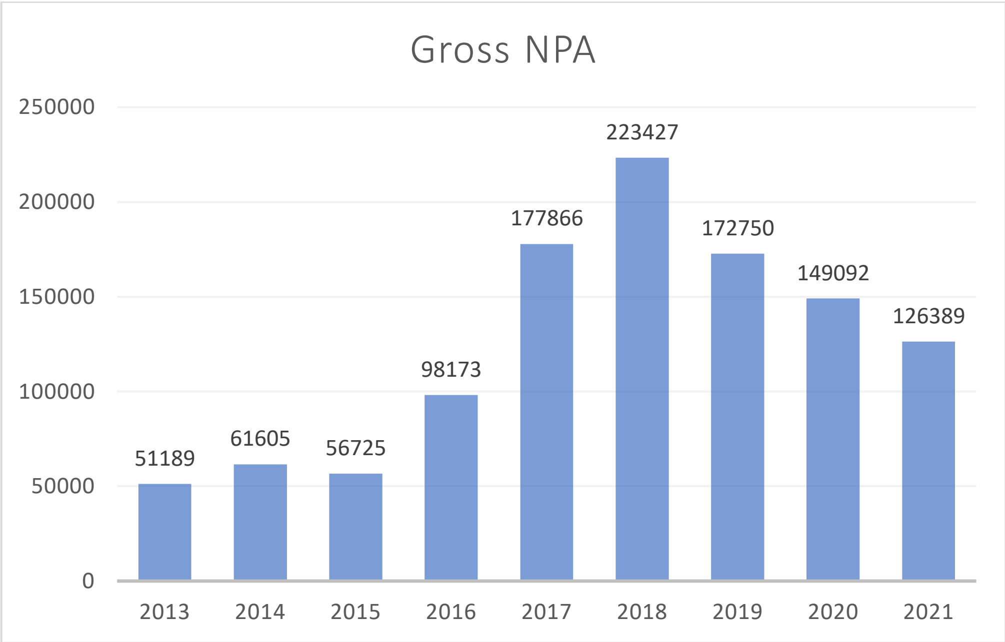

Chart 7. Due to the merger the State Bank of India had to take up a huge Non-Performing Assets (NPA) contributed by the merging banks. The increased from Rs 98173 crore in the year 2016 to a whooping Rs 177866 crores in the year 2017 and further to Rs 223427 crores in the year 2018. Again, the efficiency of the new management has shown tremendous results where the NPA starts to fall year after year and stands at Rs 126389 crores in the year 2021.

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Table 1. **(in Crores)**

Year ended	Net Profit	Operating Profit	Total Assets	Net Interest Income	Non Interest Income	Return on Assets*	Gross NPA
2021	20410.47	71554.15	4534429.63	110710	41956.64	0.4810486543 76039	126389
2020	14488.11	68132.61	3951393.92	98084.83	45221.48	0.3796521229 8287	149092
2019	862.23	55436.03	3680914.25	88348.87	36774.89	0.0241667692 908143	172750
2018	-6547.45	59510.95	3454752	74853.71	44600.69	- 0.2125547600 51275	223427
2017	10484.1	50847.9	2705966.3	61859.74	35460.93	0.4223177469 12484	177866
2016	9950.65	43257.81	2259063.03	56881.82	28158.36	0.4620534025 80104	98173
2015	13101.57	39537.28	2048079.8	55015.25	22575.89	0.6823175727 48731	56725
2014	10891.17	32109.24	1792234.6	49282.17	18552.92	0.6485839237 30175	61605
2013	14104.98	31081.72	1566211.27	44329.3	16036.84	0.9721771198 25566	51189

*Defined in ratio

Table 2. Paired Sample Test

	Mean	Std. Deviation	Std. Error Mean	t	df	Significance	
						One-Sided p	Two-Sided p
(Post) Net Profit - (Pre) Net Profit	-4708,75250	13536,90548	6768,45274	-0,696	3	0,268	0,537
(Post) Operating Profit - (Pre) Operating Profit	27161,92250	2559,67900	1279,83950	21,223	3	0,000	0,000
(Post) Total Assets - (Pre) Total Assets	1988975,27500	191053,33874	95526,66937	20,821	3	0,000	0,000
(Post) Net Interest Income - (Pre) Net Interest Income	41622,21750	9674,23347	4837,11674	8,605	3	0,002	0,003
(Post) Non Interest Income - (Pre) Non Interest Income	20807,42250	6307,50005	3153,75002	6,598	3	0,004	0,007
(Post) Return on Assets - (Pre) Return on Assets	-0,52320	0,51332	0,25666	-2,039	3	0,067	0,134
(Post) Gross NPA - (Pre) Gross NPA	100991,50000	59300,96324	29650,48162	3,406	3	0,021	0,042

The Net Profit and Return on Assets has shown a negative t value and are also not significant as per the results. Whereas Operating profit, Total Assets, Net Interest Income, Non-Interest Income and gross NPA has shown a more than standard t value and for one sided p and two-sided p it shows the difference is significant.

Operating Profit and Total Assets has shown a t value of 21.223 and 20.821 respectively and significance level stays at 0.000 for both, which shows a huge change in both variable as an impact of merger.

Net Interest Income and Non-Interest Income also had a positive impact of mergers with t values at 8.605 and 6.598 respectively. Both the variables are significant show the performance of the bank has improved due to mergers.

Gross NPA has also shown a significant change in pre and post values which are showing the burden on the State Bank of India has increased significantly due to the mergers portraying a negative impact. The t value stood at 3.406 and, also one-sided p and two-sided p stood at 0.021 and 0.042 respectively.

5. Conclusion

The t test has resulted to be successful and has shown that the impact of mergers on the State Bank of India is positive where the merger has enhanced the performance. It can be concluded from the study that mergers in the banking sector proves to be beneficial in the Indian economy. It can be suggested to banks to investigate merger and acquisition activities for a better performance.

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