



Commerce

## **ANALYSIS OF MERGER OF SBI & ITS ASSOCIATES**

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### **Abstract**

Merger of SBI with its 5 associate banks and Bharatiya Mahila Bank which took place on 1 April, 2017 is the largest merger in history of Indian Banking Industry. The research has been conducted to know from where the journey of SBI to reach this point of success where post-merger it is at 45th position among top banks of the world. The focus of this paper has been placed on reasons of this merger and also, after effects of merger has also been discussed.

**Keywords:** Merger; Associate Banks; Post Merger; Shareholders.

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### **1. Introduction**

Merger of SBI with its 5 associates namely State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH), State Bank of Patiala (SBP) and Bharatiya Mahila Bank<sup>1</sup> took place on 1 April, 2017. Shri Arun Jaitely is confident that the bank will become global player due to this step of its merger with its five associate banks and Smt. Arundhati Bhattachary, Chairperson of SBI, expects that profits of Bank shall increase by Rs. 3000 crore in upcoming 3 years.<sup>2</sup>

### **2. History**

In history of SBI it is not the first time when SBI has merged with other banks. Earlier in 2008, State Bank of Saurashtra was merged with SBI and in 2010 State Bank of Indore was merged with SBI.

In fact, SBI came into existence when Bank of Bengal, Bank of Madras and Bank of Bombay amalgamated to form Imperial Bank of India in 1921 which was subsequently converted to State Bank of India in 1955.<sup>3</sup>

### **3. Objectives**

Being the largest amalgamation in history of Indian Banking Industry it attracts attention towards following objectives:

- 1) To study the reasons behind the merger.
- 2) To find out the effects of merger on shareholders, general public etc

### **4. Research Methodology**

Data for the purpose of research has been collected from secondary sources. The data has then been analysed in order to find out reasons of merger and its effects on Indian banking system.

### **5. Reasons of Merger**

The reasons behind the merger of SBI with its associate banks and Bharatiya Mahila Bank are listed as follows:<sup>4</sup>

- 1) Government of India provides subsidy and contribution for bad debt recovery and share capital to SBI and its associate banks. It will become easy for government to provide aid to this single amalgamated bank instead of giving it separately to SBI and its associate banks.
- 2) Profitability of SBI was going down for last few years and this merger will be able to show better position of profitability in books of SBI. Net profit of the group fell from Rs. 12,225 crores in Financial Year 2016 to Rs. 241 crores in Financial Year 2017 and the losses were mainly due to associate banks.<sup>5</sup>
- 3) To recover loans which have turned bad and to reduce NPA of SBI and associate banks in future, merger of SBI with associate banks was important.
- 4) For reconstruction of SBI and associate banks in face of financial crises so that it can meet its liabilities.
- 5) With the merger, SBI has become bigger than before. Now it has a larger asset base and ranks 45th among top banks of the world.
- 6) Management of bank will become easier as earlier all the branches were managed by separate management though the holding was same and it used to make the whole process cumbersome.
- 7) Cost of managing large number of branches will reduce which will increase profitability of bank.

### **6. Effects of Merger**

As a result of merger SBI will be among top 50 large banks of the world. Now SBI will have an asset base of Rs. 37 lakh crores. Presently number of SBI offices along with its associates are 809 which is likely to be reduced to approximately 687 after merger.<sup>6</sup>

Employees will be reallocated mainly to customer interface operations of those branches which are likely to be shut down. The task has been lightened as around 13000 employees have retired this year and 3600 have taken voluntary retirement. However, bank will hire less employees in this financial year. Out of total asset base of SBI, 28 shares of SBI will be given to shareholders

of SBBJ who had 10 shares and shareholders of SBM and SBT having 10 shares will get 22 SBI shares each as only these associate banks are listed with stock exchange. Rest two banks i.e. SBP and SBH are not listed with the stock exchange.

Effects of merger on customers shall have a dual effect. Most of the continuing branches are working in the manner they used to work. Even the rate of interest they are offering on deposits is still same till the end of that contract. However NEFT/RTGS charges are applicable to SBI are being charged. Online transactions of associate banks can now be done from website of SBI using previous username and password.

## 7. Conclusion

In view that profitability of SBI was going down, and it needed reconstruction, this step of merger seems to be a smart step. It has brought SBI in list of top 50 banks in the world which is a big deal. However, profitability of the bank after merger has fallen by approximately Rs. 3000 crore. This was mainly because of accumulated losses of associate banks which were shown in balance sheet of the amalgamated entity and it reduced the enthusiasm of investors. Still, investors should not lose hopes as such bold steps have effects in long run and they take time to become visible.

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