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# PROFITABILITY ANALYSIS OF STATE BANK OF INDIA: PRE-MERGER AND POST-MERGER PERIODS

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**ABSTRACT**

*In the context of the mega-merger of the State Bank of India with its 5 associate banks and the Bharatiya Mahila Bank, on 1st April, 2017, this paper has attempted to analyse the profitability of the State Bank of India with respect to the pre-merger period and the post-merger period, based on the relevant secondary data available. For the purpose of such analysis, apart from some simple statistical measures, like Mean and Standard Deviation, Shapiro-Wilk test and Unpaired t test have been used for drawing meaningful conclusions.*

***Keywords:*** *Profitability Analysis, Pre-Merger, Post-Merger, Standard Deviation, Unpaired t Test*.

## Introduction

In the Indian economy, mergers have become an important mechanism for restructuring of organizations, *inter alia*, in the banking sector. In this paper, a modest attempt has been made to analyze the profitability of the State Bank of India (SBI) over a period of 5 years, covering both the pre-merger period and the post-merger period in the context of the mega-merger of the SBI with its 5 associate banks (namely, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore, State Bank of Hyderabad, State Bank of Patiala) and the Bharatiya Mahila Bank that took place on 1st April, 2017.

## State Bank of India (SBI) – A Profile

SBI is an Indian multinational, public sector banking and financial services statutory body, headquartered in Mumbai, Maharashtra. It is the 43rd largest bank in the world and ranked 221st in the *Fortune Global 500* list of the world's biggest corporations of 2020, being the only Indian bank on the said list. It is a public sector bank and the largest bank in India with a 23% market share by assets and a 25% share of the total loans and deposits market.

The bank descends from the Bank of Calcutta, founded in 1806 *via* the Imperial Bank of India, making it the oldest commercial bank in the Indian sub-continent. The Bank of Madras merged with the other two Presidency banks in British India (i.e., the Bank of Calcutta and the Bank of Bombay), to form the Imperial Bank of India, which, in turn, became the SBI in 1955. The Government of India took control of the Imperial Bank of India in 1955 with the Reserve Bank of India (RBI) taking a 60% stake and renaming it as SBI.

In 1959, the Government of India passed the State Bank of India (Subsidiary Banks) Act. This made eight banks, that had belonged to the Princely states, into subsidiaries of SBI. This was at the time of the First Five Year Plan, which prioritized the development of rural India. The government integrated these banks into the SBI system to expand its rural outreach.

SBI provides a range of banking products through its network of branches in India and overseas, including products aimed at non-resident Indians (NRIs). SBI has 16 regional hubs and 57 zonal offices that are located at important cities throughout India.

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In 2008, the Government of India acquired the RBI's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority. As of 2014-15, the SBI had 191 overseas offices spread over 36 countries having the largest presence in foreign markets among the Indian banks. The plans for making SBI a single very large bank by merging the associate banks started in 2008, after the SBI board had, on 17 May 2016, cleared a proposal to merge its five associate banks and Bharatiya Mahila Bank with itself. The merger went into effect from 1 April 2017.

SBI's non-banking subsidiaries include:

- SBI Capital Markets Ltd
- SBI Cards & Payments Services Pvt. Ltd. (SBICPSL)
- SBI Life Insurance Company Ltd.
- SBI Mutual Fund

In March 2001, SBI (with 74% of the total capital), joined with BNP Paribas (with 26% of the remaining capital), to form a joint venture life insurance company named SBI Life Insurance Company Ltd.

State Bank of India acquired 48.2% of the shares of Yes Bank as a part of the RBI-directed rescue deal in March 2020.

As on 31 March 2017, Government of India held around 61.23% equity shares in SBI. The Life Insurance Corporation of India, itself state-owned, is the largest non-promoter shareholder in SBI with 8.82% shareholding. The major shareholders of SBI are mentioned below:

| Shareholders | Shareholding |
|---|---|
| Promoters: Government of India | 56.92% |
| FIIs/GDRs/OCBs/NRIs | 10.94% |
| Banks & Insurance Companies | 10.63% |
| Mutual Funds & UTI | 13.72% |
| Others | 07.79% |
| **Total** | 100.0% |

The equity shares of SBI are listed on the Bombay Stock Exchange, where it is a constituent of the BSE SENSEX index, and the National Stock Exchange, where it is a constituent of the CNX Nifty. Its GDRs are listed on the London Stock Exchange. SBI is one of the largest employers in the country with 209,567 employees as on 31 March 2017.

Source: https://en.wikipedia.org/wiki/State_Bank_of_India

**Objective of the Study**

The objective of the study is to analyse the profitability of the SBI during a 5-year period (year ending March, 2016 to year ending March, 2020) covering both the pre-merger period (years ending March, 2016 and March, 2017) and the post-merger period (years ending March, 2018, March, 2019 and March, 2020) on the basis of some major financial parameters.

**Methodology**

The study period is 5 years (year ending March, 2016 to year ending March, 2020), covering both the pre-merger period (2 years) and the post-merger period (3 years).

The study is based on the secondary data relating to some relevant financial parameters available in the official website of moneycontrol.com (https://www.moneycontrol.com /stocks/ company_info/print_main.php).

Apart from some simple statistical measures, like Mean and Standard Deviation, Shapiro-Wilk test and Unpaired t test have been used for analysing the relevant data available and drawing meaningful conclusions. The statistical software SPSS version 20 has been used for data analysis.

**Review of Literature**

An attempt has been made to briefly review some available documented literature in this field. Gupta (2015) has attempted to evaluate the impact of mergers and acquisitions on the financial performance of some selected banks in India and concluded that, during the post-merger period, most of the financial parameters have reflected significant improvements with a positive impact on the financial performance of the banks.

**Singh and Gupta (2015)** have analysed the impact of mergers and acquisitions on the productivity and profitability of some selected banks in India and have examined the strengths and weakness of the merged banks, concluding that, after merger, the financial performance of the banks has improved.

**Jeelanbasha and Arun (2016)** in a study, using various financial ratios, have concluded that profitability during the post-merger period has increased due to decrease in operating expenses and increase in non-interest income.

**Veena, and Patti, (2016),** have conducted a study focusing on the financial performance analysis of the ICICI Bank Ltd. during the pre-merger and the post-merger periods.

## Data Analysis and Discussion

Before analyzing the major Profitability Ratios for the study period, data for the said period have been presented in the table below (**Table 1**).

**Table 1: Profitability Ratios**

| Year | Interest Spread | Net Profit Margin | Return on Long Term Fund (%) | Return on Net Worth (%) |
|---|---|---|---|---|
| March 2016 | 6.01 | 6.06 | 83.57 | 6.89 |
| March 2017 | 6.36 | 5.97 | 82.01 | 6.69 |
| March 2018 | 6.65 | -2.96 | 66.97 | -3.37 |
| March 2019 | 6.45 | 0.35 | 79.55 | 0.43 |
| March 2020 | 6.59 | 5.63 | 88.37 | 6.95 |

Source: State Bank of India, Key Financial Ratios, https://www.moneycontrol.com/stocks/company_info/print_main.php

Before analysing the data, the Shapiro-Wilk test has been used to test Normality of such data for the study period (covering the pre-merger period – years ending March, 2016 and March, 2017; the post-merger period – years ending March, 2018, March, 2019 and March, 2020) regarding the above-mentioned four financial parameters (the major indicators of profitability). The results indicate that the data follow a Normal Distribution. (**Table 2**).

**Table 2: Test of Normality**

| Financial Parameters | Shapiro-Wilk test | | |
|---|---|---|---|
| | Statistic | df | Sig. |
| Interest Spread | 0.910 | 5 | 0.468 |
| Net Profit Margin | 0.799 | 5 | 0.079 |
| Return on Long Term Fund (%) | 0.899 | 5 | 0.404 |
| Return on Net Worth (%) | 0.786 | 5 | 0.062 |

Source: Worked out by the researcher

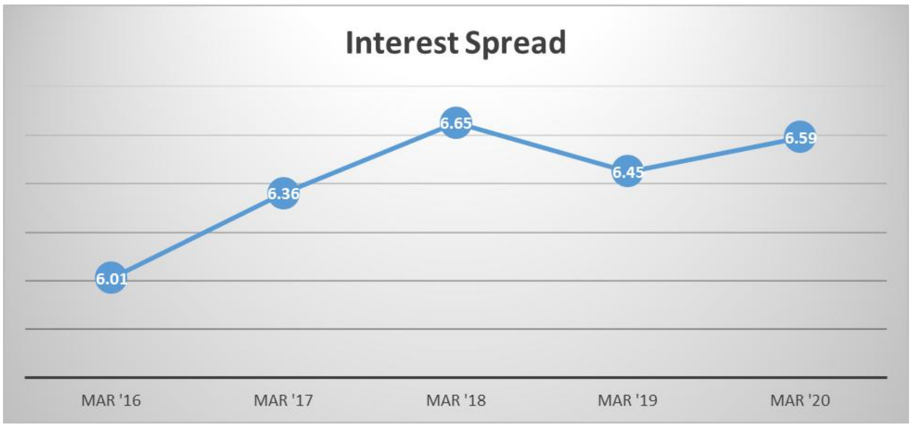
In the table below (**Table 3**), for both the pre-merger period and the post-merger period, the Minimum value, Maximum value, Mean and Standard Deviation (SD), with respect to each of the 4 financial parameters (considered for the purpose of Profitability Analysis), have been presented.

**Table 3**

| Financial Parameters | Period | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pre-Merger (Years ended March 2016 and March 2017) | | | | Post-Merger (Years ended March 2018 March, 2019 and March 2020) | | | | | |
| | Min. | Max. | Mean | SD | Min. | Max. | Mean | SD | p Value | Significance |
| Interest Spread | 6.01 | 6.36 | 6.19 | 0.25 | 6.45 | 6.65 | 6.56 | 0.10 | 0.088 | Not Significant |
| Net Profit Margin | 5.97 | 6.06 | 6.02 | 0.06 | -2.96 | 5.63 | 1.01 | 4.33 | 0.219 | Not Significant |
| Return on Long Term Fund (%) | 82.01 | 83.57 | 82.79 | 1.10 | 66.97 | 88.37 | 78.30 | 10.75 | 0.615 | Not Significant |
| Return on Net Worth (%) | 6.69 | 6.89 | 6.79 | 0.14 | -3.37 | 6.95 | 1.34 | 5.22 | 0.256 | Not Significant |

Source: Worked out by the researcher

**Interest Spread**




Source: Worked out by the researcher

During the period of study, Interest Spread has increased from a minimum of 6.01 (year ending March, 2016) to 6.59 (year ending March, 2020). However, it increased to 6.65 (year ending March, 2018). Mean for the first 2 years (i.e., years ending March, 2016 and March, 2017– the pre-merger period) is 6.19 and the Standard Deviation (SD) for the same period is 0.25. Mean for the next 3 years (i.e., years ending March, 2018, March, 2019 and March, 2020– the post-merger period) is 6.56 and the Standard Deviation (SD) for the same period is 0.10.

Thus, the Mean has increased during the post-merger period as compared to the Mean during the pre-merger period, i.e., from 6.19 to 6.56.

Thus, the SD has declined during the post-merger period as compared to the SD during the pre-merger period, i.e., from 0.25 to 0.10.

**Net Profit Margin**

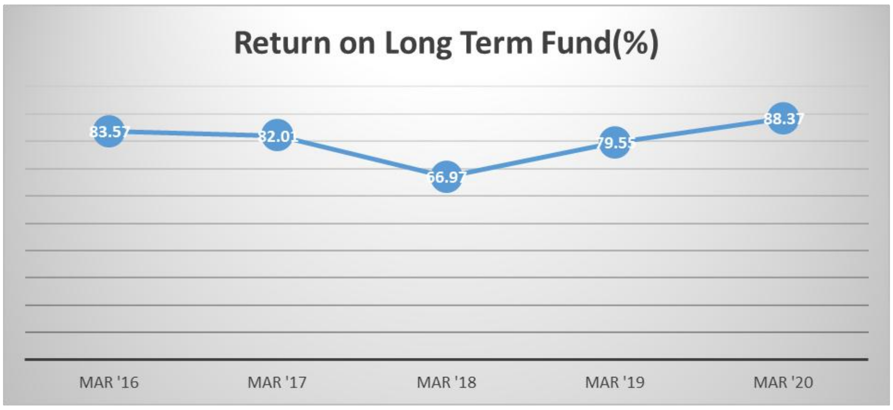

Source: Worked out by the researcher

During the period of study, Net Profit Margin has changed from a maximum 6.06 (year ending March, 2016) to 5.63 (year ending March, 2020). However, it declined to a negative value of -2.96 (year ending March, 2018). Mean for the first 2 years (i.e., years ending March, 2016 and March, 2017– the pre-merger period) is 6.02 and the Standard Deviation (SD) for the same period is 0.06. Mean for the next 3 years (i.e., years ending March, 2018, March, 2019 and March, 2020– the post-merger period) is 1.01 and the Standard Deviation (SD) for the same period is 4.33.

Thus, the Mean has declined during the post-merger period as compared to the Mean during the pre-merger period, i.e., from 6.02 to 1.01.

Thus, the SD has increased during the post-merger period as compared to the SD during the pre-merger period, i.e., from 0.06 to 4.33.

**Return on Long-term Funds** (%)



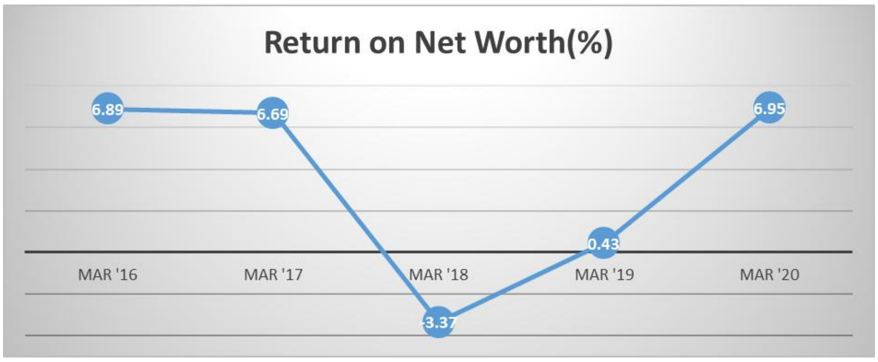

Source: Worked out by the researcher

During the period of study, Return on long-term funds has changed from 83.57 (year ending March, 2016) to 88.37 (year ending March, 2020). However, it declined to 66.97 (year ending March, 2018). Mean for the first 2 years (i.e., years ending March, 2016 and March, 2017– the pre-merger period) is 82.79 and the Standard Deviation (SD) for the same period is 1.10. Mean for the next 3 years (i.e., years ending March, 2018, March, 2019 and March, 2020– the post-merger period) is 78.30 and the Standard Deviation (SD) for the same period is 10.75.

Thus, the Mean has declined during the post-merger period as compared to the Mean during the pre-merger period, i.e., from 82.79 to 78.30.

Thus, the SD has increased during the post-merger period as compared to the SD during the pre-merger period, i.e., from 1.10 to 10.75.

**Return on Net Worth** (%)




Source: Worked out by the researcher

During the period of study, Return on Net Worth has changed from 6.89 (year ending March, 2016) to 6.95 (year ending March, 2020). However, it declined to a negative value of -3.37(year ending March, 2018). Mean for the first 2 years (i.e., years ending March, 2016 and March, 2017– the pre-merger period) is 6.79 and the Standard Deviation (SD) for the same period is 0.14. Mean for the next 3 years (i.e., years ending March, 2018, March, 2019 and March, 2020– the post-merger period) is 1.34 and the Standard Deviation (SD) for the same period is 5.22.

Thus, the Mean has declined during the post-merger period as compared to the Mean during the pre-merger period, i.e., from 6.79 to 1.34.

Thus, the SD has increased during the post-merger period as compared to the SD during the pre-merger period, i.e., from 0.14 to 5.22.

Continuous variables (expressed as Minimum value, Maximum value, Mean and Standard Deviation) are compared across the groups by using the Unpaired t test. An alpha level of 5% has been considered, i.e., if any p value is less than 0.05, it has been considered as Significant. The results indicate that the changes are not statistically Significant, possibly due to small sample size.

Though the financial parameters considered (other than Interest Spread) have shown drop during the merger year i.e., 2017-18, after that the recovery with respect to those three financial parameters has happened at a faster rate.

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