



PROFITABILITY OF SBI IN THE PRE AND POST MERGER PERIODS

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Abstract: The objective of the study is to analyse the profitability of State Bank of India during the pre and post merger periods with five of its subsidiaries by using profitability ratios. Data from secondary sources used for the study for the period covers 2012 to 2022. These ratios include Interest earned ratio, Interest paid ratio, Non interest income ratio, Operating expense ratio, Spread ratio, Burden ratio and Net profit ratio. The data analysed by using percentage analysis and Paired sample t- test. The finding of the study discloses that SBI's Net profit ratio is improved after the merger but all other profitability ratios are not disclosing a healthy improvement. Therefore the study is concluded that the management should take efforts to improve its profitability position for a better tomorrow.

Keywords - Profitability, State Bank of India, Merger and acquisition.

I. INTRODUCTION

The Indian banking system is viewed as one of the strongest and healthiest systems in the world. Unfortunately, recent bank frauds have affected the credibility of the Indian banking system, particularly the public sector banks. Apart from that, there are various challenges like competition among public sector banks, liquidity crunch, low recovery rate and cumulating NPA. A fast growing economy like India needs strong and fair banking systems. So it is essential to restore the name and reputation of the Indian banking system as soon as possible by adopting creative strategies. Mergers and acquisitions are seen as a panacea to solve some problems by Indian government and policy makers.

In 2008, SBI merged with State Bank of Saurashtra and Centurion Bank of Punjab and in 2010 with State Bank of Indore. SBI's latest merger is with 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. This will help SBI reduce cut throat competition with its associates. Similarly, mergers reduce the number of banks and ultimately reduce competition among banks.

This study considered the merger of SBI with five of its associates. Profitability ratios such as Interest earned ratio, Interest paid ratio, Non interest income ratio, Operating expense ratio, Spread ratio, Burden ratio and Net profit ratio considered for the study (Pradeepkumar, 2014). Interest earned ratio was measuring the company's ability to pay of its dues in time. Interest paid ratio indicates the cost incurred by the bank for borrowed funds. Non -interest income shows the income earned by the bank from its non business activities. Other operating expense ratio is the expenses in connection with regular business activities excluding financial expenses not admissible to the cost of service and general administrative expenses. Spread ratio is the interest earned ratio over interest paid ratio. Burden ratio means other operating expense ratio over non interest income ratio. Net profit ratio is a measure of overall profitability of the business. The profitability of SBI during the pre-merger and post-merger periods has been compared by using paired sample t-test. Data for the analysis taken from SBI's consolidated balance sheet in order to fairly compare the pre- and post-merger periods.

II. REVIEW OF LITERATURE

Sethy (2017)¹ examined the impact of merger of SBI on its financial performance along with its technical efficiency score in an article “Impact of Merger on Financial Performance of Banks: A Case Study of State Bank Group”. This study measured the impact of merger of SBI with State Bank of Saurashtra and State Bank of Indore. Paired sample t test is used to measure the pre and post performance of Earning per share, Price earnings ratio and Market price to Book value of equity. An event window of four before and four after is used. And the result indicates that merger has a favourable impact on the financial performance of the banks and all banks secured best score in terms of efficiency.

Kumara (2018)² ascertained the financial performance and identified the changes after merger in an article named “Pre and Post SBI Consolidation & Its Impact on Financial Performance” by using Pearson correlation and Paired sample t test. The period of this particular study was 2015 to 2018. Profitability ratios, Balance sheet ratios and Leverage ratios are considered for this study. After analysis it is inferred that Profitability ratios and Balance sheet ratios are comparatively lower in the post acquisition period whereas Leverage ratios is comparatively higher in the pre acquisition period. The values of Return on assets, current ratio, Capital adequacy ratio, and Interest spread Advances to long term funds and Book value are positively correlated with the pre and post acquisition period.

Yadav (2019)³ conducted “A Study on Financial Position of SBI after Merger”. Various accounting ratios are used to analyse the results such as Operating profit ratio, Net profit ratio, Quick ratio, Capital adequacy ratio, Current ratio. After merger of SBI with its associates Operating profit ratio and Current ratio slightly improved, Quick ratio, Net profit ratio and capital adequacy ratio reduced after merger. In order to improve the net profit management of SBI definitely manage Net performing assets properly.

Agarwal et al. (2020)⁴ explored “The effects of Mergers and Acquisitions on the Performance of Commercial Banks in India” for the period 2008 to 2018. All the amalgamation taken place during this time span undertaken for the study. It includes SBI, HDFC, ICICI, Kotak Mahindra Bank by using CAMELS model. The result shows that, all the banks under study maintained their capital adequately before and after merger. Net NPA of SBI increased after merger, but other banks shows an opposite direction. Asset quality of all the banks improved after merger. Management quality of HDFC and ICICI showed better signs. Liquidity efficiency of SBI and ICICI exhibits an increase. The study concludes that after merger and acquisition boost up the performance of private sector banks as compared to public sector banks.

Gupta (2020)⁵ explored the impact of SBI's merger analysed its financial position before and after amalgamation. The article named “SBI and Its Associates: A Case” used the parameters like Return on asset, Net interest margin, Capital adequacy ratio, Efficiency ratio and Common equity tier One ratio are used to analyse the financial position. Return on asset shows that the SBI not used their asset properly. After merger Net interest margin was constant. Efficiency ratio and Common equity tier 1 ratios are maintained well by SBI after and before merger. Capital adequacy ratio is kept well according to the Basel norms III. This study concludes that this amalgamation viewed as a remedial measure for SBI.

Jape and Gite (2020)⁶ conducted a study on “Bank Consolidation: Pre and Post Merger Financial Performance of State Bank of India” for the time span of 2016 – 2018, just one year before and one year after merger. Soon after the merger SBI reported loss, but started to improve. The total deposit of the associate banks not adequately utilised for the distribution of credit. CASA ratio was healthier for the banks; it may helps to lower the cost of deposits. The SBI group is moving on the restructuring phase.

Yamuna et al. (2020)⁷ compared the pre and post performance of SBI in terms of investment standards, management efficiency, debt coverage ratio, profitability standards and profit and loss ratios in their article “An Analytical Study on Pre and Post Merger Financial Performance of SBI Associate Banks”. It covers three years before and three years after merger (2012 to 2017). The outcome of the paired sample t test shows that there is no significant improvement in the selected ratios after improvement.

Gupta and Modi (2021)⁸ attempted to find out “Impact of Merger on Productivity and Asset Quality of SBI” for the period of 2014 to 2017 and 2017 to 2020, split on the basis of pre and post merger. Among the parameters selected for the study Net interest income, Capital adequacy ratio, Provision for NPA (Non Performing Assets), NPA written off, CASA ratio, Gross

NPA, Net NPA and Provision for coverage ratio showed a positive growth arte whereas Net profit, Return on average assets, Return on Equity, Profit per employee and Earning per share showed a negative growth rate.

Kunmar and Upadhyay (2022)⁹ examined whether there is any improvement in financial performance after merger in their article titled "A Study on Mergers and Acquisitions in Indian Services Industry - with Special Reference to Banking Companies". The study period is 2010 to 2018; hence merger deals occurred during this time was included in this particular study. The banks are ICICI, SBI and Kotak Mahindra Bank. Return on asset is the independent variables and Capital adequacy ratios, Return on asset, Net interest margin, Return on equity and Loan to asset ratio are the dependent variables used for this study. Only Loan to interest ratio slightly improved after merger for all the banks. All other ratios are remaining insignificant.

Yadagiri (2022)¹⁰ studied the "Financial Performance of SBI in the Pre & Post Merger" for the period 2013-14 to 2020 - 21. A time span of four years before and after considered for the study. The growth rate of Return on average assets, Return on equity, Profit per employee, Earning per share, Dividend per share, Dividend pay and SBI share price on NSE etc are used for measuring financial performance of SBI. The Growth rate of return on average asset is less compared to the pre merger period. Return on equity, Profit per employee and Earning per share are revealing an increasing growth rate after merger. Dividend per share also improved due to the increased profit making capacity of the bank. After merger Dividend payout ratio is more stable. The share price of SBI is increased after merger but due to pandemic, it started to decline. Then there is presence of bullish trend in the market because of that it abnormally increased after pandemic. But it continually improving year after year.

III. RESEARCH GAP

Several studies have been conducted to assess mergers of banks after nationalization and liberalization. Those studies focused on a wide range of areas covering the entire spectrum of mergers and acquisitions. As a multinational bank in the public sector, it is necessary to assess SBI's integration with its associates in detail. Hence these studies focus only on SBI's profitability during and after the takeover period. As five years have passed since the merger of SBI, this period is suitable for conducting this particular study.

IV. STATEMENT OF THE PROBLEM

Money becomes valuable when it is distributed in the economy and used by people who need it. The bank acts as an intermediary in this process, providing a platform for those who have excess cash and those in need of cash. Through this process, credit is created in the economy. The entire banking structure is based on bank credit. The Minister of State for Finance said in the merger discussion of SBI with its associates that the merger would enhance SBI's capacity to increase its profitability and lending capacity (Shiva Pratap Shukla, 2017). After five years of merger, it is desirable to evaluate the performance of SBI in terms of profitability and check whether the government can achieve the target or not. This raises the following question

1. Are there any changes in SBI's profitability between pre and post merger periods?

V. OBJECTIVES OF THE STUDY

1. To analyse the profitability of SBI between the pre and post merger periods

VI. HYPOTHESIS OF THE STUDY

H_{01} : There is no significant difference in the profitability of SBI between the pre and post merger periods.

VII. RESEARCH METHODOLOGY

An analytical design based on secondary data is used for the present study. Necessary information collected from the official website of SBI, Money control and other News articles. The study covers the period from 2012 to 2022. Percentage analysis and Paired sample t- test are used to analyse the data.

VIII. ANALYSIS AND INTERPRETATION

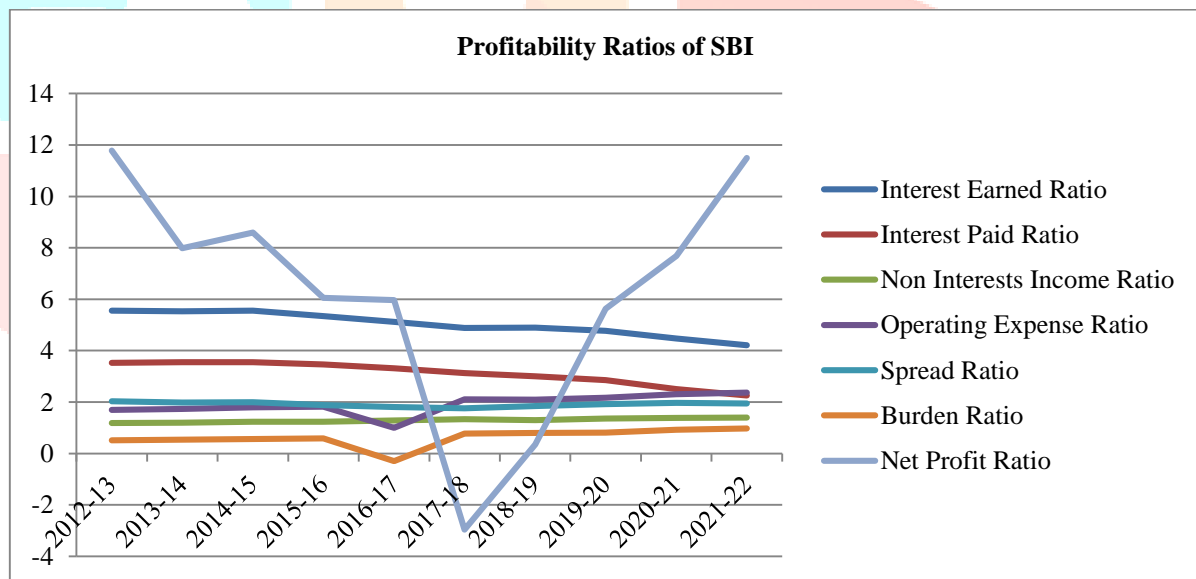
Profitability is a measure of the effectiveness with which a business's activities are carried out. For analysing the profitability of SBI, seven ratios were considered such as Interest earned ratio expressed in terms of total interest earned to volume of business, Interests paid ratio is the ratio between total interest paid divided by volume of business, Non interest income ratio calculated on the basis of Total income to Interest income, Other operating expenses expressed in terms of Total expenses to interest expenses, Spread ratio is the interest earned ratio over Interest paid ratio, Burden ratio is Other operating expenses ratio over Non interest income ratio and Net profit is the ratio between Net profit and Total Income.

8.1 Analysis of Profitability Ratios

Table No: 8. 1

| SL NO: | Profitability Ratios | Pre Merger periods | | | | | Post Merger periods | | | | |
|--------|----------------------------|--------------------|---------|---------|---------|---------|---------------------|---------|---------|---------|---------|
| | | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| 1 | Interest Earned Ratio | 5.56 | 5.53 | 5.55 | 5.34 | 5.12 | 4.89 | 4.90 | 4.77 | 4.47 | 4.21 |
| 2 | Interest Paid Ratio | 3.53 | 3.55 | 3.55 | 3.46 | 3.31 | 3.13 | 3.01 | 2.85 | 2.50 | 2.26 |
| 3 | Non Interests Income Ratio | 1.19 | 1.20 | 1.23 | 1.23 | 1.29 | 1.33 | 1.30 | 1.36 | 1.38 | 1.40 |
| 4 | Operating Expense Ratio | 1.70 | 1.74 | 1.80 | 1.82 | 1.00 | 2.11 | 2.01 | 2.17 | 2.31 | 2.37 |
| 5 | Spread Ratio | 2.03 | 1.98 | 2.00 | 1.88 | 1.81 | 1.76 | 1.84 | 1.92 | 1.97 | 1.95 |
| 6 | Burden Ratio | 0.51 | 0.54 | 0.57 | 0.59 | -0.29 | 0.78 | 0.8 | 0.81 | 0.93 | 0.97 |
| 7 | Net Profit Ratio | 11.78 | 7.98 | 8.59 | 6.06 | 5.97 | -2.96 | 0.35 | 5.63 | 7.69 | 11.49 |

Source: (Computed data)



From the above table it is understood that, the interest earned ratio shows a downward movement after the merger but in a stable manner and interest paid ratio reduced post merger periods. Non interest income ratio is stable compared to other ratios. Other operating expense ratio started to inflate post merger. Spread ratio declined immediately after merger, later started to improve. Net profit ratio and Burden ratio of SBI shows a minus figure in the merger year (2017- 2018), later beginning to raise.

8.2 Study the difference in the profitability of SBI between the pre and post merger periods

H₀₁: There is no significant difference in the profitability of SBI between the pre and post merger periods.

Table No: 8. 2

Performance of SBI based on Profitability Ratios during pre and post merger periods

| | | Mean | Std. Deviation | t - Value | Sig (P Value) |
|---------------------------|------|------|----------------|-----------|---------------|
| Interest Earned Ratio | Pre | 5.42 | .190 | 14.18 | .000* |
| | Post | 4.64 | .300 | | |
| Interest Paid Ratio | Pre | 3.48 | .101 | 5.67 | .005* |
| | Post | 2.76 | .371 | | |
| Non Interest Income Ratio | Pre | 1.22 | .038 | -13.58 | .000* |
| | Post | 1.35 | .039 | | |
| Operating Expense Ratio | Pre | 1.61 | .345 | -3.095 | .036* |
| | Post | 2.21 | .121 | | |
| Spread Ratio | Pre | 1.94 | .091 | .692 | .527 |
| | Post | 1.88 | .087 | | |
| Burden Ratio | Pre | 0.38 | 0.37 | -2.40 | .074 |
| | Post | 0.85 | 0.08 | | |
| Net Profit Ratio | Pre | 8.07 | 2.37 | 1.02 | .363 |
| | Post | 4.44 | 5.76 | | |

(Source: Computed data)

* Denotes significant level at 5 % level

From the above table indicates that, Since the P values of Interest Earned Ratio, Interest paid ratio, Non Interest Income Ratio and Operating Expense Ratio are significant at 5 per cent level. Therefore, the null hypothesis is rejected. So it is concluded that there is significant difference in Interest Earned Ratio, Interest paid ratio, Non Interest Income Ratio and Operating Expense Ratio of SBI between the pre and post merger periods.

IX. SUGGESTIONS AND FINDINGS

1. Interest earned and Interest paid ratio deflated during post merger periods, that means both deposits and advances are plummeted. So the authorities should promote new avenues that balance the deposits and advances of SBI in a mutually beneficial for both bank and public. The Other operating ratio is increased post merger periods; hence the management should have a control over its expenses.
2. As per the results of paired sample t – test Spread Ratio and Net Profit shows a difference during pre and post merger periods. Rest of the profitability ratios considered for the study is not changed post merger period.

X. CONCLUSION

The above study entitled “A study on the performance of SBI in the pre and post merger periods using profitability ratios” compares the profitability of SBI during pre and post merger periods (2012 to 2022). This study made an effort to understand the performance of SBI pre and post merger periods by using profitability ratios. The findings of the study unfolds that the net profit of SBI was improved subsequent merger periods. At the same time the other operating expenses was at an increment phase but stable. After the enlargement of branches as well as business it is quite natural that an increase in the expenses. However the management should have a control over its expenses. Then only the public can reap the advantages of merger of India’s largest bank State Bank of India.

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