

Impact of Bank Merger's on the Efficiency of SBI and BOB

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Abstract: At present many banks have merged in the banking sector of India. When two or more banks are blended to form a new bank, it is called merger of banks. The main objective of this article is to study the effect of merger of banks on their profitability. Secondary data was used in the paper which was collected from annual reports of banks. Ratio analysis and Paired t-test has been used to measure the impact of the merger on their profitability. The results revealed that although the profitability of the banks was reduced post-merger but the ratios of the same has not changed significantly.

Keywords: Bank, Merger, Profitability, Ratio Analysis.

I. INTRODUCTION

The process by which two or more companies decide to merge and form a new company, sometimes with a new name, rather than being separately owned and run, is known as a merger. The merger aids in the reduction of weaknesses and the acquisition of a competitive advantage in the market. During a merger, the merging companies exchange information on debt, resources, technology, and assets, among other things.

Benefit of Merger:

1. The Public Sector Banks' lending capacity will increase because of these mergers, and their balance sheets will be strengthened.
2. By lowering their cost of lending, these large banks would be able to compete globally and improve their operational efficiency.
3. To transform India into a \$5 trillion economy, it will require massive investment. If banks have enough money to fund large projects, the country's economic development will accelerate.
4. The merger would aid in better banking capital management.
5. These banks' customers may gain access to a broader network of bank branches and ATMs.

Demerit of Merger:

1. The activities of the stronger bank will be affected after the bank merger in India due to the negative influence of the weaker banks.
2. Bank mergers could also be hampered by human resource and cultural concerns.
3. The choice of the Government, as the majority shareholder, will have an impact on the minority shareholders, who will now have only a limited influence in decisions.
4. The current bad loan crisis is unlikely to be solved by the bank merger process, which includes robust institutions taking over weaker banks.
5. Management will have to deal with crucial issues such as branch rationalization, personnel integration, and accounting synchronization, among other things.

6. Employees are concerned that they may lose their jobs, and that their chances of advancement would be harmed.

II. LITERATURE REVIEW

According to Sinha and Kaushik (2010) examined the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The analysis consists of two stages. Firstly, by using the ratio analysis approach, we calculate the change in the position of the companies during the period 2000-2008. Secondly, we examine changes in the efficiency of the companies during the pre and post merger periods by using nonparametric Wilcoxon signed rank test. While we found a significant change in the earnings of the shareholders, there is no significant change in liquidity position of the firms. The result of the study indicate that M&A cases in India show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value.

According to Kemal (2011) used accounting ratios to analyze the financial performance of Royal Bank of Scotland (RBS) in Pakistan after merger. He had analyzed their financial statements for four years (2006-2009) by using 20 vital ratios. In spite of certain limitations, accounting ratios are still considered as a convenient and reliable analytical tool. Ratio analysis, being a time-tested technique, is most frequently employed in all financial decision-making processes. The results show that the financial performance of RBS in the areas of profitability, liquidity, assets management, leverage, and cash flows has been quite satisfactory before the merger deal. It means that merger deal fails to improve the financial performance of the bank.

Shrestha, Thapa and Phuyal (2017) explained that merger and acquisition is relatively new reorganization practice undertaken to strengthen the BFIs in the Nepalese financial market. This study makes an attempt to analyze the financial performance of merged banking and financial institutions relative to their pre-merger performance and assess the perception of the stakeholders towards merger. Six banks and financial institutions are considered as sample to undertake this study along with 120 respondents for secondary and primary data respectively. The financial ratios comparison method along with t-test of changes in performance measures has been used. This study found that merger impacts performance positively when larger and stable parties such as commercial banks act as bidders as opposed to the merger between smaller BFIs mainly other than commercial banks as bidder. The loan quality significantly deteriorates after merger in most of the cases and profitability measured in terms of ROA and ROE is adversely affected in most of the cases after the merger. Therefore, the merger should not be considered as the definite solutions to overcome the challenges faced in the market; enough

evaluation is needed to select the right partners before executing the merger.

According to Goyal and Joshi the world of competition is like a jungle where monsters gobble smaller ones therefore one must be competent enough to win the rivalry. There is Evidence that large enterprises have merged smaller competitors in themselves. This review article on mergers in banking industry has been ignited from the case of the Bank of Rajasthan Ltd. And ICICI Bank Ltd. The Aim of this paper is to probe the motives of banks for mergers and acquisition with special reference to Indian Banking Industry. For this purpose, sample of 17 mergers (post liberalization) of Banks is taken. This study is conducted on The basis of number of branches, geographical penetration in the market and Benefits from the merger. Apart from their financial aspects, this article also raises certain questions from the point of view of Human Resources Management and Organization Behaviour for scholars and researchers. This Article leaves footprints on the way of further studies on mergers and Acquisitions from a different outlook.

According to Fatima and Shehzad (2014) this study is testing the impact of merger and acquisition of banks and provides insights about their role after merger on banks profitability. In this paper six financial ratios are used for analysis these ratios are profit after tax, return on asset, return on equity, debt to equity ratio, deposit to equity ratio and EPS. Ten banks are selected as sample for analysis which gets into merger from 2007-10. 3 year pre-merger and 3 year post-merger data points are taken for all the 10 cases and their averages are compared. In SPSS paired sample T-test is applied for analysis and findings shows that only at 5% level of significance only ROE is affected by the merger and acquisition and other ratios have no impact from this strategy.

According to Abbas, Hunjra, Saeed, Hassan, and Ijaz (2014) Merger and Acquisition is a strategy adopted by the organizations globally to meet the needs of dynamic business environment. This strategy also has much importance in Pakistan mostly in banking sector. Therefore, the objective of the study is to assess the impact of M&A on the financial performance of banks in Pakistan. The accounting and financial data of 10 banks were used in this study. Data was taken from the financial statement analysis (FSA) by State Bank of Pakistan from the period of 2006-2011. For the analysis of pre- and post-Merger and Acquisition performance 15 financial ratios were used in the study. To compare the results Paired sample t-Test was used to measure the significant difference between pre and post M&A financial performance. The overall results show that there is no significant difference in financial performance. It is concluded that there is insignificant difference between pre and post M&A performance of banks in Pakistan.

According to Rehan, Khan and Khan (2018) the main aim of this research study is to shed light on the effect of merger and acquisition on the profitability of banks in Pakistan. Debt equity ratio (DER), return on capital employed (RCE), net profit margin (NPM), gross profit margin (GPM), operating profit margin (OPM) and return on equity (ROE) were selected in this research for analyzing the profitability of banks on three years before the merger and three years after the merger of banks. In this research study Paired sample T-test was applied in order to find out the effect of pre- and post-merger & acquisition performance of banks.

Joash (2015) the aim of the study was to analyze whether the merger had any effect on the banks' performance. The study

was guided by the following specific objectives; to determine the effect of the mergers and acquisitions on the shareholders' value and to examine the implication of mergers and acquisitions on profitability. The study was a census of which all the 14 banks that have merged or acquired others in the period from 2000 to date were investigated. Data was collected by use of questionnaires with both open and closed ended questions. The collected data was analyzed using SPSS where the co-efficient of correlation obtained was used to determine the nature of the relationship between the independent and dependent variables. The study found out that the mergers and acquisitions raised the shareholders' value of the merged/acquiring banks in Kenya. The study further revealed that the main reason why most banks merged or acquired was to raise their profitability. The research questions were significant to the study and useful in arriving data conclusion. The researcher recommended that thorough feasibility studies should be carried out before the merger/acquisition process can be done. On areas of further research, it was recommended that effect of mergers/acquisitions in other sectors of the economy should be established with a view of drawing a parallel with the effects of the same processes in the banking sector

OBJECTIVE OF THE STUDY

1. To analyze the effect of merger of Dena bank and Vijaya bank on the financial performance of Bank of Baroda
2. To analyze the effect of merger of SBI associate on the financial performance of State bank of India.

III. METHODOLOGY

- **Source of data:** For this paper secondary data was used. Secondary data was collected from annual reports of banks from their website. The data regarding the Gross and Net NPA and selected ratios for the period before and after the merger is taken from the BOB and SBI banks.
- **Sample size:** At present there are 12 public sector banks in India, out of which 4 banks have been included in this study. So sample size is Four and universe is 12 banks.
- **Period of the study:** This paper covers data from the last 6 years 2015 to 2021
- **Tools & Techniques:** Rational analyze and t test have been used to measure the impact of merger on the profitability of banks.

Hypothesis

Ho: There is no significant impact of merger on Financial Performance of Indian banking sector

H1: There is significant impact of merger on Financial Performance of Indian Banking sector

Merger covered: Vijaya Bank and Dena Bank were merged with Bank of Baroda with effect from 1 April 2019 and SBI associate banks merged with SBI on 1 April 2017 which is covered under the study.

IV. DATA ANALYSIS

For the purpose of the data analysis the data gathered from both the banks are gathered as the merger was effective from the 1 April 2019 for BOB and 1 April 2017 for SBI accordingly data for the period before and after is gathered and presented in table-1 and table-2 as under:

Table-1: NPA level in the selected companies (INR in Crore)

Particulars	BOB		SBI	
	31.03.19	31.03.20	2016-17	2017-18
Gross NPA	48,233	69,381	1,77,866	2,23,427
Net NPA	15,609	21,577	96,978	1,10,855
Net profit	2,042.36	2,037.15	-4,556.29	241.23

The above table makes it clear that the level of gross NPA and Net NPA has increased after the merger of the banks while the level of the net profit has reduced and in case of SBI it has turned to be the loss.

Table-2: NPA and other level in percent in the selected companies

Particulars	BOB		SBI	
	31.03.19	31.03.20	2016-17	2017-18
Gross NPA (%)	9.61	9.4	9.11%	10.91%
Net NPA (%)	3.33	3.13	5.19%	5.73%
Provision Coverage Ratio (including TWO) (%)	79	81	61.53	66.17
CASA	37.25	39.07	45.68	44.4
Cost-Income Ratio	52.01	47.86	55.7	52.46
Asset's quality	10.2	9.4	12.74	13.56

The percentage wise ratios of the banks before and after merger is presented in the table-2 revealed that although the level of the NPA has increased the percentage wise level in the BOB has reduced for both Gross and Net NPA percentage while in case of the SBI it has increased. But in case of the Assets quality ratio the ratio of SBI improved post-merger. Thus, to measure the impact on the ratio the independent sample t test is applied with the following hypothesis:

H₀ = there is insignificant differences in the ratios of the selected banks pre- and post-merger.

To analyse the above hypothesis the independent sample t test is applied with the SPSS software and results are as under:

Table-3: Independent Samples Test Results

Group Statistics					
	Pre/Post-Merger	N	Mean	Std. Deviation	Std. Error Mean
VAR00002	Pre-Merger	12	30.5875	27.71829	8.00158
	Post-Merger	12	30.5375	28.05814	8.09969

Independent Samples Test

	Levene's Test		t-test for Equality of Means				
	F	Sig.	t	df	Sig.	Mean Difference	Std. Error Difference
Equal variances assumed	0	0.997	0.004	22	0.997	0.05	11.38553
Equal variances not assumed			0.004	21.997	0.997	0.05	11.38553

The results of the Independent Samples Test are assessed based on the two rows Equal variances assumed or Equal variances not assumed. The Levine's test revealed that the variance in the two categories were equal as $p > 0.05$. Thus, the results of Equal variances assumed are used to measure the results. The results revealed with the p value over 0.05 ($\alpha = 0.05$) means that the above hypothesis is accepted, and we can say that the difference in the various ratios pre and post merger were not significant.

CONCLUSION AND RECOMMENDATION

The results revealed with the absolute figure and the ratios about the bank merger's impact on the efficiency in case of SBI and BOB. After the merger, gross and net NPAs rose, but net profit decreased, and in SBI's case, it became a loss. The proportion of NPA before and after merger reveals that although the percentage of gross and net NPA has risen in the BOB, it has decreased in the SBI. However, SBI's asset quality ratio improved after the merger. The Independent Samples Test results are evaluated based on the two rows Equal variances assumed or not. The Levine's test showed that the variance in both categories was 0.05. Thus, Equal variances are assumed to measure the outcomes. And we can say that the difference between pre and after merger ratios is not substantial. This means that the immediate impact over the bank's profitability was there as SBI profitability turns to be in negative, but the other impact of the merger was not substantial. Thus, the study suggest to increase the period of the future studies to get the difference in the profitability of the banks after merger and further the reasons of reducing the profitability is identified in the light of the merger.

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