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Analysis Of Financial Position Of State Bank Of India Pre And Post Merger

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ABSTRACT

The banking industry is consolidating at an accelerating phase. The main aim of Merger and Acquisitions in the banking sectors is to improve the economies of scale. The merger of SBI is taken to be largest merger in the history of banking industry. Post merger SBI had gained an advantage to be in the 45th position in the top most banks of the world. Also the assets of SBI had increased to an extent of 10 lakh crores as a result of merger. The project's main objective is to compare the financial performance of State Bank India pre and post-merger which took place in the year 2017. State Bank of India was merged with its 5 associates-State Bank of Travancore, State Bank of Mysore, State Bank of Hyderabad, State Bank of Bikaner and Patiala, State Bank of Jaipur and Bharatiya Mahila Bank to gain advantage on some areas such as governments aid, larger customer base etc. The tools used for comparing pre and post period were profitability ratios such as return on investment, return on asset, earnings per share, earnings yield ratio etc.,. It is evident from the analysis that the mega merger between the State Bank of India and its associates with Bharatiya Mahila Bank has proved to be beneficial. After the merger the net profit had been declined and the stability of bank is being questionable. By overcoming all these issues the associates are successfully merged with SBI with advantages such as raising funds internationally, nationwide coverage and lower administration cost.

KEY WORDS : Merger and Acquisitions, Financial Performance, Banking, Analysis

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1.1 INTRODUCTION

Banks are backbone of any economy. In fact they are the important segment of financial sector of an Indian economy.Merger and Acquisition in the banking industry is important to make financial gains enormously. This project deals with the comparison of financial performance of State Bank of India before and after the mega merger that took place.

1.2 STATEMENT OF PROBLEM

Banking sector in the modern days face many challenges such as NPAs, losses in rural branches, large over dues, competition with foreign banks etc., To eliminate these risks to some extent the merger and acquisitions comes into play. India is in need of fewer strong mega banks to bring economies of scale right from borrowing rates to optimum utilization. Large banks are needed for the efficient functioning of larger economies. By merging banks the limitations like over provisioning, higher cost to income ratios and higher capital adequacy ratios can be eliminated.

1.3 OBJECTIVES

- To compare and analyse the financial position of State Bank of India pre and post merger

1.4 RESEARCH METHODOLOGY

Analytical research method is used to evaluate the financial performance of selected banks by considering the study period of 5 years from 2014 to 2019 with the use of selected financial performance ratios. Secondary data is proposed to be used for the purpose of research. The financial and accounting will be collected from the banks published annual reports to examine the impact of merger and acquisition on the performance of banks selected.

1.4.1 SOURCE OF THE DATA

The study is based on secondary data which includes the annual report and the balance sheet of state bank of India. The source also includes books, journals etc.

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1.4.2 PERIOD OF STUDY

The study is based on 3 years before the merger and 2years after the merger(2014-2019).

1.4.3 TOOLS USED

I. Return on investment
II. Return on asset
III. Earnings per share
IV. Dividend per share
V. Dividend payout ratio
VI. Price-earnings ratio
VII. Earnings yield ratio
VIII. Dividend yield ratio
IX. Net NPA to net advances
X. Expenses to income

1.5 REVIEW OF LITERATURE

Jai Bansal (2018) "A research on the analysis of merger of SBI with its 5 associate banks and BharatiyaMahila Bank", volume no 7, issue no 12. This article signifies that when two entities are merged as one, the synergy created by the two would be of greater advantage. It is believed that two companies create more value than being on its own stand individually. Also companies evaluate more opportunities when merged as the main objective of both is to maximize the wealth of the shareholders. Although many strategies are being adopted by the banking sector in recent days, merger and acquisition proved to be one of the profitable strategies in the banking sector.

Gurbaksh Singh and Sunil Gupta (2015) "An impact of merger and acquisitions on productivity and profitability of consolidation Banking sector in India", volume no 4, issue no 9. The study has undertaken between one public and one private sector bank pre and post-merger. With the help of statistical tools such as arithmetic mean, standard deviation, T-test

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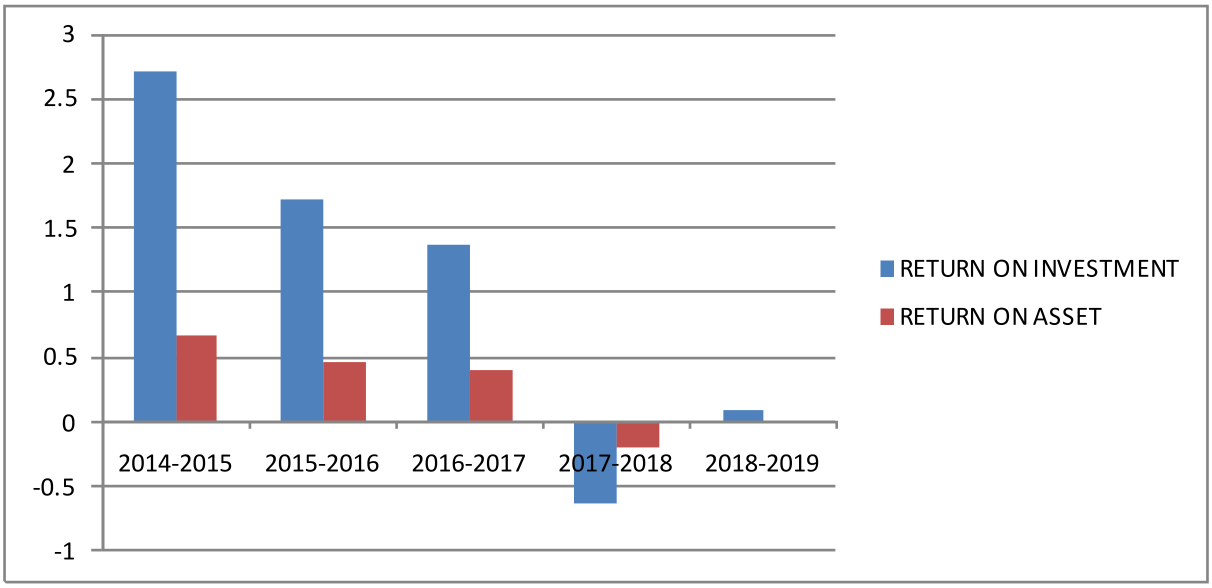
and P-value. Various ratios were analyzed before and after merger. Findings show that out of the calculated ratios i.e., liquidity and profitability ratios, certain ratios were significant and certain were non-significant to both the banks.

1.6 ANALYSIS AND INTERPRETATION

1.6.1 PROFITABILITY RATIOS BASED ON ASSET / INVESTMENT

PARTICULARS/YEAR	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
RETURN ON INVESTMENT	2.72	1.73	1.37	-0.62	0.09
RETURN ON AVERAGE ASSET	0.68	0.46	0.41	-0.19	0.02



INTERPRETATION:

Return on investment is a ratio which results in the percentage of income earned as a result of investment. The return on investment for SBI declined continuously from 2014 to 2017 and also had reached negative in the 2018 (year of merger) but is still in the verge of improvement.

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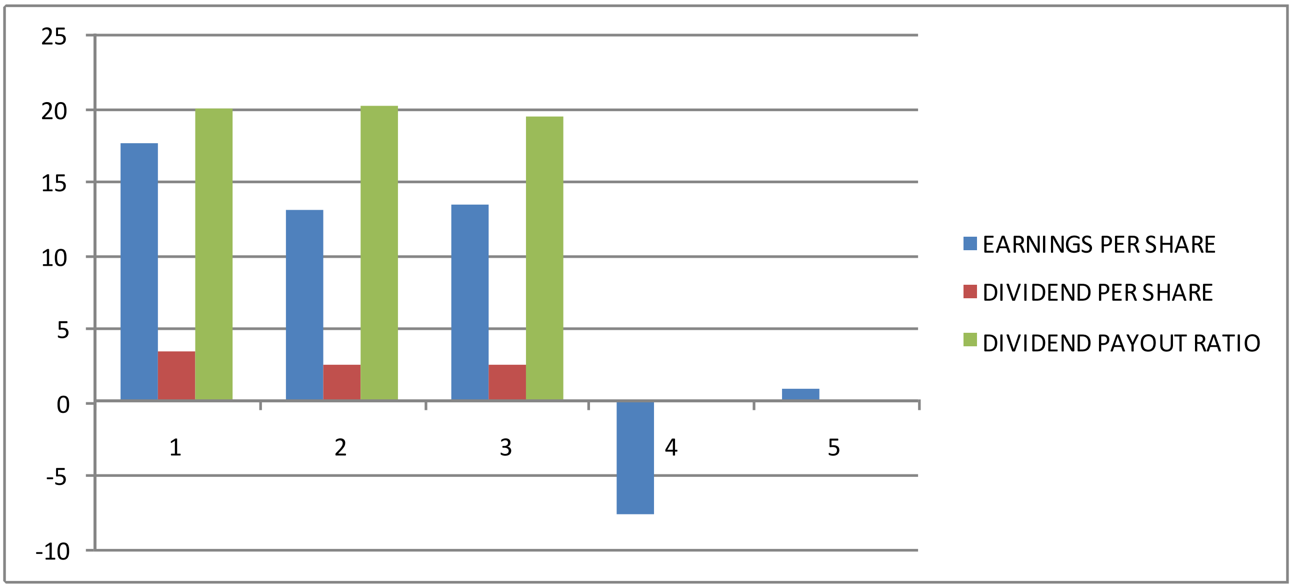
Return on asset is a ratio which tells about the income earned as a percentage of assets invested. In SBIreturn on assets had also declined continuously from the year 2014-2017 and had reached negative in the year of merger that is at 2018.

1.6.2 PROFITABILITY RATIO BASED ON OWNER'S POINT OF VIEW

PARICULARS/YEAR	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
EARNINGS PER SHARE	17.55	12.98	13.43	-7.67	0.97
DIVIDEND PER SHARE	3.5	2.6	2.6	--	--
DIVIDEND PAYOUT RATIO	19.94	20.03	19.36	--	--



INTERPRETATION:

Earning per share is derived by dividing earnings available to equity shareholders with total number of equity shares. SBI had positive EPS till it got merged with its associates and BhartiyaMahila Bank in the year 2017. Although the EPS of SBI reached negative, right after the merger, it had managed to reach positive figure in the year 2018-2019.

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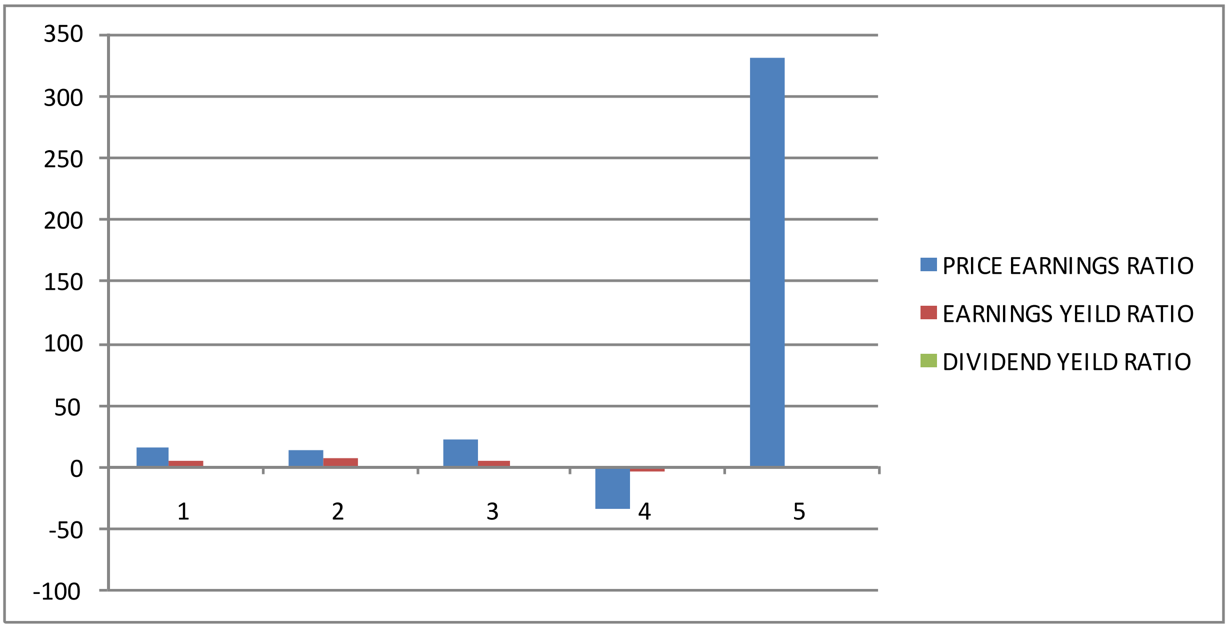
Dividend per share is derived by dividing the total dividend paid with the total number of equity shares. As SBI had to allocate the funds to various other important matters of its operations it could not meet its dividend obligation for the year 2017-2019.

Dividend payout ratio is derived by dividing Dividend Per Share with Earnings Per Share. Since this ratio is dependent on the values of EPS and DPS, it had been fluctuating from the year2014-2016 after which it cannot be determined as the dividend is not paid to the shareholders.

1.6.3 PROFITABILITY RATIO BASED ON MARKET/ INVESTOR'S POINT OF VIEW

PARTICULARS/YEAR	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
PRICE- EARNINGS RATIO	15.22	14.97	21.85	-32.58	331
EARNINGS YEILD RATIO	6.57	6.68	4.57	-3.06	0.3
DIVIDEND YEILD RATIO	1.31	1.33	0.89	--	--



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INTERPRETATION:

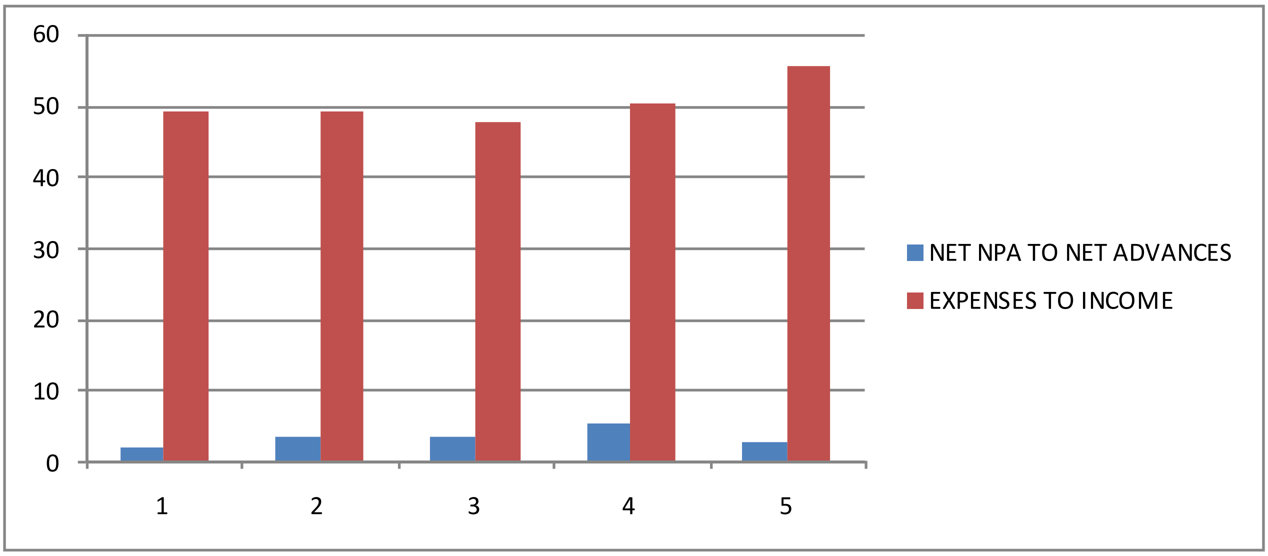
Price earnings ratio is the ratio between the market price and earnings per share. This ratio is fluctuating for three continuous years before the merger. Though it had a great fall in the year 2017-2018, it regained its effectiveness in the year 2018-2019 with greater heights.

Earnings Yield ratio is derived by dividing the Earnings per Share by Market Price per Share. The ratio was consistently maintained at 6% for 2 years before merger. In the year 2017-2018, it reached negative due to a fall in price-earning ratio. It came back with the positive figure of 0.3 in the year 2018-2019.

Dividend Yield Ratio is derived by dividing DPS by MPS. SBI had maintained a consistent figure of 1.3% before the merger but had declined to a extent of 0.89 in the year of merger(2017-2018) and ceased to exist after merger.

1.6.4 RATIOS BASED ON NPA AND EXPENSES

PARTICULARS/YEAR	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
NET NPA TO NET ADVANCES	2.12	3.81	3.71	5.73	3.01
EXPENSES TO INCOME RATIO	49.04	49.13	47.75	50.18	55.70



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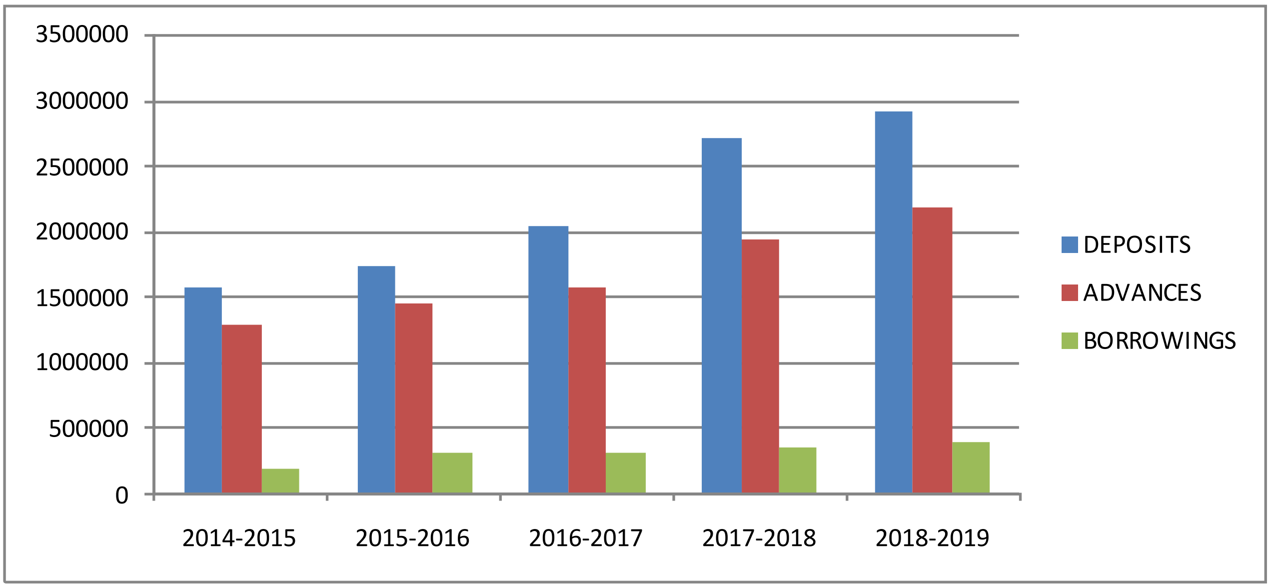
INTERPRETATION:

NPA in SBI has shown a increasing trend of 2.12% to 3.71% from the year 2014-2017 and also had reached 5.73% in the immediate next year of merger. But meeting the most important criterion of merger it had shown a greater fall of about 2% in the next year (2018-2019).

Expenses to Income ratio is derived by dividing the operating expenses with total net income. Expenses to Income ratio is continuously showing a increasing trend for the period of study of 5 years.

1.6.5 TABLE SHOWING DEPOSITS, ADVANCES AND BORROWINGS

PARTICULARS/YEAR	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
DEPOSITS	1576793	1730722	2044751	2706344	2911386
ADVANCES	1300026	1463700	1571078	1934880	2185877
BORROWINGS	205150	323345	317694	362142	403017



INTERPRETATION:

Deposits, advances and borrowings had shown an continuous increasing trend from the year 2014 to 2019. Deposits had increased from 15lakh thousands in 2014 to 29lakh thousands in 2019. Advances had increased from 13lakh thousands in 2014 to 21lakh

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thousands in 2019. Borrowings had increased from 20lakh thousands in 2014 to 40lakh thousands in 2019.

1.7 FINDINGS:

From the analysis made above, it was clear and evident that the return on investment and return on asset had been reduced. As the returns are low as a percentage of investment, the EPS had faced a great downfall which had shown its impact on the dividend too. Because of the inability to pay dividends, the dividend Payout Ratio ceased to exist. Due to both increase in market price and reduce in earnings, the price earnings ratio and earnings yield ratio has come out to be a more unfavorable one. Expenses to income ratio has also been showing an increasing trend year by year.The Bank must take necessary steps to increase its financial stability.

1.8 CONCLUSIONS:

The percentage of NPA reduced to a greater extent after merger.The profitability of the bank has fallen by approximately 3000crore. This was mainly because of accumulated losses of its associate banks. After the merger the net profit has been declined and the stability of the bank is being questionable. So the bank has to look after these factors to increase the factors to increase the profit and the stability which leads to increase in the share value in the future period of time.

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