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Impact of SBI Merger on banking Sector

Ashish Kumar Gupta[1], Pawandeep Kaur[2]

[1,2]Assistant Professor, Baba Farid College, Bathinda.

ABSTRACT

State Bank of India (SBI), which will see five associate banks merge into it on April 1, has decided to shut down almost half the offices of these banks, including the head offices of three of them. This process will start from April 24.Out of the five head offices of the associate banks, we will retain only two. Three head offices of the associate banks will be unbound along with 27 zonal offices, 81 regional offices and 11 network offices of the associate banks. The five associate banks that will merge with SBI are: SBBJ (State Bank of Bikaner and Jaipur), SBM (State Bank of Mysore), SBT (State Bank of Travancore), SBP (State Bank of Patiala) and SBH (State Bank of Hyderabad) SBI is India's largest bank with assets of Rs 30.72 lakh crore and figures at No. 64 in the global ranking of banks (as of December 2015; December 2016 ranking is still awaited). Post-merger, with assets of approximately Rs 40 lakh crore, it will be among the top 50 banks in the world

Keywords: Merger, Associates, Capitalization

I. INTRODUCTION

The combined entity(SBI and associates banks) would create a financial sector powerhouse, with total assets worth Rs 29.7 lakh crore. Global rating agency Moody's, in its report last month, said the merger will have limited impact on SBI's credit metrics, given that SBI already fully owns SBH and SBP and has majority stakes in the other three associate banks. In addition, BMB only started operations in 2013 and accounts for less than 0.1 per cent of SBI's total assets.

1)This is the first ever large-scale consolidation in the Indian banking industry.
2) The merger will create a banking behemoth with an asset book of Rs 37 lakh crore.
3) SBI will give 28 of its shares for every 10 shares held of State Bank of Bikaner BSE 0.77 % and Jaipur.
4) It will give 22 of its shares for every 10 shares held of State Bank of Mysore.
5) The lender will give 22 of its own shares for every 10 shares held of State Bank of Travancore.
6) SBI will give 4,42,31,510 shares with face value of Re. 1 for every 100 crore equity shares of Bhartiya Mahila Bank.

The merger will see SBI's ranking approve in the Bloomberg's largest bank by asset ranking. It may well break through the 50-mark in the ranking. The Union cabinet on June 15, 2016 approved the merger of the five subsidiaries of State Bank of India (SBI) with the parent, as the Indian banking system moves into a phase of consolidation. The cabinet approved the merger of the subsidiaries namely State Bank of Mysore, State bank of Travancore, State Bank of Hyderabad, State Bank of Patiala, State Bank of Bikaner and Jaipur along with Bhartiya Mahila Bank Ltd with SBI. SBI’s merger with subsidiaries will see the combined entity’s balance sheet at a whopping Rs.37 trillion, making it one of the top 50 banks in the world.SBI first merged state bank of Saurashtra with itself in 2008. Two years later, State Bank of Indore was merged with it. The five associate banks that have merged with SBI are: SBBJ(State Bank of Bikaner and Jaipur),SBM(State Bank of Mysore),SBT(State Bank of Travancore), SBP(State Bank of Patiala) and SBH(State Bank of Hyderabad).

Those areas where SBI is not having branches but its associate banks are having, upon the merger being effected, the customer confidence and good report will be created because SBI is having a good report for all its customers but the other associate banks are not that good as the SBI. Also, they do not enjoy all those benefits as the SBI. Some Dort of change in name from SBI associates to SBI will have a good market impression and will generate goodwill. Merger of the group entities of SBI is a way to restructure the Balance Sheet of the entities. Restructuring is required when the entities are facing financial crises or there is a possibility of the entity to not be able to meet out its existing liabilities. In corporate restructuring, some liabilities are set off with realization of assets. In this case, some entities liabilities will be set off against the higher revalued assets of the other entities in order to make a good and attractive Balance Sheet Size of the merged entity. SBI have foreign subsidiaries like SBI International (Mauritius) Ltd, State Bank of India (California), State Bank of India (Canada), INMB Bank Ltd, Lagos, Bank SBI Indonesia (SBII). SBI, non-banking subsidiaries like SBI Capital Markets Ltd, SBI Fund Management private Ltd, SBI Factors & Commercial Services Private Limited, SBI Card & Payment Services private Ltd, SBI General Insurance Company Limited. SBI, joint ventures are SBI General Insurance Company Limited, SBI Life Insurance Company Ltd.

II. OBJECTIVES

The main objective of this paper is to study the impact of recent merger of SBI.

1. To know the impact of SBI merger on SBI financial condition
2. To know various benefits of merger
3. To know various challenges in implementation of merger

III. METHODOLOGY

This paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazines, newspapers and the like etc.

IV. REASONS OF MERGER

1. **Govt. Aid to 1 Merged SBI Group:** Firstly, the SBI and associates are one of the largest Govt. undertaking of the Central Govt. whom annual allocation of subsidy and contribution towards Bad Debt Recovery and Share Capital has to be made by the Indian Govt. There is practically no sense of giving aid to so many banks separately when it can be given to a single entity. Govt. Aid is for sure to be given to these banks and not just SBI and group but all the banks. So Govt. Aid to a single SBI merged bank will be much easier in terms of accountability.
2. **Bad performance of Banking Sector:** Because of the current market situation and what will be in future, most of the Bank's profitability has come done from quite a few previous years. Many Bank's Share prices have also fallen drastically because of the expectation of under-performance of the Banks. The State Bank group is no exception to the same and the same applies to it also. SBI is the holding company and the other are its subsidiaries. So in order to show better profitability, merger of the Banks is an essential requirement.
3. **Bad Loans & Inability to Recover:** SBI and group is the one of the largest banking sector entities who have crores and crores of Bad Loans which are not recoverable. Some entities Gross NPA has reached up to 20%. Due to huge bad loans, an internal corporate restructuring is required for all the associate group entities, otherwise in upcoming few years, few of them may even not survive in the market.
4. **Corporate Restructuring:** Merger of the group entities of SBI is a way to restructure the Balance Sheet of the entities. Restructuring is required when the entities are facing financial crises or there is a possibility of the entity to not be able to meet out its existing liabilities. In corporate restructuring, some liabilities are set off with realization of assets. In this case, some entities liabilities will be set off against the higher revalued assets of the other entities in order to make a good and attractive Balance Sheet Size of the merged entity.
5. **Bigger Bank:** By merging all the associate entities, SBI will become a much bigger and better bank as it will be catering to al large segment of customers as from its current position. It will be able to make many services convenient to the customers through a single bank rather than approaching other associated banks. It will have larger customer base, hence chances of earning good profitability over its deposits. It will have the advantage of Synergy with the associated banks. No high integration cost will be paid since the set-up is almost similar. It will have good asset portfolio. Allover, good report will be created amongst its customers.
6. **Better increased recognition:** Those areas where SBI is not having branches but its associate banks are having, upon the merger being effected, the customer confidence and good report will be created because SBI is having a good report for all its customers but the other associate banks are not that good as the SBI. Also, they do not enjoy all those benefits as the SBI. Some dort of change in name from SBI associates to SBI will have a good market impression and will generate goodwill.

V. BENEFITS OF MERGER

- Currently, no Indian bank features in the top 50 banks of the world. With this merger, visibility at global level is likely to increase.
- Branch rationalization, if executed well, would be one of the key synergy benefits from the merger

- The merger benefits include getting economies of scale and reduction in the cost of doing business.
- 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.
- The merger of SBI and its associate banks will result in the network increase of SBI and its reach would multiply.
- Cost savings on account of treasury operations, audit, technology, etc, would lower cost-to-income ratio in the long term.
- Any introduction of new technologies and features by SBI will uniformly be available to all customers of SBI, its associates and subsidiaries.
- Shares of SBI and its associates will post tremendous earnings in the stock exchange thereby benefiting stake holders.
- Despite having second largest population country, no Indian bank is in the list of top 50 world's largest bank. With this merger SBI will become 44th largest bank in the world by assets
- The bigger the bank, the better is the diversification of its assets portfolio and lesser chances that the bank will fail in the system.
- The merged entity will be able to tap into cheaper funds more easily and it will also be able to rationalize the branches all over the country, to cut down the operation costs.
- As of now SBI alone has employee strength of more than 2 lakhs, combining with all these banks it will cross 3 lakh base and that is huge terms of employment.
- With this merger SBI will be able to finance more and more mammoth projects that will lead to economic development of the country.
- SBI 's reach and network will multiply, efficiency will likely to increase with the rationalization of branches.
- Adoption of development of technologies in associate banks will be faster.
- Gross NPA and Net NPA of the combined entity will come down.
- Capital adequacy will improve requiring less capital infusion by government.
- Strong presence in nook and corner of the country.
- After amalgamation with closure of duplicated branches, chances of relocating branches in underserved areas.
- Redundancy of work force. Very soon we can expect a special VRS.

VI. DISADVANTAGES MERGER

- Immediate negative impact would be from pension liability provisions (due to different employee benefit structures) and harmonization of accounting policies for NPA (non-performing assets) recognition.
- The associate banks are on a totally different footing as they have regional flavor and regional focus compared to nationalistic SBI culture.
- 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.
- There are currently 550 SBI offices while its associate banks have 259. The target for the number of controlling offices after the merger is 687 -- a reduction of 122 offices
- Out of the five head offices of the associate banks, we will retain only two. Three head offices of the associate banks will be unbound along with 27 zonal offices, 81 regional offices and 11 network offices of the associate banks," SBI Managing Director Dinesh Kumar Khara told IANS in an interview.

FINANCIAL ANALYSIS

- **Q1FY17 OVER Q1FY16•Interest Income on Advances** increased from Rs. 28,582 Crores in Q1FY16 to Rs. 29,884Crores in Q1FY17 (4.56% growth)
- **Interest Income on Resources Operations** increased from Rs. 10,254 Crores in Q1FY16 to Rs. 10,887 Crores in Q1FY17 (6.18% growth).
- **Total Interest Income** increased from Rs. 39,643 Crores in Q1FY16 to Rs. 41,594 Crores in Q1FY17 (4.92% growth).
- **Interest Expenses on Deposits** increased from Rs. 24,097 Crores in Q1FY16 to Rs. 25,169 Crores in Q1FY17 (4.45% growth).
- **Total Interest Expenses** increased from Rs. 25,911 Crores in Q1FY16 to Rs. 27,281 Crores in Q1FY17 (5.29% growth).
- **Net Interest Income** increased from Rs.13,732 Crores in Q1FY16 to Rs.14,312 Crores in Q1FY17 (4.23% growth).

- **Non Interest Income** increased from Rs.5,088 Crores in Q1FY16 to Rs.7,335 Crores in Q1FY17 , an increase of 44.16% YoY, driven by increase in Profit on Sale of Investments by 212.15%, increase of 22.30% in Recovery in Written Off accounts, increase of 21.93% in Forex Income and 6.08% in Fee Income.
- **Operating Income** increased by 15.02% from Rs.18,820 Crores in Q1FY16 to Rs.21,647 Crores in Q1FY17.
- **Staff Expenses** increase was contained at 5.93%, from Rs.5,906 Crores in Q1FY16 to Rs.6,257 Crores in Q1FY17
- **Operating Expenses** increased by 10.14% from Rs.9,618 Crores in Q1FY16 to Rs.10,594 Crores in Q1FY17.
- **Operating Profit** increased by 20.12% from Rs.9,202 Crores in Q1FY16 to Rs.11,054 Crores in Q1FY17.
- **Net Profit** in Q1FY17 was Rs. 2,521 Crores, lower than the Net Profit of Rs.3,692 Crores in Q1FY16 by Rs. 1,171 Crores(-31.73%) as loan loss provisions increased by Rs.2,981 Crores from Rs 3,359 Crores as on 30th June 2015 to Rs. 6,340 Crores as on 30th June 2016.

CONCLUSIONS

Those areas where SBI is not having branches but its associate banks are having, upon the merger being effected, the customer confidence and good report will be created because SBI is having a good report for all its customers. the bigger the bank, the better is the diversification of its assets portfolio and lesser chances that the bank will fail in the system. Gross NPA and Net NPA of the combined entity will come down. Since it will become one big merged Bank, it will have only a management system rather than having different management set-up over the associate banks. Because of single management, efficiency and effectiveness of the business processes will be increased. Single circular will be issued for all the merged Banks for operational and management supervision. Better internal control and system processes will be carries on with all the merged banks

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