

IMPACT OF SBI MERGER ON ITS NON PERFORMING ASSETS

Prema Latha V.*

ABSTRACT

Non - performing assets (NPA) refers to the loans on the books of financial institutions that are in default or in arrears due with principal or interest. The biggest bank in the banking sector of India State Bank of India announced its merger with five of its associate banks namely, State Bank of Patiala(SBP), State Bank of Mysore(SBM), State Bank of Bikaner and Jaipur (SBBJ), State of Hyderabad (SBH), State Bank of Travancore(SBT) and the Bharatiya Mahila Bank(BMB) during April 2017. This merger threw up numerous financial and physical challenges to the bank regarding other banks, industrial sector, its employees and customers at large. This study is focused on the major impact of this merger on the Non- Performing Assets (NPA) of the bank. One of the reasons for this merger was to reduce the increasing bad debts of its subordinate banks which would lead to a major financial crisis for such banks. The objective of this research is to analyse whether SBI was successful in managing its NPA along with its associate banks.

KEYWORDS: *Non-performing Assets (NPA), Merger, State Bank of India (SBI), BMB, SBM, SBH.*

Introduction

Non-performing assets (NPA) refers to the loans on the books of financial institutions that are in default or in arrears due with principal or interest. Non-performing assets are the important parameters to analyse the financial position or functioning of any bank. The banks perform two major functions such as receiving deposits and lending loans. Receiving deposits does not have much risk apart from liquidity of cash when the customers demand for it, but lending loans is highly risk when is concerned with repayment of such loans because there is no certainty in payments. These risks affect the liquidity of cash and NPA management in the banks. In recent times the banks implement several lending policies due to the mounting non - performing assets. One of the biggest bank in the banking sector of India State Bank of India announced its merger with five of its associate banks namely, State Bank of Patiala (SBP), State Bank of Mysore (SBM), State Bank of Bikaner and Jaipur(SBBJ), State of Hyderabad(SBH), State Bank of Travancore(SBT) and the Bharatiya Mahila Bank(BMB) during April 2017.

The merger of such banks had its major advantage of increased size of operations and power but could not escape from drawback and challenges such as massive layoff in the staff strength and its increased Non- Performing assets. The merger was initiated due to increasing bad loans of its subsidiaries and assumed as such an act would balance the existing profits with its non - performing assets. In anticipation of the merger the consolidated results of the subsidiaries for the nine months period ending December 2016 showed losses of minimum Rs.4500 crores. In addition to this reports a further loss of almost Rs.5700 crores in the year ending was a shock to the banking sector.

Objectives of the Study

- To study the NPA of State Bank of India.
- To study the details of SBI merger with its subsidiary banks.
- To study the impact of SBI merger on its NPA.
- To study the steps taken by SBI to manage its NPA.

* Lecturer (M.B.A., M.com, NET, KSET), Mount Carmel College, Department of Commerce, Bangalore, Karnataka, India.

Review of Literature

Kalpesh Gandhi in his paper titled 'Non Performing Assets: A study of State Bank of India' has analyzed that the NPA of State Bank of India has increased since 2010 and suggested that the bank has to take strict measures to reduce the NPA of the bank. Since the decision of merger was decided due to losses in its subsidiary banks and such merger was proposed to bring its subordinates banks under a single control and management assuming it would improve the financial of State Bank Of India, but rather it increased further risk to the apex bank in terms of its NPA which increased drastically after the merger.

Vivek Rajbahadur Singh in his research paper titled "A study on Non - Performing Assets of commercial banks and its recovery" published in Annual research journal of SCMS, Pune during March 2016, has identified that the NPA of scheduled commercial banks have increased the average percentage of net NPA has increased. He has also mentioned that ineffective recovery strategies and defective lending process are the major reasons for increase in NPAs. The author has also mentioned that the banks are issuing huge additional loans to certain companies even before recovering their old dues which is one more drawback of such banks in reducing its NPA.

Dr. Sonia Narula and Monika Singla in their research paper titled "Empirical study on Non - Performing assets of banks" published in the online journal named International journal of Advance research in Computer science and Management studies. They have emphasized the importance of lending policies in banks with their annual reports on NPA and suggested that the banks should work on pre-sanctioning evaluation and post- disbursement control so that NPA can be decreased.

Bharathkhurana in his research paper titled "Analysis of Merger of SBI and its associates" published in International journal of Research-Granthaalayah has analyzed the reason for this merger and the effects of merger on shareholders and general public. His research has focused on the benefits of SBI merger and concludes by stating that the profitability of the bank has reduced by approximately Rs.3000 crores and this was mainly due to the accumulated losses of the banks in the form of non - performing assets.

Research Methodology

The research is done based on the secondary data collected from various websites, magazines, annual reports of banks, articles and research papers published. The data has then been analyzed to find out the status of non-performing assets of the bank before and after its merger and has also analyzed the measures taken by the bank and other suggestions to manage and reduce such Non- performing assets.

Effects of the Merger

The SBI was not transparent enough in publishing or discussing in regard to this condition of its banking subsidiaries. And such state of major banking sectors would have immense effect on the capital markets of the economy. One of the chairperson commented on this issue as a one-by-one merger or amalgamating all associate banks together and then merging the entity with SBI could have significantly reduced integration risk. According to expert research the bank's Slippage Ratio declined from 5.38% in 2017 to 1.85% in 18, significantly improved across all segments. Also gross NPA Ratio tumbled from 9.97% in first quarter of 2018 to 9.83% in second quarter of 2018 with net NPA decreasing from 5.97% in quarter the first quarter 2018 to 5.43% in second quarter 2018. The impact of increased rate of non-performing assets due to its subsidiaries SBI made certain strategies in handling such a financial crisis. The SBI called for an independent agency and by a transparent process to help banks offload bad loans at a minimum cost. SBI's money control and Chairman Arundhati Bhattacharya said resolution of non-performing assets (NPAs) and the merger of five associate banks with itself are the key near-term challenges for the bank. Knowing the fact of its piling up bad loans the SBI recommended a dividend of Rs.2.5 per share for the financial year 2014 which again increases its cost leading to a further loss. The bank faced a major drop in its stock price by 4.6%. The chairman of SBI created a special division to tackle the issue wherein they reconstructed the top structure of the bank to have a effective control of its operations specially post- merger with its subsidiary banks.

Findings

- The bank has extended loans to corporate sectors which let to mounting non- performing assets.
- The SBI group reported a loss of Rs.1886.57 crore fro quarter ending in December, 2017.
- Its Non-performing assets almost doubled to Rs.102370 crores by 2018.

288 Inspira- Journal of Modern Management & Entrepreneurship (JMME), Volume 08, No. 02, April, 2018

- The non-performing assets of all the subsidiary banks have led to the increase in NPA rates of the apex bank.
- The bank has proposed various measures like lending policies and loan recovery techniques to reduce and recover its dues.
- The State Bank of India has proposed to appoint private agencies to manage its mounting NPA.

Suggestions

- The bank should have been transparent regarding its subsidiary's bad loan status.
- The management of NPA variations should have been planned before the merger on estimates.
- The bank should have arranged advisory committees in regard to NPA to focus on the planning for the above.
- Frame restrictive policies with regard to lending process and limits.
- Shut down some small unproductive branches in order to reduce cost.

Conclusion

Non – Performing assets of banks play a major role in building the financial structure. As this is the situation the banks should be very cautious while framing its lending policies. One of the biggest banks of our country the State Bank of India decided to merge with its five subsidiary banks in order to bring control over the financial activities as these banks were under loss. Before such proposals the bank should have pre regulated its policies as to have a hold on the increasing non - performing assets of those banks.

References

- Research paper – 'Non Performing Assets: A study of State Bank of India' by Kalpesh Gandhi.
- Research paper-"A study on Non-Performing Assets of commercial banks and its recovery" published in Annual research journal of SCMS, Pune by Vivek Rajbahadur Singh.
- Research paper "Analysis of Merger of SBI and its associates" published in International journal of Research-Granthaalayah by Bharathkharana.
- Research paper "Empirical study on Non - Performing assets of banks" published in the online journal named International journal of Advance research in Computer science and Management studies by Dr.SoniaNarula and Monika Singla.
- State Bank of India (SBI), <http://www.iloveindia.com/finance/bank/nationalised-banks/state-bank-of-india.html>.
- Wikipedia, State Bank of India, http://en.wikipedia.org/wiki/State_Bank_of_India
- <http://www.thehindu.com/business/Industry/sbi-posts-surprise-q3-loss/article22706343.ece#!>
- <https://timesofindia.indiatimes.com/city/kochi/SBI-merger-plan-wont-affect-NPAs-Subbarao/articleshow/53627553.cms>.

