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PERFORMANCE EVALUATION OF SBI - A COMPARATIVE STUDY OF PRE AND POST-MERGER

KEY WORDS: State Bank of India, Mergers and Acquisitions (M&As), Loans, Deposits, Global scenario, Cost Reduction, Performance.

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ABSTRACT

A merger precisely means joining of two entities or two companies into one. Changing global scenario and sustainability of banks impedes the amalgamation in the banking industry as a corporate strategy. It boosts their economic and operational power, lift up their worldwide contact, accomplish synergy by unite business activities, increased performance and lessen costs. This paper discusses the six way horizontal merger between SBI with its six associate banks including Bharatiya Mahila Bank. The primary purpose of the paper is to analyse the pre and post-merger financial performance of State Bank of India with the help of different financial parameters such as debt coverage ratios, leverage ratios, investment ratios, management efficiency ratios, profitability ratios and profit and loss account ratios. The study is based on secondary data covering six years annual data of pre and post-merger period. The study evidenced that, the state bank of India is not having significant improvement in the financial performance in the post-merger period. There are several financial constraint have revealed major development during the post-merger period but most of the constraint haven't shown significant improvement during the post-merger period.

INTRODUCTION

State bank of India is an Indian broad-based, public sector banking and financial services company. It is a Government-owned corporation, the headquarters of the banks located in Mumbai, Maharastra. The bank traces its origin of British India, through the imperial bank of India. The banking organization in India has unquestionably earned plentiful outstanding success, in a quite short period, for the World's leading and the most assorted democracy. There have been numerous reforms in the Indian banking sector, as well as a few it are successful Mergers and acquisitions (M&As), which have helped it for grow manifold. Nowadays worldwide marketplace, banking business has entirely prolonged the capacity and complexity of their performance and face an ever changing and increasingly composite regulatory environment. It has been recognized internationally that mergers and acquisition is only way for attaining reasonable advantage nationally and internationally and as such the entire range of diligence are come across strategic acquisitions within India and abroad.

On 15th June 2016, the Central Government Cabinet approved the merger of State Bank of India with its five associate banks namely State Bank of Travancore, State Bank of Bikaner, State Bank of Mysore and Jaipur, State Bank of Patiala, State Bank of Hyderabad and also the three year old Bharatiya Mahila Bank in line with the required definitive push for consolidation in the banking sector. Ever since SBI and its associate banks are similar industry and offer products which are alike in nature, this horizontal merger will help SBI to accomplish greater market share and will result in consolidation of SBI group.

Literature Review

Ishwarya J (2010), in the study concluded the banking industry has been undergoing major Mergers and Acquisitions (M&As) in the recent past, with a number of global players emerging through successive Mergers and Acquisitions (M&As) in all sectors including bank. The study indicates that the pre and post Mergers and Acquisitions (M&As) of the studied bank in India have no greater changes in profitability ratio, a few banks are satisfactory during the study period. The researcher revealed in study, the forced Merger among the selected bank succeeds in protecting the interest of depositors of weak banks but shareholders of these banks have not exhibited any gains from mergers.

Mahajan, A. J. P. D. (2019), has opined that Mergers and Acquisitions (M&As) is a useful tool for the growth and expansion in any industry and the Indian banking sector is no exception. It is more helpful for the survival and sustaining of the weak banks by merging into larger bank. The researcher concentrated on two cases mainly whether merger has led to a profitable situation or not. For this purpose a comparison between pre and post-merger performance in terms of Operating profit Margin, Net Profit Margin, Return On Assets, Return On Equity, EPS, DER, Dividend Pay Out Ratio and Market Share Price, has been considered. Net Profit and Return on Assets have improved after merger but in other cases there is no such improvements were found, but he opined that there may not be a significant improvement in initial stage but later they may improve upon.

Deepak Tandan et. al (2018), in their study explain that the sustainable State Bank of India as a global leader post-merger of its associates. The study reveals through Merger companies not only get established brand names, new geographies and complementary product offerings but also opportunities to cross sell to new account acquired. Further the study discusses the six way of horizontal merger between State Bank of India with its 5 associate banks. The study as assess the impact of State Bank of India merger with its 5 associate banks, their position before and after merger, to find out the reasons behind this Merger. Finally the study concluded that though by the EPS there is dilution and no competitive advantage but the other aim of superior output, several dimensional banking, amplified operational efficiency and customer enchantment will be advantageous to the evolved entity.

Suresh Kumar (2013), in his paper, gave an overview on impact of bank Mergers on the efficiency of banks. This study examine the large changes in the philosophy, perception and functioning of commercial bank and their large inflows and outflows of financial resources. Further the study describe the attempt made by the researcher to compare the pre and post-merger performance of Bharat Overseas Bank and Indian Overseas bank by comparing different efficiency parameters. Finally the study concluded that after Mergers there is improvement in the all the parameter of the bank.

Pankaj Sinha And Sushant Gupta (2011), has opined that the Mergers and Acquisitions (M&As) in the Indian financial services sector over a period of march 1993-Feb 2010 has had positive effects on the profitability in majority cased but the liquidity position has declined in a period of three years after the merger. The researcher done the comparison study of the pre and post-merger performance of the companies indicator that EBIT has remained a significant factor contributing to the return on shareholders' funds both before and after merger, profit margin has a significant positive effect on the return only after the merger. Finally the researcher concluded that Mergers and Acquisitions (M&As) as a means towards reduction of risk by diversification.

Ritesh Patel and Dharmesh Shah (2016), the paper examines the comparative position of pre and post-merger stock risk-return performance. The researcher used the data drown from money control and yahoo finance. In this study researcher covers a sample of six banks, which were got, merge during year 2004-2010. Stock-risk-return analysis depicted mix evidence i.e., some banks after merger performance has improved whereas for few banks it has decreased. Finally the paper analysis shows that before merger deal can improve banks performance. The paper contain inference for top management of banks in designing merger deal, which can be favourable for them to have synergy grown in terms of financial stock performance and wealth maximization.

Importance of the Study

The present study examines and compares the performance of SBI before and after the merger with its five associate banks (and also Bharatiya Mahila Bank) effective from 1 April 2017. The Government of India completed one of the mega mergers of recent times by merging five associate banks of SBI with the State Bank of India with certain objectives including its performance in the form of lending capacity, reducing NPAs, improving the market share, to occupy a place in list of 100 largest banks in the world, etc. The study findings are able to test whether the SBI has been able to achieve these goals. These aspects of underlie the importance of the present study.

Objectives of the Study

The primary objective of the present study is to evaluate that pre and post merger financial performance on SBI using the accounting ratios.

Research Methodology:

Research Design: In this study exploratory research design has been adopted.

Type of Data and Collection: The present study is based on secondary data. This data has been collected from various sources like annual reports, official website of moneycontrol.com and various research papers, articles, etc.

Period of study: The study covers six years annual data to compare the pre and post -merger performance of the bank. Thus, pre- merger period of three years from 2014-15 to 2016-17 and post- merger period of three years from 2017-18 to 2019-20 are taken into consideration. The years of merger is considered as base year.

Tools of analysis: Descriptive and inferential statistical tools applied for analysis of date wherein the hypothesis formed for analysis have been tested by considering pre and post -Merger and Acquisitions (M&As) financial ratios. For the purpose of analyzing the financial parameters of the bank (such as investment, management efficiency, debt coverage, leverage and profitability), mean, standard deviation, p-value and percentages are applied.

Hypothesis

1. There is no significant difference between pre and post-merger profitability of State Bank of India.
2. There is no significant difference between pre and post -merger debt coverage ratios of State Bank of India.

Analysis and Interpretation:

Table-1: Investment Ratios of SBI during Pre and Post-Merger Period.

Parameters	Mean		Standard Deviation		Mean Difference	% Change
	Pre	Post	Pre	Post		
Operating Profit Per Share (Rs.)	76.68	78.12	4.47	8.98	1.44	1.88
Net Operating Profit Per Share (Rs.)	259.12	280.93	47.69	23.04	21.80	8.41
Earnings Per Share	14.51	3.29	2.64	11.95	-11.22	-77.344
Book value Per Share	184.81	223.65	12.28	8.47	38.84	21.017

Source: compiled from moneycontrol.com database

Table-1 clearly reveals that, the investment ratios of SBI during pre and post-merger period. The operating profit per share has slightly increased the mean value in the table as highlights from 76.68 to 78.12. Whereas the standard deviation for the same as increase from 4.47 to 8.98. Further in case of net operating profit per share of the mean value of SBI as increased from 259.12 to 280.93 the mean difference for the same is 21.80 whereas the standard deviation for the same as decreased from 47.69 to 23.04. The earnings per share of the said bank shows post- merger mean value of EPS has reduced from 14.51 to 3.29. But the standard deviation is increased from 2.64 to 11.9. During the study period book value per share maximized from 184.81 to 223.65 whereas standard deviation id decreased to 8.47 from 12.28. From the above analysis it is evident that the operating profit as well as net operating profit per share as perform slightly well in the post -merger period when it compare to pre -merger period. The strategic decision of the bank as well as the he guideline of the Central Government as impacted the results.

Table-2: Management Efficiency Ratios of SBI during Pre and Post -Merger Period.

Parameters	Mean		Standard Deviation		Mean Difference	% Change
	Pre	Post	Pre	Post		
Interest Income / Total Funds	7.57	6.70	0.42	0.13	-0.88	-11.58
Net Interest Income / Total Funds	2.69	2.56	0.18	0.18	-0.13	-4.71
Non-Interest Income / Total Funds	1.71	2.25	0.48	0.19	0.54	31.84
Interest Expended / Total Funds	4.88	4.13	0.24	0.10	-0.75	-15.36
Operating Expense / Total Funds	2.36	2.95	0.35	0.27	0.59	25.04
Profit Before Provisions / Total Funds	1.93	1.77	0.02	0.14	-0.16	-8.30
Net Profit / Total Funds	0.37	0.14	0.35	0.29	-0.23	-63.06
Loans Turnover	0.12	0.12	0	0	0	0
Total Income / Capital Employed (%)	9.277	8.94	0.19	0.21	-0.34	-3.63
Interest Expended / Capital Employed (%)	4.883	4.13	0.24	0.10	-0.75	-15.36

Total Assets Turnover Ratios	0.077	0.07	0.01	0.01	-0.01	-13.04
Asset Turnover Ratio	0.08	0.07	0	0	-0.01	-12.5

Source: compiled from moneycontrol.com database

Table-2 clearly reveals the overall Management efficiency ratios during the pre and post -merger period for the purpose of the study the various parameters pertaining to Management efficiency ratio are interest incomes, Net Interest Income, Non- Interest Incomes, Interest Expended, Operating Expense, Profit Before Provisions, Net Profit, Loans Turnover, etc have considered.

The interest income of mean and standard deviation during post -merger period decreased from 7.57 to 6.70 and from 0.42 to 0.13 respectively.

The mean of Net interest income is decreased from 2.69 to 2.56 in post -merger period, no changes of standard deviation in both pre and post - merger period and mean difference is showing negative during the period.

Mean value of non- interest income is increased to 2.25 from 1.71 but standard deviation decreased from 0.48 to 0.19.

The study found that the mean value of Interest expended of SBI during the pre and post -merger period has decreased from 4.88 to 4.13, standard deviation decreased from 0.24 to 0.10, whereas the mean value of operating expenses has increased from 2.36 to 2.95, standard deviation decreased from 0.35 to 0.27 and mean difference is showing -0.75 in interest expended whereas 0.59 in operating expenses.

The analysis of profit before provisions reveals that mean is decreased from 1.93 to 1.77 and standard deviation has increased from 0.02 to 0.14 but mean difference is showing negative value that is 0.16.

The statistical data shows that the mean value of net profit of SBI before merger was 0.37 and after merger period it is decreased to 0.14, even the standard deviation is also decreased to 0.29 from 0.35 and the mean difference is showing negative value of 0.23.

The data shows that, the mean value of loans turnover is stagnant in both pre and post -merger period. Hence standard deviation is nil.

The statistical data reveals that the mean value of total income of SBI during the pre-merger period is 9.277 but it has fallen to 8.94 in post-merger period, whereas standard deviation is has increased to 0.021 from 0.19.

The study identified that, the mean value of Interest expended and standard deviation is decreased to 4.13 from 4.883 and to 0.10 from 0.24 respectively.

Total assets of SBI mean value before merger was 0.077 and 0.07 after merger but there will be no change in standard deviation.

The analysis shows that, Asset turnover ratio of mean value is decreased from 0.08 to 0.07 and standard deviation is nil.

The statistical data of management efficiency ratios reveals that interest incomes and net interest income to total funds have dropped in post- merger period because of faulty sanctioning of loans, non-recovery of loans and increasing NPAs may be the reason. Non-interest income to total funds has increased. This may be due to availability of multi services, quick and easy accessibility of services. Interest expended to total funds has decreased while operating expenses to total funds has increased during the study period that is because of increased cost of merger. Profit before provisions have decreased due to increased operating expenses, there might be no sufficient liquid funds. Net profit is also decreased, that may be due to increased expenses. Loans turnover has no changes both in pre and post -merger period. Both total income and interest expended of SBI have gradually decreased due to over increased in expenses due to merger. Total assets have risen as SBI.

Table-3: Debt Coverage Ratios of SBI during Pre and Post Merger Period.

Parameters	Mean		Standard Deviation		Mean Difference	% Change
	Pre	Post	Pre	Post		
Credit Deposit Ratio	81.6	73.48	3.56	0.88	-8.12	-9.95
Investment Deposit Ratio	34.08	40.00	3.87	1.98	5.91	17.35
Total Debt to Owners Fund	14.88	15.63	1.18	0.51	0.75	5.06
Financial Charges Coverage Ratio	1.69	2.00	0.25	0.10	0.30	17.91

Source: compiled from moneycontrol.com database

Table-3 the statistical data of debt coverage ratios of SBI during pre and post -merger clearly focuses on credit deposit ratio, investment deposit ratio, total debt to owners fund and financial charges coverage ratio.

Credit deposit ratio of mean has fallen from 81.6 to 73.48 in post -merger period, even standard deviation is also reduced from 3.56 to 0.88.

Post-merger period of SBI mean value has risen to 40.00, 15.63, and 2.00 with respect of investment deposit ratio, total debt to owner fund and financial changes coverage ratio. Standard deviation id decreased to 1.98, 0.51 and 0.10 respectively.

According to the statistical results, there has been significant difference with respect to credit deposit ratio and investment deposit ratio between the pre and post- merger period, while no significant difference in total debt to owners fund and financial charges coverage ratio was found.

Credit deposit ratio has fallen from pre and post-merger period. This reveals that it is less aggressive than conservative for making profits. Though there is a profit of NPAs. As the total asset has increased investment deposit ratio is also raised. Study also found that total debt to owners fund has risen, this reveals increase of financial risk. Financial changes coverage ratio has increased, this helps to reduce the risk of payment of debt obligation.

Table-4: Leverage Ratios of SBI during Pre and Post - Merger Period.

Parameters	Mean		Standard Deviation		Mean Difference	% Change
	Pre	Post	Pre	Post		
Current Ratio	0.15	0.08	0.14	0.01	-0.07	-44.44
Quick Ratio	9.68	8.60	2.89	0.52	-1.08	-11.19

Source: compiled from moneycontrol.com database

Table-4 focused on leverage ratios of current ratio and quick ratio of SBI during pre-post- merger period.

The analysis clearly reveals both current ratio and quick ratio of SBI reduce to 0.08 from 0.15 times and to 8.60 from 9.68

times respectively. Study also found that standard deviation of both current ratio and quick ratio is also reduced to 0.01 from 0.14 and to 0.52 from 2.89 respectively.

The statistical results identifies that there is a problem for working capital as current ratio has fallen in post- merger period, that troubles the day to day activities of the banking sector. Even reduction in quick ratio reveals that there is a problem of short term insolvency.

Table-5: Profitability Ratios of SBI during Pre and Post - Merger Period.

Parameters	Mean		Standard Deviation		Mean Difference	% Change
	Pre	Post	Pre	Post		
Interest Spread	6.55	6.86	0.45	0.11	0.30	4.63
Net Profit Margin	3.13	2.08	2.77	4.76	-1.05	-33.55
Return on Long Term Fund (%)	119.42	114.68	0.76	12.1 1	-4.74	-3.97
Return on Net Worth (%)	3.84	2.52	3.40	5.59	-1.31	-34.23

Source: compiled from moneycontrol.com database

Table-5 analysed the profitability ratios of interest spread, net profit margin, return on long term fund and return on net worth of SBI during the pre and post -merger period.

The study reveals that, the interest spread in post-merger is increased to 6.86 from 6.55 and standard deviation is reduced to 0.11 from 0.45. The study identifies that net profit margin has fallen from 3.13 to 2.08 but standard deviation is raised from 2.77 to 4.76 and mean difference is showing negative value.

The statistical data states that return on long term fund and return on net worth has fallen from 119.42 to 114.68 and from 3.84 to 2.52 respectively. Meanwhile standard deviation is raised from 0.76 to 12.11 and 3.40 to 5.59 respectively.

The study reveals that, there has been significant difference with respect to net profit margin, return on long term fund and return on net worth among the pre and post -merger period while there is no significant difference in interest spread ratio.

The statistical data of profitability ratio shows that interest spread has risen during the study period. Net profit margin has fallen in post-merger period, it indicates negative impact of merger on the profitability of the bank which may be due to decline in income. The study also reveals that, there has been significant difference with respect to net profit margin, return on long term fund and return on net worth among the pre and post period while there is no significant difference in interest spread ratio.

Table-6: Profit And Loss Account Ratios of SBI During Pre and Post Merger Period.

Parameters	Mean		Standard Deviation		Mean Difference	% Change
	Pre	Post	Pre	Post		
Interest Expended / Interest Earned	64.48	61.76	0.51	2.17	-2.73	-4.23
Other Income / Total Income	18.92	25.12	4.13	1.64	6.21	32.81
Operating Expense / Total Income	25.36	32.94	3.50	2.31	7.59	29.92

Source: compiled from moneycontrol.com database

Table-6 the statistical data interprets the profit and loss account ratios of interest expended, other income and operating expenses of SBI during pre and post-merger period.

The analysis shows that interest expended to interest earned has reduced to 61.76 from 64.48 and standard deviation has risen to 0.51 to 2.17.

Other incomes to total income have substantially increased from 18.92 to 25.12 and standard deviation has reduced to 1.64 from 4.13.

According to the study, operating expenses to total income has increased during the post-merger period to 32.94 from 25.36, while standard deviation has fallen to 2.31 from 3.50.

The analysis of the statistics reveals that interest expended to interest earned has reduced during post- merger period shows that due to merger the business of banks has increased hence interest earned has risen. Other income to total income has gradually increased this reveals diversification of investment. During the analysis, data found that operating expenses to total income has raised that may be because of increased of multi-services, quick and easy accessibility of services and affordability of services in post- merger period.

CONCLUSION

The results of the analysis of merger of state bank of India with its five associate's bank including Bharatiya Mahila Bank reveal that the state bank of India doesn't shows significant improvement in the financial performance in the post -merger period. There are several financial constraint have revealed major development during the post- merger period but most of the constraint haven't shown significant improvement. There has been positive impact of merger on operating profit per share and book value per share while merger had negative impact on the liquidity and profitability of the bank. The profitability has declined not because of decrease in non-interest income and other income and increase in operating expenses but because of increased interest expanded ineffective utilization of assets and loan and reduced interest income. Thus, it can be concluded from the study that the positive impact of merger may accrue in later years i.e., in long run as the present study is limited to time period of three years before and after merger.

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