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A STUDY ON FINANCIAL POSITION OF SBI AFTER MERGER OF ASSOCIATE BANKS

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Abstract:

The plans for making SBI a single very large bank by merging the associate banks started in 2008, and in September the same year, SBS merged with SBI. The very next year, State Bank of Indore (SBN) also merged. In the same year, a subsidiary named Bharatiya Mahila Bank was formed. The negotiations for merging of the 6 associate banks (State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore and Bharatiya Mahila Bank) by acquiring their businesses including assets and liabilities with SBI started in 2016. The merger was approved by the Union Cabinet on 15 June 2016. The main objective of the study is to analyse the financial position of SBI before merger and to compare the financial position of SBI with pre and post merger. The conclusion is that after the merger the net profit has been declined and the stability of the bank is been questionable. So the bank has to look after this factors to increase the profit and stability which leads to increase in share value in future period of time.

Key Words: Pre and Post Merger, Financial Position and Profit and Stability

Introduction to the Study:

Banking in India in the modern sense originated in the last decades of the 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770 and liquidated in 1829-32; and the General Bank of India, established in 1786 but failed in 1791. The largest bank, and the oldest still in existence, is the State Bank of India. It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government; the other two were the Bank of Bombay and the Bank of Madras. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934. Kundu, R. (2015).

Bank Merger:

A situation in which two banks pool their assets and liabilities to become one bank. Because this can have a significant impact on the financial industry, the Federal Reserve subjects mergers involving bank holding companies to more intensive regulation.

Mergers with SBI:

SBI acquired the control of seven banks in 1960. They were the seven regional banks of former Indian princely states. They were renamed, prefixing them with 'State Bank of'. These seven banks were State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Indore (SBN), State Bank of Mysore (SBM), State Bank of Patiala (SBP), State Bank of Saurashtra (SBS) and State Bank of Travancore (SBT). All these banks were given the same logo as the parent bank, SBI.

The merger was approved by the Union Cabinet on 15 June 2016. The State Bank of India and all its associate banks used the same blue Keyhole logo. The State Bank of India word mark usually had one standard typeface, but also utilized other typefaces.

On 15 February 2017, the Union Cabinet approved the merger of five associate banks with SBI.What was overlooked, however, were different pension liability provisions and accounting policies for bad loans, based on regional risks.The 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 were merged with State Bank of India with effect from 1 April 2017.

Review of Literature:

T. B. Rubinshtein (2011) in article titled "Estimating the effect of mergers and acquisitions in Metallurgy." explains that, the companies do not merge without a good intention. Therefore, the effect of Merger and Acquisition activities are determined by the synergetic effect when the impact of two firms is greater than the sum of the effects resulted by each of them, i.e. 2+2>4. The synergetic effect of Mergers and Acquisitions in a transaction can be expressed in the form of VAB > VA + VB. It is widely believed that the synergistic effect is inherent to the bidding companies. The study found that the size of the premium is the biggest factor in the competition for Mergers and Acquisitions activities. Mergers and Acquisitions activity as a strategy for expansion, modernisation, and technological innovation or for realising complementary benefits (synergies) has been pursued by the corporate world both in times of economic stability or instability. The increase in the numbers, size, and frequency of Mergers and Acquisitions deals have increased the need for sound practical frameworks for the analysis and structuring of this transaction.

Statement of Problem:

The speed with which financial disaster has enveloped the entire world is stunning. Our country too, to some extent has succumbed to the catastrophe. Belying initial expectations, Indian companies are far and more pulled into the vortex of storm. So the need for financial performance aroused.

Objectives of the Study:

- ✓ To analyse the financial position of SBI before merger.
- ✓ To analyse the financial position of SBI after merger.
- ✓ To compare the financial position of SBI with pre and post merger.

Duration of the Study:

The study covers a period of five years from 2013-2014 to 2017-2018. The accounting year starts from 1st April to 31st March. From 2013-2016 it was used to analyse the performance of bank before merger and the financial year 2018 was used to analyse the performance of bank after merger.

Significance of the Study:

The study is about analyzing the financial performance of SBI based on pre and post merger for the last five year and the significance of the is to know about the performance of the bank for the last five years based on the balance sheet provided by them.

Purpose of the Study:

The main purpose of the study is to know about the performance of the bank to predict the future performance which will be useful for the bank for it own review, and to the investors to review about the performance of the bank.

Scope of the Study:

This study covers the operation of SBI based on merger. The finding will be helpful for the bank to improve their financial performance in the future. The scope of the finance function was treated by the traditional approach in the narrow sense of procurement of fund by the bank to meet their financing needs. A detailed description of this major event constituted the second element as the scope of this field of academic study.

Methodology of the Study:

Research Design: The present study adopts an analytical and descriptive research design. This study is undertaken with secondary data. Since the past and existing facts are used to analytical in nature, the researcher uses facts or information already available to analyses and evaluates the materials.

Data Collection: The data collection used for the study is secondary data.

Secondary Data: The researcher collected the secondary data from books, journals, web sites etc. The data relating to the bank is collected from the personal manual, records and the websites of the bank.

Statistical Tools Used for Analysis: Ratio Analysis and Multiple regression

Limitations of the Study:

- ✓ The study is restricted to a period of five years.
- ✓ The analysis is based only upon the annual report of banks.
- ✓ The analysis is based only on the secondary ratio.

Analysis and Interpretation:

Ratio Analysis:

Cash - Deposit Ratio:

Particulars	Pre Merger				Post Merger
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Cash in Hand	47593.97	58977.46	37838.33	43974.03	41501.46
Balances with RBI	84955.66	115883.84	129629.33	127997.62	150397.18
Deposit	1394408.51	1576793.24	1730722.44	2044751.39	2706343.29
Cash-Deposit Ratio	0.10	0.11	0.10	0.08	0.07

Interpretation:

The above table shows about cash-deposit ratio of the bank for the last years from 2014 to 2018. The cash deposit ratio got decreased from 0.10 to 0.07 from 2014 to 2018.

Credit-Deposit Ratio:

Particulars	Pre Merger				Post Merger
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Total Advances	1209828.72	1300026.39	1463700.42	1571078.38	1934880.19

Total Deposit	1394408.51	1576793.24	1730722.44	2044751.39	2706343.29
Credit-Deposit Ratio	86.76	82.45	84.57	76.83	71.49

Interpretation:

The above table shows about Credit-Deposit Ratio of the bank for the last years from 2014 to 2018. The cash deposit ratio got decreased from 86.76 to 71.49 from 2014 to 2018.

Credit Investment Deposit Ratio:

Particulars	**Pre Merger**				**Post Merger**
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Total Advances	1209828.72	1300026.39	1463700.42	1571078.38	1934880.19
Total Investment	1394408.51	1576793.24	1730722.44	2044751.39	2706343.29
Total Deposit	1394408.51	1576793.24	1730722.44	2044751.39	2706343.29
(Credit + Investment) – Deposit Ratio	186.76	182.45	184.57	176.83	171.49

Interpretation:

The above table shows about credit investment deposit ratio of the bank for the last years from 2014 to 2018. The cash deposit ratio got decreased from 186.76 to 171.49 from 2014 to 2018.

Deposit to Total Liabilities Ratio:

Particulars	**Pre Merger**				**Post Merger**
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Total Deposit	1394408.51	1576793.24	1730722.44	2044751.39	2706343.29
Total Liabilities	129590.96	132449.74	865027.48	1046440.93	1040781.75
Deposit to Total Liabilities Ratio	1076.01	1190.48	200.08	195.40	260.03

Interpretation:

The above table shows about Deposit to total Liabilities Ratio of the bank for the last years from 2014 to 2018. The cash deposit ratio got decreased from 1076.31 to 1190.48 from 2014 to 2018.

Interest Income to Total Assets Ratio:

Particulars	**Pre Merger**				**Post Merger**
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Interest Income	136,350.80	152,397.07	163,685.31	175,518.24	220,499.32
Interest Expenses	87,068.63	97,381.82	106,803.49	113,658.50	145,645.60
Total Assets	1792234.60	2048079.80	2259063.03	2705966.30	3454752.00
Net Interest Margin to Total Assets Ratio	2.75	2.69	2.52	2.29	2.17

Interpretation:

The above table shows about Net Interest Margin to Total Assets Ratio of the bank for the last years from 2014 to 2018. The Net Interest Margin to Total Assets Ratio got decreased from 2.75 to 2.17 from 2014 to 2018.

Noninterest Income to Total Assets Ratio:

Particulars	**Pre Merger**				**Post Merger**
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Non-Interest Income	18,552.92	22,575.89	28,158.36	35,460.93	44,600.69
Total Assets	1792234.60	2048079.80	2259063.03	2705966.30	3454752.00
Non Interest Income to Total Assets Ratio	1.04	1.10	1.25	1.31	1.29

Interpretation:

The above table shows about Non Interest Income to Total Assets Ratio of the bank for the last years from 2014 to 2018. The Non Interest Income to Total Assets Ratio got increased from 1.04 to 1.29 from 2014 to 2018.

Return on Equity Ratio:

Particulars	**Pre Merger**				**Post Merger**
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Net Profit	10,891.51	13,101.89	9,950.98	10,484.42	-12,954.83
Capital	746.57	746.57	776.28	797.35	892.46
Reserves and Surplus	117,535.68	127,691.65	143,498.16	155,903.06	193,388.12
Return on Equity Ratio	9.21	10.20	6.90	6.69	-6.67

Interpretation:

The above table shows about return on Equity Ratio of the bank for the last years from 2014 to 2018. The Return on Equity Ratio got decreased from 9.21 to -6.67 from 2014 to 2018.

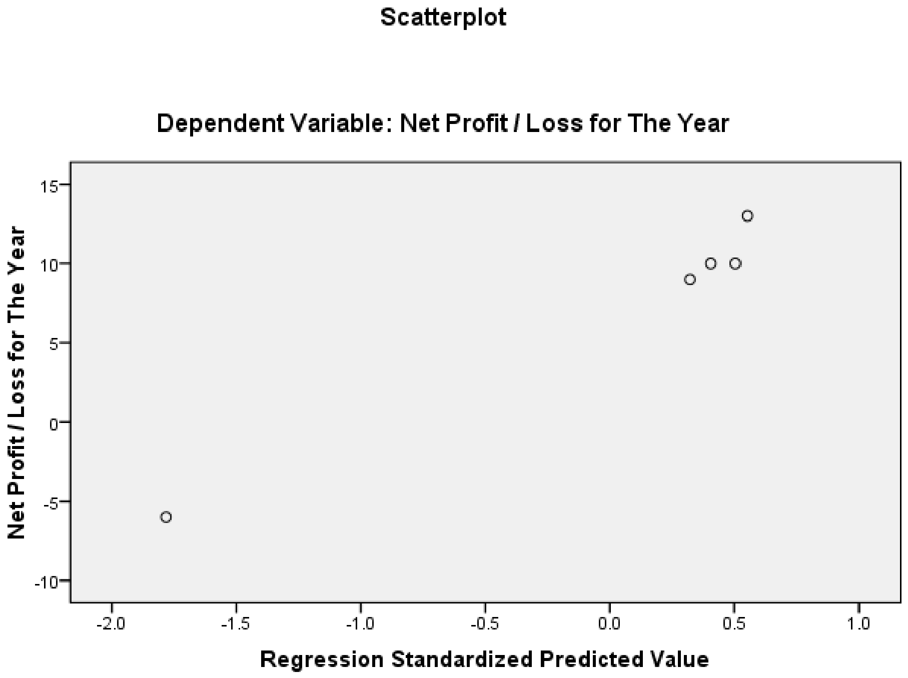
Multiple Regressions:

Comparison between Net Profit of the Year and Investments, Borrowings, Reserves and Surplus:

Model Summary[b]									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.991[a]	0.982	0.926	2.045	0.982	17.745	3	1	0.172
a. Predictors: (Constant), Investments, Borrowings, Reserves and Surplus									
b. Dependent Variable: Net Profit / Loss for The Year									

Interpretation:

The above table shows that there is 98.2% relationship between the compared factors as the R square value is at 0.982. It shows that the compared factors are highly correlated.



Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	16.276	14.635		1.112	0.466
	Reserves and Surplus	-0.039	0.19	-0.154	-0.206	0.871
	Borrowings	-0.041	0.065	-0.42	-0.632	0.641
	Investments	0.017	0.007	0.622	2.578	0.236
a. Dependent Variable: Net Profit / Loss for The Year						

Interpretation:

Net Profit / Loss for The Year (Constant)= Reserves and surplus (-0.039)+ Borrowings (-0.041)+ Investments (0.017). It shows that investments are directly proportional to net profit and the factors reserves and surplus and borrowings are inversely proportional to net profit.

Findings:

- ✓ The cash deposit ratio is not stable with the bank. When compared to pre merger the cash in hand got reduced in the last financial year due to merger.
- ✓ The Credit-Deposit Ratio is stable with the bank. When compared to pre merger the cash in hand got reduced in the last financial year due to merger which is a good sign for the bank.
- ✓ The credit investment deposit ratio is not stable with the bank. When compared to pre merger the investments got reduced in the last financial year due to merger.
- ✓ The Deposit to Total Liabilities Ratio is stable with the bank. When compared to pre merger the liabilities got reduced in the last financial year due to merger.

- ✓ The Net Interest Margin to Total Assets Ratio is not stable with the bank. When compared to pre merger the expenses got increased in the last financial year due to merger.
- ✓ Non Interest Income to Total Assets Ratio is stable with the bank. When compared to pre merger the non- interest income got increased in the last financial year due to merger.
- ✓ Return on Equity Ratio is not stable with the bank. When compared to pre merger the net profit got decreased in the last financial year due to merger.
- ✓ With multiple regression investments are directly proportional to net profit and the factors reserves and surplus and borrowings are inversely proportional to net profit.

Suggestions:

The net profit of the bank got reduced in the last financial year due to merger and it is more negative too. If the same is been continued in future then it may effect the share value of the bank and also the investments. So remedy measures has to be taken to increase the net profit of the bank in next financial year.

The study also revealed that the stability of the bank is also questionable after the merger as the ratios shows a instability with the operations of the banks. For this purpose the bank can look after the NPA (Non Performing Asset) to reduce the instability in near future.

Conclusion:

The conclusion is that after the merger the net profit has been declined and the stability of the bank is been questionable. So the bank has to look after this factors to increase the profit and stability which leads to increase in share value in future period of time.

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