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MERGING OF SBI AND ITS SUBSIDIARIES: PRONS AND CONS

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ABSTRACT :

The Indian banking sector is an important constituent of the Indian financial system. The banking sector plays a vital role through promoting business in urban as well as in rural areas in recent years. The banking section will navigate through all the aspects of the Banking System in India. A globally competitive economy requires a robust and competitive banking system. The present banking system is a result of reforms and policy changes that have taken place in the past. The study aims mainly at the latest initiation of SBI in merging all its subsidiaries Banks.The study focuses on the purpose, consequences and the financial effects arrived from the process of merging SBI with its subsidiaries with the help of digital technology. The paper also consists of study on managing the Non-Performing Assets by SBI and the pros and cons of merging process.

KEYWORDS : *Banking system, Reforms of SBI and its subsidiaries & digital technology.*

INTRODUCTION

The emergence of banks and its reforms:

Before independence that is during British rule East India Company gave the raise of Banking Sector. On 1806 it had promoted BANK OF CLACUTTA and in meanwhile BANK OF BOMBAY and BANK OF MADRAS on 15th April 1840 and on 1st July 1843. On 27th January 1921 all presidency banks were merged together to form IMPERAIL BANK by passing Imperial Banking Act, 1920. In 1934 RESEVE BANK of INDIA came into existence which was made the central bank and which has the power of note issue until which any other bank did not have.

In 1955 by passing the State Bank of India Act 1955, the Imperial Bank was taken over and assets were vested in a new bank, The State Bank of India. We can refer this as the first reform in banking sector after Independence.

Bank Nationalization:

After the independence the major historical event in banking sector was the nationalization of 14 major banks on 19th July 1969. The nationalization was deemed as a major step in achieving the socialistic pattern of the society. In 1980six more banks were nationalized taking total nationalized banks to twenty.

In 1991, the country was caught into a deep crisis. The government at this juncture decided to introduce comprehensive economic reforms. The banking sector reforms were part of this package. The main objective of banking sector reforms was to promote a diversified, efficient and competitive financial system with the ultimate goal of improving the allocative efficiency of resources through operational flexibility, improves financial viability and institutional strengthening. Many of the regulatory and supervisory norms were initiated first for the commercial banks and were later extended to other types of financial intermediaries. While nudging the Indian banking system to better health through the introduction of international best practices in prudential regulation and supervision early in the reform process, the main idea was to increase competition in the system gradually. The reforms have focused on removing financial repression through reductions in statutory preemptions, while stepping up prudential regulations at the same time. Furthermore, interest rates on both deposits and lending of banks had been progressively deregulated.

In August 1991, the government appointed a committee under the chairmanship of M.Narasimham, which worked for the liberalization of banking practices. The aim of this Committee was to bring about "operational flexibility" and "functional autonomy" so as to enhance efficiency, productivity and profitability of banks.

Recent SBI merger with its subsidiaries

Banking industry is undergoing unprecedented changes driven by consolidation by means of mergers and acquisitions all over the world. One of the principle objectives behind the merger and acquisitions in banking sector is to reap the benefits of economies of scale. Moreover, mergers and acquisitions in the banking industry have resulted in large universal banks in terms of total assets, products, and geographical diversification. Large banks are in a better position to introduce technology and reduce cost than small banks. Large banks have normally large capital and easily utilize economies of scope.

The Indian banking sector is an important constituent of the Indian financial system. The banking sector plays a vital role through promoting business in urban as well as in rural areas in recent years. Without a sound and effective banking system, India cannot be considered as a healthy economy. For the past three decades India's banking system has several outstanding achievements to its credit. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country only with the help of increasing improvement or up-gradation in digital technology. The Indian commercial banking sector is one of the largest in the world. Over the decades, the Indian banking sector has grown steadily in size, measured in terms of total deposits, at a fairly uniform average annual growth rate of about 22%.

State Bank of India (SBI) is an Indian multinational, public sector banking and financial services company. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra.

- **Website**: sbi.co.in
- **Headquarters**: Mumbai
- **Founded**: 1806 1st April
- **Employees**: 209,567

Merger of State Bank of India (SBI) with its subsidiary banks has been considered for several years. SBI management has got a blanket approval from the government to merge all the banks. SBI management has taken this consolidation exercise step by step. The first step towards unification occurred on 13thAugust 2008 when State Bank of Saurastra merged with SBIand then on 19th June 2009, the SBI board approved the merger of its subsidiary, State Bank of Indore, with itself. SBI proposes to merge its five remaining subsidiaries - State Bank of Hyderabad, State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Travancore and State Bank of Mysore with itself by mid-2012 ("SBI to take a view on merger," 2011).

This consolidation is aimed at making the State bank group a stronger and more resilient organization. Merger/acquisition of its subsidiary banks by SBI should not be seen as a merger in the conventional sense but is more in the nature of restructuring within the Group as SBI already held 75% or more equity stake in all its subsidiary banks. Parliamentary Standing Committee on Finance reported while SBI has also stepped up its efforts to grow organically, the inorganic growth through mergers would also help the bank in scaling up within an acceptable time frame, to enable it to compete on an equal footing with foreign banks, not only in India but in the international economic arena as well (Feb 23, 2011; Business Line). On the other side, State Banks' Staff Union and SBI Officers' Association opposed this proposed merger of associate banks with State Bank of India and termed this as a retrograde step.

In this background, an obvious question arises in our mind – 'will the merger proposal of SBI and its subsidiaries produce an efficient bank in Indian banking industry?' Therefore, the present study evaluates efficiencies of Indian banks particularly seven banks of SBI associate before and after hypothetical merger of such seven banks using financial data.

It was feltthat there is enough room for growth and healthycompetition for public and private sector banks as well as foreign and domestic banks."The Central Board of Directors of the State Bank of India (SBI), at its meeting held on 18.08.2016 have accorded their approval to the Scheme of Acquisition of State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Travancore and BharatiyaMahila Bank Limited by State Bank of India, under Section 35 of the State Bank of India Act, 1955, subject to approval of the Scheme by the Reserve Bank of India and the Government of India,".

It is important that only with the help of digital technology; it is easier to merge the accounting & the transactional data of different banks into one. Without the help of the digital technology it would be very difficult even to imagine about merging the details of such huge number of transactions. If we take only one bank there are continuous and numbers of transaction taking place. Then if we take the merging of such a kind of6 banks's transaction and recordings merging with one of the largest bank in India that is with SBI, then it will be an unsuccessful task in the absence of the digital technology.

RESEARCH PROBLEM

The concept of banking in not new in today's life. Every aspect of life is connected with banks directly or indirectly. The study mainly aims to focus on the recent reform that is held in SBI sector that is on the acquisition of various subsidiaries by SBI.

OBJECTIVE OF STUDY

The main objective is as follows:

1. To study the main motive behind the acquisition.
2. To study the consequence of merging SBI with its subsidiaries.
3. To study the financial position of SBI after acquisition.

RESEARCH METHODOLOGY

The study focuses on primary data collected through survey and the secondary data from various journals, magazines and the articles published through various official websites.

THE MAIN MOTTO OF ACQUISITION

SBI and the associate banks are being planned to be merged into one single entity, by the initiative taken by the Indian Government. The main motto of SBI merger was done to increase the productivity of the bank and also be able to serve common people efficiently and also to boost market share exponentially and the move will help to reduce several repetitive costs which helps in increasing the profitability of the bank with great flexibility. The other reasons are as under:

1. Govt. Aid toMerged SBI Group: Firstly the SBI and associates are one of the largest Government undertakings of the Central Government 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 Banks 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 is its subsidiaries. So in order to show better profitability, merger of the Banks was 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 is 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 all large segments 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 Management: 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.

7. 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. The change in name from SBI associates to SBI will have a good market impression and will generate goodwill.

THE DIGITALREVOLUTION

The digital revolution has also playing a great role even for banking sector. Without any digital revolution banking sector could not be able to survive or it will remain as a rigid sector. With the help of digital technology it is possible to carry on the banking functions efficiently and effectively. Because without the digital technology it would not be possible for banks to carry on the RTGS(Real Time Gross Settlement) and NEFT(National Electronic Fund Transfer) specifically. With the introduction of computer and its technology in banking sector there are numerous positive impact and enhanced the operational flexibility of transactions.

THE CONSEQUENCE OF MERGING THE SUBSIDIARIES WITH SBI

The acquisition by SBI is not a new concept. Earlier in 2008 SBI merged with two major associated banks that is State Bank of Saurashtra and in 2010 SBI merger took place for State Bank of Indore. Many financial experts believe this time the SBI merger was a political move. Despite the accusations,Arundhati Bhattacharya the former MD of SBI has clearly stated that there has been no political push for the merger.

The consequences are as follows:

1. Firstly, post the SBI merger the bank now has 370 million customers increased from 14000 to 24000 branches and nearly 59000 ATMs.

2. There are major changes in rules and regulations. The minimum average balance of INR 5000 in metros and INR 3000 in urban cities.
3. SBI's asset size rose up to Rs 28.6 lakh crore as on March. SBI is on its way to catch up with the competitors like HDFC bank and ICICI Bank.
4. The ratios for exchange in merger procedure approved are as follows: 28 SBI shares for every 10 shares of SBBJ, 22 shares of SBI for every 10 equity shares of SBM and SBT and 4,42,31,510 shares of SBI for every □100 crore shares of BMBL.

The performances of the associated banks are as follows:

PERFORMANCE OF ASSOCIATE BANKS

NAME	FY 2015 Net profit (in cr)	FY 2016 Net Profit (in cr)	% change (y-o-y)
SBJJ	777	851	+9.49
SBH	1,317	1,065	-19.15
SBM	409	358	-12.46
SBP	362	-972	-
SBT	336	338	+0.66

The state of affairs of banks as on 2015-2016

Bank name	Balance sheet (in □)	Advances (in □)	Gross NPA (in □)	Provision Coverage ratio (%)
SBI	**226**	**1,463,700.38**	**98,172.8**	**60.69**
SBT	**1.1**	**65,466.27**	**3,199.96**	**61.49**
SBM	**0.8**	**55,417.91**	**3,635.56**	**58.71**
SBBJ	**1.1**	**72,927.46**	**3,602.76**	**62.11**
SBP	**1.3**	**82,185.71**	**6,766.57**	**NA**
SBH	**1.6**	**111,065.35**	**6590.91**	**NA**

"We believe that Indian banking sector needs some time to assimilate the impact of past three structural changes (demonetization, GST implementation and RERA) before facing the new ones," said the SBI Ecowrap in the report - 'Timing Future Reforms in India'.

The positive consequence can be:

1. 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
2.The bigger the bank, the better is the diversification of its assets portfolio and lesser chances that the bank will fail in the system.
3. 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.
4. As of now SBI alone has employee strength of more than 2 lakh, combining with all these banks

it will cross 3 lakh bases and thatare huge terms of employment.
5. With this merger SBI will be able to finance more and more mammoth projects that will lead to economic development of the country.
6.SBI's reach and network will multiply, efficiency will likely to increase with the rationalization of branches.
7. Adoption of development of technologies in associate banks will be faster with the help of cloud computing and which also enables the associate banks to improve their efficiency. From banking facility point of view, SBI is the more technically advanced compared to its associate banks.
8. The combined entity will have network of over 24000 branches with ATM serving 50 crore customers. Another thing is that it is not going to impact customers. Customers will be getting better facilities or world class facilities.
9. Some associate banks which are under staffed will get exponential benefit out of it.
10. It will also help in financial inclusion. As now banks would be able to open more branches at the rural places, it will help people to get banking facilities easily as all associate banks will be on the same level and providing the same facilities.
11. Merging 27 banks not just SBI and associates into 4-5 big banks will boost the banking sector. May help in reducing the bad loans as well.
12. Larger banks will have more stability and strength, making the job of the regulator easier.
13. Employees will get wider exposure in the changed environment and new opportunities will open up for them.

The negative consequence may be:

1. The process of merger is not a easy task which take a number of years to complete and to get set off.
2. Due to merger, employees not willing to work in SBI will take VRS which leads to the unemployment and through which the time taken for the working becomes slow and which ultimately reduces the speed of working of the bank.
3. The bank account linked to the demat records are to be changed which is a time consuming and expensive exercise.
4. Bank cannot prevent lethargy, discontentment and conflicts among the staff. To tackle this problem, many staff-friendly steps on the H.R. front are essential.
5. Banks will lose thousands of talented and experienced personnel at the time of VRS, resulting in serious crisis at the middle and senior management levels.
6. Staff identified as surplus in many pockets (urban and metros) will be transferred to far off places. This will create turmoil and widespread protests. It will take minimum 3 years for the disturbances to subside and for the peace to return in the new organizational space.
7. For 2 years from the date of merger, several problems will crop up in the area of reconciliation of accounts, updating of records etc. Especially in Suit Filed Accounts, SARFAESI/DRT Cases, Written off Accounts, this problem will be acutely felt. In the meantime, cases of fraud and misappropriation/embezzlement may also be reported.
8. After merger, the share price of the merged entity will fall immediately.

The financial status of SBI after merger

The country's largest lender SBI reported a consolidated net profit of □3,105.35 crore for the 3-month period ended June 30, the first quarterly result after merger of its associate subsidiaries and BMBL.

SBI had reported a net profit of□867.32 crore in the same quarter of last fiscal. On standalone basis, the net profit was down over 20% as bad loans rose during the April-June period of the current financial year.

SBI said the results for this quarter are not comparable on account of merger of its subsidiaries - SBBJ, SBM, SBT, SBP and SBH besides BharatiyaMahila Bank Ltd (BMBL) with itself with effect from April 1, 2017.

The bank's total consolidated income during the April-June quarter of 2017-18 stood at ₹70, 776.56 crore, SBI said in a regulatory filing.The total earnings in the same quarter of 2016-17 were at ₹69,414.82 crore. Separately, SBI said in a statement that on a comparable basis, bank's consolidated net profit in April-June, 2017-18, rose by over five-times to ₹2,006 crore, as against ₹374 crore a year earlier.It said it has worked out historical data of erstwhile five associate banks, BMBL and of itself for comparing first quarter results of this fiscal, from same quarter of 2016-17.On standalone basis, net profit during the quarter under review was down 20.4 % to ₹2, 005.53 crore as against ₹2,520.96 crore in year-ago period.The total income was however ₹62,911.08 crore, as against ₹48,928.60 crore. Bank's (standalone) asset quality deteriorated further, with gross non-performing assets (NPAs) rising to 9.97% as on June 30, 2017 as against 6.94% as at end-June 2016. Net NPAs or bad loans stood at 5.97 % at the end of June quarter, 2017-18, up from 4.05% by June 30, 2016-17. The provisions (standalone) to cover for bad assets almost doubled to ₹12,125.26 crore for the first quarter of this quarter, from ₹6,339.56 crore.

NPA provisions (consolidated) for June quarter were of the order of ₹12,227.60 crore, up from ₹11,353.57 crore by the end of June 2016. State Bank of India (SBI) provision coverage ratio as on June 30, 2017 stood at 60.79% The SBI stock plunged 4.60 % to ₹282.90 on BSE in the afternoon.

So while profit numbers for the consolidated entity soared (a 436 % jump to ₹2,006 crore in Q1FY18 from₹374 crore a year earlier), so did the non-performing assets (NPAs) – the gross NPA ratio rose to 9.97 % of gross advances in the April to June quarter, compared to 6.90 % for the solo entity on March 31, 2017.

The bank has however said that due to the merger of its associate banks with itself, the results were not comparable with the previous year.

The bank, in a presentation to the media, has indicated that "lower retail slippages and higher recoveries will lead to reduction in retail NPAs. In value terms, slippages for Q1FY18 were at ₹26,249 crore in the June-ended quarter, compared to ₹ 28,590 crore in the corresponding quarter a year earlier.

SBI's net interest margins slid to 2.36 % in the three months to June 2017 (for the merged entity), compared to 2.74% in the March-ended quarter and 2.84% in the June-ended quarter last year. SBI's stock fell after the earnings data came in, closing down 5.36% at₹280.65 at the BSE, SBI's cost-to-income ratio increased by 460 basis points year-on-year to 53.64% as on June 30, 2017 from 49.04% a year earlier and by 410 basis points sequentially from 49.54% as on March 2017.

State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank Of Hyderabad, State Bank of Mysore and State Bank of Travancore, the five associate banks merged with the parent, SBI. The Bank has so far merged 594 branches till August 6, 2017.

Earlier in June, the government gave the go-ahead to the merge SBI with its five associate lenders and BharatiyaMahila Bank.

FINDINDS

- The gross NPA ratio rose to 9.97%of gross advances in the April to June quarter, compared to 6.90% for the solo entity on March 31, 2017.
- SBI had reported a net profit of ₹867.32 crore in the same quarter of last fiscal.
- The scope of bank has risen to a large extent with its positive consequences and by overcoming the negative consequences.
- SBI's associate's performance was going in a destructive way where the merger helped the bank to overcome the deficiencies and gave a chance to rise in their transactional status.
- The NPA (Non Performing Asset) ratio of SBI has also rose with the merger where it need some time to overcome the issue.

- The merger also leads to cut down the operations cost.

CONCLUSION

The move of Merger of SBI with its associated bank has a greater positive impact on the macroeconomic aspect which will lead to the efficient working of the banks with low operations cost and the effective utilization of the financial and other resources. Hence the merger reform of the SBI with the help of digital technology is a positive sign of development of both for the bank and the economy. The uniformity of the bank is also retained by the bank where we can refer any state bank as "SBI" rather than separation and has listed as one of the top 50 largest banks in the world which is a pride for our Indian Monetary and Economic System.

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