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IMPLICATIONS OF MERGER AND ACQUISITION OF THE INDIAN BANKING INDUSTRY: AN ANALYSIS OF STATE BANK OF INDIA

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ABSTRACT

Purpose: *SBI Group, the largest bank in India, has its headquarters in Mumbai, Maharashtra. When creating goods and services, the expanding expectations of all Indian citizens are taken into account. The bank's implementation of cutting-edge new technology has improved productivity and customer service. With its restructuring, mergers, and acquisitions, the corporate environment has developed into an interesting area of research. Evidence advocates that big organisations and companies have merged with and bought out smaller rivals. The most common corporate tactics businesses use to boost and expand profitability and value are mergers and acquisitions. Before the start of financial reforms, Indian banks worked in a complicated, regulated environment. It should have been acknowledged that profitability was a suitable metric for assessing the success of the banks. The primary goal of the study is to comprehend how mergers and acquisitions affect the efficiency of the Indian banking industry. The study attempts to critically analyse and evaluate the impact of merger of SBI and; State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore and Bhartiya Mahila Bank on their operating performance in terms of different financial parameters.*

Design/Methodology/Approach: *The study examines the pre- and post-period of five years of activities related to mergers and acquisitions within the financial sector in India to assess the effectiveness of M&As. With the aid of financial parameters including earning per share (EPS), return on capital employed (ROCE), return on assets (ROA), return on equity/ net worth (ROE/NW) and retention ratio (RR), the research examined the financial results following the merger of combined banks.*

Findings: *The study indicated that the sample disparity between the pre-and post-average SBI is not big enough to be statistically significant.*

Limitations: *The period of the study was eleven years, five years before the merger, five years after that, and one year of the merging process. The study was confined only to one Indian bank. Hence, the results may not be generalised to other public-sector banks, private banks, or foreign banks nationwide.*

Implication: *The results of the study reveal that the average financial ratios that were taken for the study of SBI in the Indian banking sector showed a remarkable and significant improvement.*

Originality/Value: *This research was done to determine how much is the result of five Indian banks' pre- and post-merging.*

KEYWORDS*: Mergers and Acquisitions, Indian Banking Sector, Pre and Post – Merger, State Bank of India.*

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Introduction

The maximum portion of the supply of money inside the financial sector is controlled by the bank. The present study is split into nine parts. The introductory history of the topic is provided by the first part and the literature review has been provided in the second part of the study. The third part covers the research's aims and hypothesis in the fourth part. The fifth section covers the detailed methodology and data analysis and interpretation by the sixth part. The seventh part covers the limitations while eighth part covers findings and conclusions and last part covers references. The paired *t*-test method helps in the financial analysis of a bank. The largest public-sector bank has been evaluated under this study. The State Bank of India, an Indian multinational public sector banking and finance statutory organisation with its corporate office in Mumbai, is a Fortune 500 corporation. The rich history and tradition of more than 200 years confirm SBI as the bank that Indians have consistently valued. SBI, the biggest Indian bank with a quarter of the market, provides services to more than 48 crore users via an extensive network of more than 22,405 branches, 65,627 ATMs/ADWMs, 76,089 BC outlets, service, transparency, ethics, politeness, and sustainability are the basic principles of the bank, and they are pursued with an unwavering focus on innovation and customer centricity.

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Literature Review

Rathi et. al (2022)[8] examine the M&A that has occurred in the financial industry of India to comprehend the long-term effects of the merger in addition to the cooperative synergies that followed. The study delves deeper into the observed patterns in the Indian financial system following mergers and acquisitions and, as a result, makes recommendations for future actions that institutions have to take into account. The report examines the flow and patterns of the banking sector in India before highlighting the effects of M&As. To analyze and assess the effectiveness of M&As within the Indian commercial sector, the article attempted to locate earlier research. **King and Kong (2018)**[6] examined several approaches and literature outcomes. By using operating cash flow analysis and common bank indicators analysis, such as profit and efficiency indicators, net interest income operating efficiency, asset quality, and capital sufficiency, they build a hypothesis based on this literature. The main empirical findings support the assertion that operating performance dramatically declines during the first three years following a merger. A variation in merger incentive between TARRP and Non-TARP banks is therefore revealed. Additionally, she examined how M&As in the UK banking sector affected shareholders' wealth. **Koeva, P. (2003)**[7]**,** studied banks' dues and profits in the liberation phase. The aftermath of the study exhibited that performance signals were affected by ownership determination along with rising competition.

Aspal and Malhotra (2013)[2] studied Indian public sector banks for the period 2007-2011. This study showed that the top two banks were Bank of Baroda and Andhra Bank because of high asset quality and capital adequacy. **Anand & Singh (2008)**[1] focused on using analytical, empirical, or case research to analyse and resolve managerial and academic problems in banks. Additionally, this paper uses the incident analysis approach to investigate the payouts made to investors following the merger announcements calculated for five mergers in the Indian banking sector. **Jha, P. (2008)**[5]**,** determined the Indian private sector banks' financial performance. This study showed that a level in the banking industry has been gained by the new age group because of improved technology.

Husam-Aldin Nizar Al-Malkawi (2008)[4] examined determinants of corporate dividend decisions of public companies in Jordan. The findings of the paper suggest supports for the agency costs hypotheses.

Gordon, M. (1962)[3] reported that the higher dividend policy prefers by the outside shareholders. As compared to the future investment the shareholder prefers the dividend of today in uncertain capital gain. Several studies suggest that this approach fails, if it makes a perfect market completion along with shareholder, who act regarding the ideas of rational behavior. According to Agency theory that to control the over investment problem the investor might use the dividend payments even in case of the firm doesn't have a free cash flow.

Objectives

The goals of this research are:

- To interpret the significance of mergers in the banking industry.
- To examine the benefits and downsides of bank mergers and acquisitions.
- To analyse the pre- and post-merger performance of the State Bank of India.

Hypotheses

The hypotheses of the study are as follows:

H_{01}: There is no significant relationship between earning per share before the merger and earning per share after the merger for SBI.

H_{02}: There is no significant relationship between return on capital employed before the merger and return on capital employed after the merger for SBI.

H_{03}: There is no significant relationship between return on assets before the merger and return on assets after the merger for SBI.

H_{04}: There is no significant relationship between return on equity/ net worth before the merger and return on equity/ net worth after the merger for SBI.

H_{05}: There is no significant relationship between retention ratio before the merger and retention ratio after the merger for SBI.

Research Methodology

Data Collection

The required secondary data constitutes the main source of information. In this study, data were collected from Annual reports of SBI bank from 2012-13 to 2022-23. And also, various national and international journals, working papers, periodic publications, books, articles, thesis, dissertation work on pre-and post-financial performance of the Indian banking sector.

Method of Analysis

For attaining the result, the pre- and post-merger performance is compared. The pre- and post-merger performance has been accomplished in the context of Earning Per Share (Rs.), Return on Capital Employed (%), Return on Assets (%), Return on Equity/ Networth (%) and Retention Ratios (%). The ratios of finances from before the merger (five years prior) and after the merger (five years after) were examined and analyzed. The year in which the merger took place, which is designated as 0 and is not included in the study, is regarded as the base year. We considered the mean difference, standard deviation, and independent t-test as methods of quantitative assessments of our study with in mind the study's goal. Paired t-test is used to assess the null hypothesis. This test is a statistical hypothesis test that is parametric for the situation where there are two related samples on one sample.

Data Analysis and Interpretation

Table 1: Pre and Post Merging Financial Performance of SBI

Particulars	Duration	Mean	Standard Deviation	*t*-Value	p-Value	Hypothesis
EPS	Pre- Merger	53.9200	87.3040	0.5991	0.5814	H_0 cannot be rejected.
	Post-Merger	26.3700	20.8483			
ROCE	Pre- Merger	2.0020	0.0858	2.0031	0.1157	H_0 cannot be rejected.
	Post-Merger	1.2880	0.7320			
ROA	Pre-Merger	0.5860	0.2066	0.4719	0.6616	H_0 cannot be rejected.
	Post-Merger	0.4740	0.3294			
ROE/NW	Pre-Merger	9.4480	3.0795	0.0966	0.9277	H_0 cannot be rejected.
	Post-Merger	9.0560	6.1133			
RR	Pre-Merger	79.7340	0.1837	1.8373	0.1400	H_0 cannot be rejected.
	Post-Merger	88.5040	10.5957			

Source: Calculations by the Author

Table 1 shows the state of the relative economic viability of SBI. The average EPS decreased from before merger 53.9200 to 26.3700 after merger. It’s *t*-value is 0.5991 and p-value is 0.5814. the p-value is higher than 0.05. Therefore, H_{01} cannot be rejected for variable EPS. The average return on capital employed decreased from 2.0020 to 1.2880. It's p-value is 0.1157 which is higher than 0.05. Therefore, H_{02} cannot be rejected for variable ROCE. The average ROA before merger is 0.5860 and after merger is 0.4740. It's *t*-value is 0.4719 and p-value is 0.6616 which is higher than 0.05. Therefore, H_{03} cannot be rejected. The return on equity over net worth on an average decreased by 0.392 and its p-value is 0.9277. Therefore, H_{04} cannot be rejected for variable ROCE/NW. The average retention ratio increased from 79.7340 before merger to 88.5040 after merger. It's p-value is 0.1400. Therefore, H_{05} cannot be rejected for this variable.

Limitations

The statistics obtained are not fundamental (the primary source of information). It's usually possessed and computed from annual bank reports or internet sources might be biased and not fully reliable. The drawbacks of the study are mentioned below:

- The study is not applicable to the whole banking sector as the immediate study is restrained to a single public sector bank of India.
- This study is bound to a ten-year period plus one year of merging, i.e., 2012-13 to 2022-23.
- The statistics obtained are not fundamental (the primary source of information). It is usually possessed from annual bank reports or internet sources that might be biased and not fully reliable.

Findings and Conclusion

The study examines the long-term profitability position of the chosen Indian bank SBI for a study comparing the two periods using the paired t-test. By choosing certain financial variables, the merger's impact on financial performance has been assessed. From the above study, we might therefore say that H_{01}, H_{02}, H_{03}, H_{04} and H_{05} cannot be rejected for any variable taken for study because for all the variable the p-value is greater than 0.05.

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