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MERGERS AND ACQUISITIONS IN THE INDIAN BANKING SECTOR: EXAMINATION OF PRE AND POST-MERGER FINANCIAL PERFORMANCE OF STATE BANK OF INDIA

Dr. Krishan Lal Grover, Associate Professor, Department of Commerce,
Sri Guru Hari Singh PG College, Sri Jiwan Nagar (Sirsa), Haryana

I.ABSTRACT

Mergers in the banking sector are becoming increasingly popular strategy to acquire weak banks and improve their business capabilities while also grabbing a large share of the competitive market.The State Bank of India, India's most popular public sector bank, has also seen such merger, especially with its subsidiary banks to reap the synergistic benefits of the merger and acquisitions. SBI's almost recent consolidation with its five subsidiary banks and Bharatiya Mahila Bank, which took place on April 1, 2017, is the focal topic of this study, with the goal of examining the impact of consolidation on this major bank's performance , analysing via the of the CAMELS framework. The study's findings reveal that the State Bank of India has failed to reap the benefits of merger since it has taken over its own affiliate banks, which have substantial non-performing assets. Capital adequacy ratios show no significant gains in the post-merger period. Similarly, the bank has been unable to enhance the quality of its assets. All management efficiency measures, with the exception of Business per Employee, have not received considerable momentum. The bank's overall earning potential and liquidity have also suffered as a result of the merger. Overall, it can be concluded that the merger has had no substantial impact on SBI's financial performance, at least in the short term.

KEYWORDS: Mergers& Acquisitions, Financial Performance, CAMELS Framework, Banking Sector, State Bank of India

II.INTRODUCTION

Mergers and acquisitions is a tool for successfully combing companies and accomplishing business objectives. The banking industry is a major sector since it provides capital for investment and contributes to the economy's development and expansion*(Devrajjaps,2012). In today's dynamic environment, adopting a results-oriented strategy is essential for maintaining organisation as well as reaching new heights of success (Aurora et al., 2014). The practise of bank consolidation is one of the most effective techniques. Mergers in banking were once used to safeguard weak banks and their clients, but following deregulation, this method was embraced willingly for a variety of reasons (Atma & Bhavani, 2017). Policymakers and regulators implemented measures in the banking sector based on the recommendations of various committees such as the Narshimam Committee-I (1991), Narshimam Committee-II (1997), and Verma Committee (1999), and suggested the merger of weak public and private sector banks with strong banks. Between 1961 and 1968, there were 47 pre-nationalization mergers and 20 during the nationalisation period (1969-1992). The legacy of mergers continues in the banking sector, with mergers such as Punjab National Bank with New Bank of India in 1993, State Bank of India with State Bank of Saurashtra in 2008, Bank of Baroda, Vijaya Bank, and Dena Bank in 2019 and the Mega – Mergers in 2020, where six public sector banks merge with four banks, including Oriental Bank of Commerce and United Bank of India with Punjab National Bank, Syndicate Bank with Canara Bank, Andhra Bank and Corporation Bank with Union Bank of India and Allahabad Bank with Indian Bank. Further the government of India announced the merger of six major public sector banks into four on March 4, 2020, in order to establish larger and stronger state-owned banks. As a megabank, State Bank of India after joining up with its associate banks- State Bank of Saurashtra and State Bank of Indore, in order to lower its subordinates' continuously increasing*

Non-Performing Assets, finally, on April 1, 2017, the State Bank of India merged with its five other associate banks (State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, and State Bank of Travancore), as well as Bharatiya Mahila Bank. These ultimate associate banks, as well as the Bharatiya Mahila Bank's tie-up with SBI, making it India's largest bank. Our finance minister, Nirmala Sitharaman, has a long-term vision for this big merger, which would reinforce the country's backbone. The merger went into effect on April 1, 2020, and we are approaching the one-year anniversary of our finance minister's wise move. As a result, it's time to assess the performance of this big merger after a year. The financial performance of one of the big mergers, the merging of State Bank of India, is examined in this research study.

III. REVIEW OF LITERATURE

Mergers and acquisitions are a strategy that has been around for a long time. The causes may change over time and fluctuate from one firm to the next. Combination tasks have grown more convenient as a result of the new economic policy (liberalization policy in 1991) Several studies have been conducted to investigate the influence of mergers and acquisitions on various sectors of the banking industry.Using financial parameters, Chellasamy and Udhayakumar (2007) examined Centurion Bank of Punjab's post-merger performance. Alkhathlan and Ravichandran (2008) investigated seven merged Indian banks in the year 2000. Bharathi (2010) concentrated on the post-merger financial performance of nine banks that combined between 1995 and 2005. Devarajappa studied at the merger of HDFC Bank and Centurion Bank as a case study (2012).There have been studies conducted during specific periods of large mergers, such as the merger of State Bank of India with its subsidiaries, when Kotnal (2016) looked into the motivations and financial performance of SBI. Singh and Gupta (2015) investigated the impact of mergers and acquisitions on productivity and profitability in the Indian banking sector, focusing on the merger of SBI and ICICI banks. In a pre-post analysis, Noufal (2017) analyzed the effects of the ICICI merger on financial performance and shareholder wealth. The financial performance was calculated using three dimensions: operational efficiency ratio, profitability ratio, and business performance, as well as a comparison of pre-and and post-merger performance. Patel (2018) used several variables to analyse the long-term financial status of the five amalgamated banks in India. In comparison to the other banks, SBI and IDBI bank had better financial results.Reddy and Chandra (2020) evaluated pre- and post-merger ratios, as well as key additional financial metrics, for all four major mergers and found that the banks' post-merger stability and profitability are questionable. Veni and Musti (2020) focused their research on the merger of Canara Bank and Union Bank, employing a variety of financial performance metrics as well as Tobin's Q ratios. Using the CAMEL model, Gautam and Singh (2021) investigated the influence of mergers on SBI's financial performance from 2015 to 2020. After M&As, no substantial influence on financial ratios was seen, except for total advances to total deposits and company per employee, according to the findings.

IV. OBJECTIVE OF STUDY

From the above review of literature, it is evident that the mega-merger is a significant step toward the improvement of the Indian economy. The present study is an attempt to examine the impact on financial performance of State Bank of India as a result of the merger. The study is conducted with following objective:

1. To assess the impact of M&As on financial performance of the State Bank of India

V. RESEARCH METHODOLOGY

For the present study, one merger i.e., State Bank of India and its associate banks, is taken as case study, out of major mergers mentioned above. This study is entirely based on secondary data which is obtained from journals, newspapers, magazines, websites, and annual reports of the selected banks, as well as reports from the RBI and IBA. This paper examines State Bank India's three-year pre-merger phase (from 2014-15 to 2016-17) and three-year post-merger phase (from 2017-18 to 2019-20).An exploratory research approach is utilised to evaluate the influence of M&As on the financial performance of the selected banks in order to accomplish the study's goal. It's also appropriate for testing hypotheses that are relevant to the study goal (Njoroge, 2012).The CAMEL model, which is essentially a ratio-based model, is used to examine the impact of M&As on financial performance of the selected banks. The abbreviation C-A-M-E-L was used to represent the five different components: C for Capital Adequacy, A for Asset Quality, M for Management Efficiency, E for Earnings Capacity, and L for Liquidity.

VI. HYPOTHISES

H_{01}: There is no significant impact of M&As on capital adequacy of selected banks in post-merger period.
H_{02}: There is no significant impact of M&As on asset quality of selected banks in post-merger period.
H_{03}: There is no significant impact of M&As on managerial efficiency of selected banks in post-merger period.
H_{04}: There is no significant impact of M&As on earnings capacity of selected banks in post-merger period.
H_{05}: There is no significant impact of M&As on liquidity of selected banks in post- merger period.

VII. DATA ANALYSIS AND INTERPRETATION

The CAMELS technique is utilised to attain the specific goal and to determine the efficacy of this combination during the pre and post-merger periods. This approach is a type of ratio analysis which is commonly used by banks for assessing their overall attainment and indicating their strengths and weaknesses by considering six different dimensions of performance assessment, namely Capital Adequacy, Assets Quality, Management Potency, Earning Quality, Liquidity, and Sensitivity.

(A)CAPITAL ADEQUACY ANALYSIS

Table-1: Capital Adequacy Ratios of SBI-Pre and Post-Merger Period

Sr. No.	Particulars	Pre		Post		Percent change	t-statistics	
		$\bar{X}$	σ	$\bar{X}$	σ		t	Sig.
1	Capital Risk AdequacyRatio	12.74	0.64	12.79	0.24	0.07	0.17	0.88
2	Debt-EquityRatio	14.55	1.04	15.49	0.65	(0.94)	1.07	0.40
3	TotalAdvancesto TotalAssetsRatio	62.11	3.57	58.08	1.81	(4.03)	1.62	0.25
4	Govt.Securitiesto Total Investments	79.13	2.68	79.76	1.31	0.63	0.56	0.63

(Source:RBIReports,*Significant at5percentlevelofsignificance)

Table 1 shows SBI's capital adequacy before and after the merger, based on an average of three years before and after the merger. The pre-merger value of CRAR is 12.74, and the post-merger value is

12.79, with standard deviations of 0.64 and 0.24, respectively. In the pre-merger and post-merger periods, the debt-equity ratios are 14.55 and 15.49, respectively, with a standard deviation of 1.04 and 0.65. Similarly, the ratio of total advances to total assets fell from 62.11 to 58.08 in the post-merger era, with a standard deviation of 3.57 and 1.81 in the pre-merger and post-merger periods, respectively. However, the ratio of government securities to total assets has improved somewhat, from 79.13 in the pre-merger era to 79.76 in the post-merger period, with standard deviations of 2.68 and 1.31 in the pre- and post-merger periods, respectively. After M&As, there was a 0.63 percent increase in the Government securities to total investments ratio. The null hypothesis H_{01} is accepted based on the findings of the dependent sample t-test, which reveal that M&As have no significant influence on the SBI's capital adequacy in the post-merger period.

(B) ANALYSIS OF ASSETS QUALITY

Table2: Assets QualityofSBI- Pre and Post-Merger Period

Sr. No.	Particulars	Pre		Post		Percent change	t-statistics	
		$\bar{X}$	σ	$\bar{X}$	σ		t	Sig.
1	Gross NPAs to TotalLoans	7.46	3.54	8.62	2.64	(1.16)	0.33	0.77
2	NetNPAstoTotal Loans	4.03	2.03	3.66	1.84	0.37	0.17	0.88
3	TotalInvestments toTotal Assets	25.42	2.55	27.83	2.50	(2.41)	0.92	0.45
4	NetNPAstoTotal Assets	2.43	1.12	2.10	0.99	0.33	0.28	0.81

(Source:RBIReports,*Significant at5percentlevelofsignificance)

Table 2 showsthat the pre-merger value of gross NPAs to total loans is 7.46, while the post-merger value is 8.62, with standard deviations of 3.54 and 2.64, respectively. In contrast, the pre- and post-merger net NPAs to total loans ratios are 4.03 and 3.66, respectively, with standard deviations of 2.03 and 1.84. Similarly, the pre-merger ratio of total investments to total assets is 25.42, while the post-merger ratio is 27.83, with standard deviations of 2.55 and 2.50, respectively. Net NPAs as a percentage of total assets were 2.43 in the pre-merger era and 2.10 in the post-merger period, with standard deviations of 1.12 in the pre-merger period and 0.99 in the post-merger period. After M&As, SBI reduced its net NPAs to 0.37 percent of total loans. The null hypothesis H_{02} on thebasis of results of the dependent sample t-test indicating M&As have no significant influence on SBI's asset quality in the post-merger period.

(C) ANALYSISOF MANAGEMENTEFFICENCY

Table3: Management EfficiencyofSBI- Pre and Post-Merger Period

Sr. No.	Particulars	Pre		Post		Change(percent)	t-statistics	
		$\bar{X}$	σ	$\bar{X}$	σ		t	Sig.
1	TotalAdvances toTotalDeposits	81.28	4.00	72.77	2.01	(8.51)	4.84	0.04*
2	BusinessPer Employee(inL akhs)	1423	195.28	1884	217.58	461	34.85	0.00*

3	Profits PerEmployee(in Lakhs)	5.28	0.68	1.23	4.18	(4.05)	1.53	0.27

(Source:RBIReports,*Significant at5percentlevelofsignificance)

The ratio of total advances to total deposits fell by 8.51 percent following the merger, with a mean of 81.28 before the merger and 72.77 thereafter, with standard deviations of 4.00 and 2.01 respectively. The value of business per employee, on the other hand, is 1423 (in lakhs) before the merger and 1884 (in lakhs) after the merger, with standard deviations of 195.28 and 217.58, respectively. Following the merger, profits per employee dropped by almost 77 percent. In the pre-merger period, the average mean value was 5.28, and in the post-merger period, it was 1.23, with standard deviations of 0.68 and 4.18, respectively. SBI, on the other hand, saw the most increase in business per employee after the merger, with a 32.4 percent increase.The null hypothesis H_{03} is rejected based on the findings of the dependent sample t-test, which reveal that M&As have a substantial negative impact on total advances to total deposits and a significant positive impact on business per employee in the post merger era.

(D) EARNING CAPACITY ANALYSIS

Table4: Earning CapacityofSBI- Pre and Post-Merger Period

Sr. No.	Particulars	Pre		Post		Change (percent)	t-statistics	
		$\bar{X}$	σ	$\bar{X}$	σ		t	Sig.
1	ReturnonAssets	-0.03	1.04	0.07	0.29	0.1	0.13	0.91
2	Net Profits to AverageAssets	0.33	0.09	0.04	0.20	(0.29)	1.79	0.22
3	InterestIncometo TotalIncome	85.26	1.97	85.03	1.84	(0.23)	0.13	0.91
4	OtherIncometo TotalIncome	14.74	1.97	14.97	1.84	0.23	0.13	0.91

(Source:RBIReports,*Significant at5percentlevelofsignificance)

Table 4 shows SBI's earnings before and after the merger, based on an average of three years before and after the merger. The pre-merger return on assets is -0.03 and the post-merger return on assets is 0.07, with standard deviations of 1.04 and 0.29, respectively. In contrast, the pre-merger and post-merger net profits to average assets ratios are 0.33 and 0.04, respectively, with standard deviations of 0.09 and 0.20. Similarly, the pre-merger and post-merger ratios of interest income to total income are 85.26 and 85.03, respectively, with standard deviations of 1.97 and 1.84. Other revenue as a percentage of total income is 14.74 in the pre-merger era and 14.97 in the post-merger period, with a standard deviation of 1.97 in the pre-merger period and 1.84 in the post-merger period. After M&As, SBI increased its other income to total income by 0.23 percent. The null hypothesis H_{04} is accepted based on the findings of the dependent sample t-test, which reveal that M&As have no significant influence on SBI's earnings capacity in the post-merger era.

(E) LIQUIDITY ANALYSIS

Table5: Liquidity AnalysisofSBI- Pre and Post-Merger Period

Sr. No.	Particulars	Pre		Post		Change(percent)	t-statistics	
		$\bar{X}$	σ	$\bar{X}$	σ		t	Sig.

1	LiquidAssetsto TotalAssets	7.01	0.61	5.98	0.40	(1.03)	1.78	0.22
2	GovernmentSecurities to TotalAssets	20.07	1.44	22.21	2.30	2.14	1.03	0.41
3	LiquidAssetsto DemandDeposits	118.95	5.75	106.48	4.97	(12.47)	2.06	0.18
4	LiquidAssetsto TotalDeposits	9.30	0.77	7.49	0.35	(1.81)	2.98	0.10

(Source:RBIReports,*Significant at5percentlevelofsignificance)

SBI's pre- and post-merger liquidity is shown in Table 5. The pre-merger and post-merger liquid asset-to-total asset ratios are 7.01 and 5.98, respectively, with standard deviations of 0.61 and 0.40. In the pre- and post-merger periods, the ratio of government securities to total assets is 20.07 and 22.21, respectively, with standard deviations of 1.44 and 2.30. Similarly, the ratio of liquid assets to demand deposits fell from 118.95 to 106.48 in the post-merger era compared to the pre-merger period, with standard deviations of 5.75 and 4.97 in the pre-merger and post-merger periods, respectively. Similarly, the ratio of liquidity assets to total deposits fell from 9.30 in the pre-merger era to 7.49 in the post-merger period, with standard deviations of 0.77 in the pre-merger period and 3.35 in the post-merger period, respectively. The null hypothesis H_{05} is accepted based on the findings of the dependent sample t-test, which reveal that M&As have no significant influence on SBI's liquidity in the post-merger period.

VIII. CONCLUSION

The CAMELS Framework is used to examine State Bank of India's pre-merger and post-merger financial performance in this studyBased on the foregoing analysis, it can be stated that M&As have no substantial influence on capital adequacy, asset quality, earnings capacity, or liquidity in SBI's post-merger era. The study's findings show that the State Bank of India has failed to reap the benefits of merger since it has taken over its own associate banks, which have substantial non-performing assets. Ratios relating to capital adequacy have not shown any significant improvements in the post-merger phase; rather, the rising trend of the Debt Equity Ratio has raised the degree of financial leverage and lowered depositor and creditor protection. Similarly, the bank has failed to enhance the quality of its assets since non-performing assets have risen as a result of the tie-up, posing a risk to the bank.During the post-merger era, however, there is a large negative impact on total advances to total deposits ratioand a significant favourable impact on business per employee.

The bank's overall earning potential and liquidity have also suffered as a result of the merger. The bank's net profit has decreased as a result of the merger, and it has not paid any dividends to its shareholders as a result of the negative earnings. Though the newly merged SBI will profit from large-scale operations and will share a major percentage of market share, it can be concluded that, , the merger has made no significant effect in SBI's financial performance, at least in the short term.

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