Aarhat Multidisciplinary International Education Research Journal (AMIERJ)
A Peer Reviewed Multidisciplinary Journal UGC Approved Journal No 48178, 48818
Impact Factor 5.18 ISSN 2278-5655

MERGING OF STATE BANK GROUP- ITS IMPACT ON ASSOCIATE BANKS AND ITS STAKE HOLDERS

Dr. G. Sabitha Srinivas

Assoc. Prof. & HoD, School of Business Management,

Anurag Group of Institutions.

Abstract:

Banking industry is undergoing unprecedented changes driven by consolidation by means of mergers and acquisitions all over the world. To procure the benefit of economies of scale, merging and acquisition has become one of the principleobjectives of many banks. Merger of SBI with its 5 associate banks namely State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore(SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH), State Bank of Patiala (SBP) and BharatiyaMahila Bank took place on 1st April, 2017 is the largest merger in history of Indian Banking Industry.The merger had made State Bank of India one of the 50 biggest banks of the world. The study would enumerate the reasons why State Bank of India (SBI) has been merged with its associate banks, its impact on its stake holders. It also discusses the benefits to the customers and its associated banks.

1. Introduction:

SBI first merged State Bank of Saurashtra with itself in 2008. Two years later, State Bank of Indore was merged with it.The board of SBI earlier approved the merger plan under which SBBJ shareholders will get 28 shares of SBI (Re. 1 each) for every 10 shares (Rs.10 each) held. Similarly, SBM and SBT shareholders will get 22 shares of SBI for every 10 shares.SBI had approved separate schemes of acquisition for State Bank of Patiala and State Bank of Hyderabad. There will not be any share swap or cash outgo as they are wholly-owned by the SBI.

2. Reasons for Merging:

Capital Base:The main motive behind the merger was to increase the capital base of the bank to enable it to disburse more loans.

Accountability:Government aid to a single SBI merged bank would be easier in terms of accountability instead of all the banks under the same group,so that the annual allocation of subsidy and contribution to share capital would become convenient.

Profitability:The State Bank group is no exception for drastically fall in its share prices andin order to show better profitability, merger of the banks was an essential requirement.

Recovery of Bad Debts:SBI and its group had large amount of bad debts and was unable to recover its loans Consolidation would help in better deal with these accounts.

Reconstruction of Bad debts**:** Merging of SBI was a way to restructure the balance sheet of the entities, so that the liabilities would be set off against the higher revalued assets.

Large Customer Segment:By merging with all the associate banks, SBI would become a much bigger bank to become a large segment of customers which can help the bank to become more profitable over its deposits.

Efficient Management:Because of single management, efficiency and effectiveness of the business processes would be increased. Better internal control and system processes would be carried on with all the merged banks.

Strong Competent: After the amalgamation it can withstand the strong competition from private sector banks and can accumulate more resources to channelize trained manpower across its branches.

3. **Scope of the Study:**

   The present study has been undertaken to understand the merger of SBI with respect to its associate banks.

4. **Objective of the Study:**
   - To discuss the highlights and issues of merging.
   - To understand the post merging benefits to the customers of SBI.
   - To know the benefits to the associate banks of SBI.

- To know the effect on shareholder's wealth.

5. Collection of data

The data has been collected from secondary sources.

6. Literature Review:

Singh Jagwant (1993) in his book is concerned with trends and changes in productivity with particular emphasis on employee and branch productivity in the Indian banking industry. It determines the level of productivity and its growth during the period 1969-85. The 22 public sector banks i.e. banks of the SBI group and 14 nationalised in 1969 have been taken up for the study. The study attempts to make cross-sectional and intertemporal analysis on the basis of 17 indicators. The indicators have been divided into 3 categories which measure labour productivity, branch productivity and financial productivity. T-scores have been used for giving ranking to the banks. The ranking of the banks reveal that most significant improvement in the ranking was achieved by Indian Bank and Indian Overseas Bank. United Commercial Bank recorded maximum deterioration. From the SBI group the performance of State Bank of India was better.

Agarwal R N (1993) in his paper analyzed the profits of Public Sector Banks since their nationalization and discuss the determinants of profitability. The study covers State Bank Group and Nationalized Bank Group. Time series data for the period 1970-1987 has been used. The profit equation is estimated by ordinary least square method. Empirical results indicate that profitability of public sector banks has been adversely affected by increasing statutory reserve ratios, lending to priority sectors at lower rates of interest, expansion of bank branches in the rural and semi-urban regions and rising wages of employees. Declining labour productivity has also adversely affected profitability. Time deposits are found important to encourage profitability. The two banking groups are found significantly different in their financial performance.

7. Highlights of merging disclosed by authorities:

- Numbers of branches increased to 24,000 and 1000 branches have been nationalized.

- Featured one among thetop 50 banks in the world and visibility at global level is expected to increase.
- The merger of State Bank of India with the associates will minimize vulnerability to any geographic concentration risks faced by the subsidiary banks.
- The total customer base of the bank reaching 37 crores with a branch network and nearly 59,000 ATMs across the country.
- The merged entity will have a deposit base of more than Rs. 26 lakh crore and advances level of Rs. 18.50 lakh crore.
- The merger is resulting in recurring savings, estimated at more than Rs.1,000crorethrough a combination of enhanced operational efficiency and reduced cost of funds.
- Post merging SBI's market share has increased to 22.5-23% from 17% with total business of over 37 lakh crore rupees.
- The merged entity now has a deposit base of more than Rs. 26 lakh-crore and advances level of Rs 18.50 lakh crore accounting for one-fourth of the deposit and loan market in the country.

8. Issues of merging:

- Few of the associate banks have a higher share of restructured loans than SBI, while the levels of their non-performing assets are comparable. There will also be common borrowers, which will bring with it its own set of problems.
- Pension liability provisions might be having negative impact due to different employee benefit structures and harmonization of accounting policies for NPA (non-performing assets) recognition.
- The problem of integrating the staff is likely to be cumbersome. The combined strength of all associate bank employees is estimated at around 70,000 or a third of SBI's 2, 10,000strong personnel.
- Regional and local sensibilities of the customers may have significant impact of merging. For instance, State Bank of Travancore caters to the Travancore region

predominantly, although of course not exclusively, while State Bank of Hyderabad was set up as the Nizam's bank and for a long time concentrated on the old Hyderabad state. Such specialization brings with it unique insights into local customs.

- Various internal conflicts and disputes may arise with regard to promotion, pension and other potential issues.
- Post the merger, SBI's employee costs could rise by Rs 23 crore a month.
- The major hurdles SBI could face are the reaction of the labor unions

9. Benefits to the Associate Banks

SBI and Associates standalone financials as on 31st March 2016.

Particulars	SBI	Associate Banks	Combined Entity
Net Profit	9951	1639	11590
Gross NPA	98173	23795	121968
Total Assets	2259063	603451	2862514
Deposits	1730722	509177	2239899
Advances	1463700	397475	1861175
Number of Branches	16784	6530	23314
Number of Employees	210485	73268	283753
Capital Adequacy Ratio	13.1%	11.6%	12.7%

Source: SBI Annual Reports

SBI on a standalone basis had capital adequacy ratio (CAR) of 13.1 per cent, with the same for the associate banks being 11.6 per cent. Therefore, the resulting merged entity would have a capital adequacy level of around 12.7 per cent. Not much of a change is expected in terms of SBI's capital adequacy.

Post the merger, SBI would have a nearly 23 per cent market share of total domestic deposits and around 21 per cent market share of total loans.

1. There are three broader benefits from this merger;

a. The cost-to-income ratio reducing by 1 per cent, or 100 basis points (bps).

b. They are expecting treasury operations can perform better because there is a large size it reaches in terms of the returns that the treasury can generate.

c. There is a boost in the profit margins because of the low cost of deposits.

2. Information technology (IT) operations is another benefit the associate banks. SBI, as the parent body is better placed using IT service providers.
3. The associate banks need not to have separate board meetings, annual general meetings and other functions that regulations demand. Probably one official may track the entity. The additional work force can be utilized for the other operations or more workforce can be allocated for weak sections of the bank in order to improve the efficiency.
4. The associate banks' employees have only provident fund; they did not have pension. SBI extends pension benefit to associate bank employees also.

10.The Effect of Sbi Merging on Shareholders Wealth

Table 1: Effect of SBI merging on shareholders wealth

	Pre Merger	**Post Merger**
Traded Volume (No. of Shares)	1,21,33,951	1,56,97,555
Traded Value	3,05,74,52,429.85	3,97,54,05,262.35
Share Price (in Rs)	194.25	293.40
Net Profit (Rs in cores)	9,951	10,484
Dividend Payout ratio (in %)	20.28	20.11
Dividend Per Share (in Rs)	2.60	2.60

For the year FY2017, the Board of Directors of State Bank India has declared a dividend of Rs 2.60per share of face value of Re1 each.

- From the above table, we can observe that the volume of the traded shares i.e. the number of shares have increased from 1, 21, 33,951 share to 1, 56, 97,555 share when compared from pre merger to post merger.
- The traded value of SBI shares has also increased from 3,05,74,52,429.85 in per merger to 3,97,54,05,262.35 in post merger.
- SBI share price per share has also increased from Rs194.25 to Rs293.40
- Net profits have also increased from 9,951 to 10,484
- We can also observe the variation in dividend payout ratio from 20.28% to 20.11%.

11.Findings

- It has been observed that the brand image of SBI has been increased post-merger.
- The functioning of the merged entity will be far more cost-efficient than what the associate banks had as disparate entities.
- Post the merging; there is a boost in the profit margins because of the low cost of deposits.
- SBI employees have both provident fund and pension, where as associate banks' employees have only provident fund; they don't have pension. Once the merger is completed, the associate banks' employees will have the benefit of both provident fund and pension.
- It has been observed that with the merger, an economy of scale is achieved.
- The number of shares traded and the share price has been increased post merger.
- Post the merger, treasury operations can perform better because there is a large size it reaches in terms of the returns that the treasury can generate.

12.Suggestions

- In delivery of quality service in banks, what matter are speed, accuracy, promptness, reliability, individualized attention, etc. Better results can be achieved through proper use of relevant banking technology.

- They should increase the level of providing personal attention to individual customers.
- The management of SBI should conduct more product and services awareness campaign.

13.Conclusion

Mergers and Acquisition is a useful tool for the growth andexpansion in any Industry and the Indian Banking Sector isno exception. It is helpful for the survival of the weak banksby merging into the larger bank.In view that profitability of SBI was going down, and it needed reconstruction, this step of merger seems to be a smart step. It has brought SBI in list of top 50 banks in the world which is a big deal. The merger will help SBI to rationalise its branch network by relocating some of the branches to maximise reach. This will also help to optimise its operations and improve profitability. It will also bring in substantial cost saving and synergy in treasury operations. Moreover, the combined entity will enhance the productivity, mitigate geographical risks, increase operational efficiency.

References:

- Annual reports of SBI
- Daily News papers