



# AN ANALYSIS ON PRE AND POST MERGER OF STATE BANK OF INDIA & ITS ASSOCIATES BANKS

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## Abstract:

*After demonatization in India, the government has taken many steps to develop the economy. State bank of India is a largest public sector bank in India, and along with Reserve bank of India the bank has determining the fiscal policy in India. State bank of Saurashtra and state bank of Indore was already merger with state bank of India in the year 2008 & 2009 respectively. The purpose of merger is the associate banking transaction and financial performance is not more sought one, the parent bank has decided that to include the all the associate banks to enlarge the capital and wants to be one of banks in global topper.*

**Keywords:** Financial performance, profitability analysis, public sector bank

## Introduction:

The Indian Banking Sector is above-mentioned to be the most energetic sector and the strength of this sector is very influential for the development of the economy of the region. The banking sector of any economy is said to be the lifeline of that country. It is the most essential part of the financial system of that economy that operates a vital role in its functioning. Therefore, it is above-mentioned that the development of an economy is to connect with the growth of its banking sector. The banking system proves the economic soundness of that specific country. An excellent banking system utilizes its savings in some gainful as well as productive sectors and it also ensures whether the bank is healthy enough for union its objectives towards its investors.

In India, Banking Sector is said to be the most strong sector and its truth is very significant for the socio-economic growth of the region. In modern times, the banking sector has been traveling through a lot of turn in the form of regulations and has the influential consequence of globalization. These innovate affect the banking sector both structurally and strategically. A smooth, stable and competent banking sector is very essential to grow the level of the economy in the country. The stuff such as liberalization and globalization has influenced the banking sector of India in a very strong aspect. This stuff also affects the performance of the banking sectors. Liberalization policy produces in the banking sector in India led to consolidated competition, efficient allocation of resources and begin innovative methods for mobilizing of saving. To overcome the impact of such modifications several strategies have been adopted by the banks. In this competitive world, every manager, investor, shareholders of the banks are concentrating on the financial position of the banks in the hope of gaining profits as well as for the survival of the banks in the long run. For achieving the purpose, Banks nowadays are going through various changes in the forms of corporate restructuring, etc.

The Indian Banking Industry shows a signal of improvement in performance and ability after the global crisis in 2008-09. The Indian Banking Industry is having a far better condition than it was in the era of crisis. The government has taken different initiatives to encourage the financial system. The economic recovery direct strength on the back of different financial policy initiatives taken by the Reserve Bank of India (Sai and Sultana, 2013)<sup>i</sup>.

### **Mergers and Acquisition**

Since the liberalization of the Indian economy in 1991, mergers and acquisitions have been one of the essential tools for corporate restructuring through combination. With the globalization of the economy, increased competition from both outside and domestic banks and strong technology, there has been a fast change in the business surrounding the banking industry in the last two decades. In method to overcome these challenges competently, most of the banks have adopted restructuring tactics like a merger, acquisition, takeover, etc. to gather the advantage of economies of scale, reduced costs, increased geographical insurance, customer base, etc. The merger has been defined as “a combination of two or more companies into one, wherein coming together entities destroy their identities. No recent investment is made through this process. However, an interchange of shares captures place between the entities complex in such outgrowth”.

According to researchers (Ganghan, 2002) & (Gurbaksh Singh & Sunil Gupta)<sup>ii</sup>, nowadays, mergers and acquisitions very familiar growth-oriented strategy especially in growing countries like India. There are several

motives behind Mergers, which stimulate this activity very quickly, these courses of actions done to enlarge the business, to get synergic advantages, to minimize costs, to maintain strong distribution chain, tax planning, new product development and to surface speedy competition, etc. The news of Mergers are very sensitive, it influence the companies involved as well as customers, investors, share prices and other part of an economy positively or negatively, in form of financial as well as nonfinancial point of view as follows, M= Mixing, E= Entities, R=Recourses for, G=Growth, E= Enrichment, R=Renovation (Dr. Veena K.P & Prof. S.N. Patti)<sup>iii</sup>.

### Objectives of the study

1. To understand the impact of state bank of India and its associate banks.
2. To analyse the profitability performance in pre and post- merger of SBI and its associate banks.

### Statement of the problem

State banks of India & its associates banks merger will increase to be required and succeed corporate goals and economic development of a country. In the next stage the firm is primarily concerned with organization creating a specific team to manage the Merger activity Searching for potential acquisitions and thoroughly investigating the pros and cons of the State bank of India & Its associates banks.

### Review of Literature

1. **Dr.Prashanta Athma & A. Bhavani (2016)** said, banking sector occupies a very significant ground in every economization and is one of the fastest development sectors in India. The rivalry is strained and independent of the question from the multinational gamester, man banks - both notorious and secluded are also seen rigorous in their practice of handy competitory edge by attain or blending with influential opportunities as propitious today. As a result, Mergers and acquisitions are the custom of the Time. Indian mercantile banks are testimony sweeping deviate in the regulatory surrounding, excessive advancement in off equalize sheet risk management fiscal arrange, the preliminary of e-commerce and online banking, and token bursal trade combination. All of this stuff has made the Indian banking manufacture highly competitor.
2. **Honey Gupta (2016)** The aim of the bestow unsubstantial is to take apart the pre and post-merger fiscal exploit of State Bank of India with the support of variable financial parameters such as investment ratios, guidance efficiency ratios, debt coverage ratios, hold ratios, profitability ratios and profit and loss account ratios. Paired sample t-test is address for the intention of proof the statistical importance of different parameters. The meditation is supported on second data covert eight years annual data of before and

inform merger epoch. The study impart that the State Bank of India (SBI) does not prove momentous increase in the financial accomplishment in the express merger era. There are some of the bursal parameters have shown significant improvement during the post merger Time while most of the parameters have not shown important growth during the debt merger end.

3. **Jeelanbasha and Arun (2016)** department a study on “Financial Performance Analysis of Post Merger and Acquisition (A Case Study of ICICI Bank)” by second-hand manifold ratios. The meditation decide that post merger profitability has increased from the conquest in operating expenditure and advance in non-interest profit. Hence, bank is focus its occupation from push full polity to Tory policy of lending.
4. **Muhammad Rizwan Ullah, Ahsan Ali et.al (2016)** study has analyzed five mergers cases in banking attention of Pakistan. Different variables like change in vegetation of principal, deposits, elevate and investment design were taken to investigate sign of ante- and post mergers. It was concluded that latest mergers and acquisitions contribute benefits to the banking sector in condition of synergy.
5. **Okoye, et.al. (2016)** concentrate on ascertaining the fiscal exploit by considering a study duration of pre 9 years and post 9 years and also the study found that there is non-significant negative difference in the accomplishment of return on asset in the pre- and mail merger and acquisition periods. Bank asset ratio shows significant positive variety between the pre- and the post-merger and acquisition periods. However, the result shows significant negative difference for capital adequacy ratio between the periods.
6. **Patel and Shah (2016)** study the pre and post-merger fiscal performance of the Indian banking business covering duration of 2001 to 2014. They find the impact of merger to be positive and important for fiscal performance.
7. **Tamragundi (2016)**, this study was centralized on impact of mergers IN Indian banking sector: A comparative study of public and private sector merged banks. This research examines the impact of mergers on performance of chosen commercial banks in India. At last the study concludes that, Merger is an important strategy, based on that through Banks can enlarge their transactions, assist larger customer base, grow profitability, liquidity and ability but the overall consequence and financial illness of the bank can't be solved from mergers of public and private sector banks.

## Research Methodology

This research has agreed under the descriptive method. The purpose of this research is to examine the pre and post profit value of State Bank of India and its Associates banks. This methodology deals with pros and cons of merger and after merger to evaluate the financial performance of SBI.

## Sampling Design

This study covers SBI and its associate banks (totally 6 banks) pre-merger 5 financial years and post-merger of State bank of India 2 years from the date of merger on 1st April 2017.

## SOURCES OF DATA

The data used in the research consist of only secondary data. The data has been gathered from official website of RBI, published annual reports, SBI websites, annual books, journals, published and unpublished thesis, money control website, Newspaper and magazine etc...



**Null Hypothesis: There is no significant difference between the operating profit of pre and post-merger**

**Alternative Hypothesis: There is a significant difference between the operating profit of pre and post-merger**

**Table No: 4.73**

Group Statistics					
SBI and Its associates Bank		N	Mean	Std. Deviation	Std. Error Mean
Operating Profit	Pre-Merger	5	44532.4580	6415.75220	2869.21161
	Post-Merger	2	57473.4950	2881.41064	2037.46500

The above descriptive table indicates the mean value of pre and post-merger. While comparing this mean value post-merger mean value is high but based on this mean value we can find that the merger does not affect the operating profit. So this will be helpful to the State Bank of India to maximize the operating profit based on the same track.

Hypotheses have been framed to get the statistical evidence to find out the difference between operating profit of pre and post-merger of SBI and its associates' banks and to prove or disprove independent sample t-test has been administered.

Table No: 4.74

Independent Samples Test										
Particular		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Operating Profit	Equal	4.442	.089	-2.630	5	.047	-12941.03700	4920.67114	-25590.02486	-292.04914
	Not Equal			-3.677	4.487	.017	-12941.03700	3519.03948	-22306.97637	-3575.09763

From the table, it is understood that the P-value 0.089 is higher than the standard value of P .05, it denotes the null hypothesis as accepted. It means there is no significant difference between the operating profit of pre and post-merger.

**Null Hypothesis: There is no significant difference between the net profit of pre and post-merger**

**Alternative Hypothesis: There is a significant difference between the net profit of pre and post-merger**

Table No: 4.76

Group Statistics					
SBI and Its associates Bank		N	Mean	Std. Deviation	Std. Error Mean
Net Profit	Pre-Merger	5	14935.3720	2394.66376	1070.92619
	Post-Merger	2	-2842.6100	5239.43497	3704.84000

The above descriptive table indicates the mean value of pre and post-merger. While comparing this mean value post-merger mean value is very less, based on this mean value we can find that the merger does affect the net profit. So it indicates that State Bank of India has to overcome the loss in the future.

Hypotheses have been framed to get the statistical evidence to find out the difference between the net profit of pre and post-merger of SBI and its associates' banks and to prove or disprove an independent sample t-test has been administered.

**Table No: 4.77**

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper	
Net Profit	Equal	4.176	.096	6.693	5	.001	17777.98200	2656.03223	10950.43381	24605.53019
	Not Equal			4.610	1.172	.108	17777.98200	3856.51687	-17105.63215	52661.59615

From the table, it is understood that the P-value 0.096 is lesser than the standard value of P .05, it denotes the null hypothesis as accepted. It means there is no significant difference between the net profit of pre and post-merger.



**Findings:**

1. Operating profit does not affect in post-merger of State bank of India.
2. The independent T-Test reveals that no difference between operating profit of pre and post-merger of State Bank of India.
3. After merging of banks assets and liabilities of State bank of India & Its associates banks, the liabilities and losses are compensated against the profit of State bank of India.
4. The financial and profitability performance of state bank of India is good after the merger.
5. The operating and other expenses are not affected much on Net profit in after merger.

**Conclusions:**

**After the merger** the financial performance of State bank of India is growing and most of the expenses have reduced. Merger was beneficial for enlarging the capital of state bank of India, and the associate's banks loss are compensated with the help of the merger. Associates Banks customers are included in state bank of India and the profitability performance of the bank in after merger going good. Depositors and investors are will be getting good interest and returns, and the interest rates may less for the various loans provided to their customers.

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