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Mergers and Acquisitions of Sbi: Indian Banks Study

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Abstract

It has been realized globally that Mergers and acquisitions is only way for gaining competitive advantage domestically and internationally and as such the whole range of industries are looking for strategic acquisitions within India and abroad. Today, the banking industry is counted among the rapidly growing industries in India. In the last two decades, there has been paradigm shift in banking industries. A relatively new dimension in the Indian banking industry is accelerated through M&A. SBI merger is the biggest in the Indian banking industry. The study covers the area of performance evaluation of M&A's in Indian banking sector in the recent period. The paper explains the procedure of SBI merger, impact of SBI merger and the challenges faced by SBI after merger.

KEYWORDS: Strategic acquisitions, Consolidation, Merger, Synergy

INTRODUCTION

Merger is the combination of two or more entities by purchase acquisition whereby the identity of one of the entities remain while the others are being dissolved. The reasons behind the merger transactions are basically gaining market share, competitive advantage, increasing revenues and risk and product diversifications. With the global financial crises, it is noticeable that mergers and acquisitions have considerably increased. Corporations employed such combination not only for the sake of competitiveness but to maintain a firm foothold in the industry as well. This has led to the significant transformation in the business landscape. Mergers and acquisitions have been long known to direct the merging entities towards positive synergies, enhanced re-sources and growth. Consolidation has been a significant strategic tool and has become a worldwide phenomenon, driven by advantages of scale economies, geographical diversification, and lower costs through branch and staff rationalization, cross border expansion and market share concentration. hence, overall increase in the profit statements. Mergers among different banks are classified as horizontal mergers. The deal is always expected to be beneficial for both merging firms.

OBJECTIVES OF STUDY

- To understand the purpose of mergers and acquisitions
- To know about the benefits of mergers and acquisitions
- To examine the effects of merger
- To study recommendations of expertise.
- To recognize banking awareness regarding mergers and acquisitions in general.

HISTORY OF SBI

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. As of 2016-17, it had assets of Rs. 30.72 trillion and more than 14000 branches, including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets. The origins of State Bank of India date back to 1806 when the Bank of Calcutta (later called the Bank of Bengal) was established. The SBI group consists of SBI and five associate banks. SBI's non- banking subsidiaries/joint ventures are market leaders in their respective areas and provide wide ranging services, which include life insurance, merchant banking, mutual funds, credit cards, factoring services, security trading and primary dealership, making the SBI Group a truly large financial supermarket and India's financial icon.

The bank is actively involved since 1973 in non–profit activity called Community Services Banking. All branches and administrative offices throughout the country sponsor and participate in large number of welfare activities and social causes. Their business is more than banking because they touch the lives of people anywhere in many ways. State Bank of India (SBI) has received an approval from the Government of India (GOI) for acquisition of SBI Commercial and International Bank (SBICI Bank). The government had issued the 'Acquisition of SBICI Bank Order 2011' vide order dated July 29, 2011.

SBI entered the UK's home loan market, the bank started with mortgages for landlords, best known as buy–to–let mortgages, with amounts ranging from £50,000 to £1.5 million, and loan to value of ratios of up to 60 per cent.

In April 2014 State Bank of India launched three digital banking facilities for the convenience of SBI customers. Two at the customer's door step using TAB banking – one for customers opening Savings Bank accounts and another for Housing Loan applicants. The third is e–KYC (Know your Customer).

Services offered by the company:

- NRI Services
- Personal Banking
- International Banking
- Agriculture / Rural
- Corporate Banking
- SME
- Government Business
- Domestic Treasury

Subsidiaries:

Banking Subsidiaries

- State Bank of Bikaner and Jaipur (SBBJ)
- State Bank of Hyderabad (SBH)
- State Bank of Mysore (SBM)
- State Bank of Patiala (SBP)
- State Bank of Travancore (SBT)

Foreign Subsidiaries

- SBI International (Mauritius) Ltd.
- State Bank of India (California)
- State Bank of India (Canada)
- INMB Bank Ltd, Lagos
- BANK SBI Indonesia (SBII)

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PROCEDURE OF MERGER OF SBI

All the five associates will merge with State Bank of India from April 1, in the largest consolidation exercise in the banking history of India. The assets of State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Patiala (SBP) and State Bank of Hyderabad (SBH) will be transferred to SBI from April 1, 2017, SBI said in a regulatory filing.

With the merger of all the five associates, SBI is expected to become a lender of global proportions with an asset base of Rs.37 trillion (Rs. 37 lakh crore) or over USD 555 billion, 22,500 branches and 58,000 ATMs. It will have over 50 crore customers. Officers and employees, with the exception of the board of directors and executive trustees of the associate banks, will become employees of SBI following the merger.

IMPACT OF MERGER AND ACQUISITIONS

- **Increased Managerial Skills or Technology**: Occasionally a firm with good potential finds it unable to develop fully be-cause of deficiencies in certain areas of management or an absence of needed product or production technology. If the firm cannot hire the management or the technology it needs, it might combine with a compatible firm that has needed managerial, personnel or technical expertise. Of course, any merger, regardless of specific motive for it, should contribute to the maximization of owner.

- **Growth or diversification**: Companies that desire rapid growth in size or market share or diversification in the range of their products may find that a merger can be used to fulfil the objective instead of going through the tome consuming process of internal growth or diversification. The firm may achieve the same objective in a short period by merging with an existing firm. In addition, such a strategy is often less costly than the alternative of developing the necessary production capability and capacity.

- **Acquiring New Technology**: To stay competitive, companies need to stay on top of technological developments and their business applications. By buying a smaller company with unique technologies, a large company can maintain or develop a competitive edge.

- **Income Tax Advantages**: In some cases, income tax consideration may provide the financial synergy motivating a merger. Tax concessions act as a catalyst for a strong bank to acquire distressed banks that have accumulated losses and unclaimed depreciation benefits in their books.

- **Own Developmental Plans**: The purpose of acquisition is backed by the acquirer companies own developmental plans. A company thinks in terms of acquiring the other company only when it has arrived at its own development plan to expand its operation having examined its own internal strength. It must aim at suitable combination where it could have opportunities to supplement its funds by issuance of securities; secure additional financial facilities eliminate competition and strengthen its market position.

- **Strategic Purpose**: The Acquirer Company view the merger to achieve strategic objectives through alternative type of combinations which may be horizontal, vertical, product expansion, market extensional or other specified unrelated objectives depending upon the corporate strategies.

CHALLENGES FOR SBI AFTER MERGER

SBI merger is the largest ever consolidation exercise in the Indian banking industry. Indeed, the SBI - associates merger would be a test case for a bigger consolidation to follow in the public-sector bank space which the government is planning. It may not be all smooth sailing. There will be plenty of challenges for the merged entity and there is also a fear that management bandwidth would go on resolving these issues.

Branches overlap
SBI today runs the largest bank in the country in terms of assets as well as branch network. They have branches in every nook and corner of the country. The associate banks are regional with good branch network in the place they are headquartered. There is going to be a huge overlap of branches in the five states of Rajasthan, Bengaluru, Andhra Pradesh, Punjab and Kerala.

Too big to handle
. We haven't seen a merger of this size. The bank is merging five associate banks with combined assets of over Rs.6 lakh crore, which is almost equal to the size of the two largest private banks HDFC Bank and ICICI Bank Ltd. The merged SBI entity would have 24,000 plus branches, 58,000 ATMs and 2.7 lakh employees. ICICI Bank has 4,450 branches, 14,295 and 97,132 employees. In a digital era, many banks are not even talking of setting up branches. The digital wallets, too, will make ATMs irrelevant in the future.

Associates are mirror image of parent
SBI associate banks are a mirror image of the parent. SBI chairman also sits on their board and MD and CEOs came from other associate banks. The product basket has many similarities with focus on infrastructure, agriculture, home and auto loans.

Too big to fail
In the post 2008 scenario, the world saw the government bailing out large banks from tax payers' money. SBI though is identified by the RBI as a systemically important bank, requiring additional capital in its book for absorbing any future shock. But SBI's size is not comparable with other banks. SBI, with close to Rest 30 lakh crore assets, is way ahead of the two largest private banks - HDFC Bank and ICICI Bank, which are in the region of Rs 7-8 lakh crore. Managing a bank of SBI's size will require more oversight by the regulator.

A bad bank within a bank
This huge portfolio of bad loan makes it a bad bank within a bank. The five associate banks for instance have stressed loans (gross NPAs and restructured loans) at a staggering Rs 35,396 crore level. This amount is almost half of SBI's Rs 66,117

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crore stressed loans in 2015-16. It would be a huge task to resolve the bad loans given the challenging operating environment.

CONCLUSION

Through mergers with its associate banks, SBI will benefit from better reach and network, and will find itself among the world's largest banks. But it also risks ignoring local sensibilities. SBI chairperson Arundhati Bhattacharya has said that the merger will result in a "win-win situation" for the bank and its associates – SBI's reach and network will multiply, efficiency will likely increase with the rationalisation of branches, there will be a common treasury pooling and there will be proper deployment of skilled resources. Besides, the associate banks and their customers will also benefit. An enhanced scale of operations and the rationalisation of common costs will result in big savings. Bhattacharya also claimed that the pooling of synergies at one place would be a huge positive.

But harnessing these post-merger benefits will not be an easy task. For one, the associate banks will not come into the SBI fold with clean balance sheets; the five banks have a higher share of restructured loans than SBI, while the levels of their non-performing assets are comparable. There will also be common borrowers, which will bring with it its own set of problems.

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