

Mergers & Acquisitions and SBI'S Amalgamation

Sowmya Ramanathan, Prajakta Valiv

BCom Honours (2H1), Bhavan's Vivekananda College, Sainikpuri, Ph. No. 8870150272

E-mail ID: sowmyaramanathan1998@gmail.com

BCom Honours (2H2), Bhavan's Vivekananda College, Sainikpuri, Ph. No. 8885566222

E-mail ID: prajaktavaliv@gmail.com

Abstract: *Mergers and Acquisitions popularly referred to as M&A's, have been playing a crucial role in the Indian Economy and its growth. In the current scenario, most business firms rely on such M&A's, for not just linear growth, but a growth that is multifold. M&A's have several variable catalysts that help in facilitating inorganic growth to the firms, and provide them with ease of doing business. In a general sense, Mergers and Acquisitions refer to the consolidation of 2 or more companies or their assets. When 2 companies agree upon unifying their affairs, it is said to be a **Merger**. However **Acquisition** arises, when one company acquires majority stake of another company, with a condition that its name and legal structure remain unchanged. In the global scenario, where the business environment is extremely volatile, it becomes unpreventable for the business firms to rely on organic growth. One key factor that influences the M&A activities is the Capital Market.*

SBI and the Amalgamation of its Subsidiary Banks

Renamed by the RBI in 1955, the Imperial Bank of India is today known as the State Bank of India (SBI). SBI is a multinational, public sector banking and financial services company that holds 20% market share in deposits and loans among Indian commercial banks. On 1st April 2017, SBI exercised the largest consolidation in the banking history of India by merging with its 5 associate banks, State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH) and State Bank of Patiala (SBP).

I. Introduction

Acting as an integral part of the economy and the corporate business world, Mergers & Acquisitions, also including the corporate restructuring bring separate companies together to form larger ones. It involves huge monetary transactions which have the capability of influencing the economy at large. Hence, it becomes prudent to study the need, objective, reasons and impacts of such changes in the system. Therefore, in this paper we shall study in depth about Mergers & Acquisitions and the impact they create in today's modern economic scenario. We shall further focus on the recent amalgamation process of the State Bank of India which is considered one of the world's largest amalgamations of banks.

Objectives To Study

- To study in detail about the Mergers and Acquisitions in India.
- To analyze and examine closely, the amalgamation of subsidiaries under SBI.

Need To Study

- To ascertain the impact of such amalgamations on the Indian Economy.

II. Research Methodology

This study has been conducted under the guidance of dexterous people and the report has been made from reliable sources published by experts. The data collected is secondary data.

III. Review Literature

Arundhati Bhattacharya(2017) stated that not only the bank, but the borrowers too will be able to reap the benefits of the merger of State Bank of India with its 5 associates.

As per Investopedia(Anonymous), a merger is a deal to unite two existing companies into one new company. Most mergers unite two existing companies into one newly named company. An acquisition is a corporate action in which a company buys most, if not all, of another firm's ownership stakes to assume control of it. An acquisition occurs when a buying company obtains more than 50% ownership in a target company.

IV. Mergers And Acquisitions

Mergers

A merger happens when two companies combine due to mutual agreement. Mergers are often misunderstood to be acquisitions. Acquisition is when one large company buys and subsumes another company, thus making the latter non-existent in terms of title and control. However, in most mergers, companies merge to form a completely new organization. Mergers happen for various reasons and in various ways. The direction of the merger is usually fuelled by the reason behind the merger. The two major types of Mergers are:

(a) Horizontal Merger- A horizontal merger occurs between two companies at equal degree of competition. This merger usually takes place to minimize the costs and maximize the synergy between the 2 companies. For example, when 2 companies merge, one of the companies which is operating in an old factory but has valuable land, can sell its land, and produce its products in the factory of the other company. This increases the profits as well as reduces the administrative costs, by using the administrative staff of only one of the companies.

(b) Vertical Merger- In a vertical merger, a company merges with either a supplier or a customer. For example, under merger with the supplier, a food processing company may merge with an industrial agricultural company, so that it gets a continuous supply of agricultural products. Under merger with customer, the food processing company may merge with a retail store, in order to market its products to the customers directly.

Acquisitions

The acquisition of a company is the purchase of a company or the division of the company. Most acquisitions are either paid in cash, or in a combination of both cash and the stock of the acquiring company. When some acquisitions are financed with debt, it is called a **leveraged buyout**. Acquisitions are of two types. A company may acquire another company from the same level, to improve its own operation. Sometimes it may acquire its own competitor in order to expand its share and dominance in the marketplace. Another type is when the company acquires another company from an entirely new line of business. This is done by the company in order to diversify its business.

Acquisitions can also be undertaken by a financial company or an individual financier, usually to resell the purchased company at a profit. In a corporate company, the buyer purchases a company with a view to improve its operation and business, and increases its share price hence earning more profits when the shares are sold.

For example, Whatsapp and Instagram were acquired by Facebook.

Effect On Economy

Along with increasing their individual profitability, the Mergers and Acquisitions in India provide a multifold benefit to their shareholders as well as the customers. Most Mergers & Acquisitions are undertaken in order to expand the market share of the companies and advance their competitive edge, which attracts more customers by way of reducing costs and increasing the range of products and services offered to the customers. This helps the companies to diversify and accelerates the growth of the organization exponentially in an inorganic manner. Mergers & Acquisitions can be used as a strong tool in order to revive the business of the failing companies. However M&As are not always successful. They may also turn into loss making institutions which are more harmful than beneficial for business. Thus a careful and conscious use of the resources should be made in order to ensure that an M&A is adequately profitable for any given business.

State Bank Of India: Origin And Operations

State Bank of India, a public sector undertaking and financial services company, is a government owned corporation headquartered in Mumbai, Maharashtra. Back in the 19th century began the evolution of the State Bank of India which was originated with the setting up of Bank of Calcutta, Calcutta in 1806. It was renamed as Bank of Bengal in 1809 becoming the first ever Joint Stock Bank of British India to be sponsored under the Bengal Government. Over time, Bank of Bombay and Bank of Madras came into existence. Together, these three banks established their dominance in the banking industry prevailing in the economy until they were amalgamated and renamed on 27th January, 1921 as Imperial Bank of India.

An Act was passed in the Parliament of India in May 1955 after taking heed of the proposal of All India Rural Credit Survey Committee (AIRCSC), suggesting the takeover of the Imperial Bank of India. This led to the inception of the State Bank of India (SBI) on 1 July 1955. This expanded the scope and control of State Bank of India making it increasingly powerful. Subsequently, the State Bank of India (Subsidiary Banks) Act was passed in 1959 and facilitated the bank to make the eight former State-associated banks as its subsidiaries. These subsidiaries included-

- StateBank of Bikaner and Jaipur (SBBJ)
- StateBank of Hyderabad (SBH)

- StateBank of Indore (SBIR)
- StateBank of Mysore (SBM)
- StateBank of Patiala (SBP)
- StateBank of Saurashtra (SBS)
- StateBank of Travancore (SBT)

Inherited from the Imperial Bank of India, the operations of SBI were carried out by 480 offices, including branches, sub-offices and 3 local Head Offices. SBI emerged as a pacesetter, serving the diverse and volatile financial needs of the planned economic development. Presently, SBI has a network of branches, 18,354 in India and 191 overseas offices to be precise, aiming at providing versatile banking products and services to resident and non resident Indians (NRI's). It caters to the customers by providing products such as Khata, Khata plus, Saral, Vyapaar and Vistaar. In addition to that, it also renders various services such as Fund Transfer, Bulk Transactions through File Upload, MIS Reports, and Demand Drafts, Direct and Indirect Tax Payment and several other utilitarian provisions serving as significant solutions.

Amalgamation Of SBI

The first merger under State Bank of India took place in 2008, when State Bank of Indore and State Bank of Saurashtra merged with SBI. However, this merger was incorporated only in the year 2010. Since there wasn't as much technological advancement, as are present today, the merger faced several problems. Contrastingly with the advancements in technology and faster integration systems, the State Bank of India merged with 5 associate banks that included State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH) and State Bank of Patiala (SBP), on April 1st, 2017. The government has claimed that this merger will lead to an increase in the capital base and capital structure and will also higher the availability of loans. All these associate banks now function under the name of the State Bank of India. The merger is bound to bring close a quarter of all the outstanding loans into the books of SBI and to deal with them more efficiently. Our finance minister, Arun Jaitley has claimed that the merger of SBI will result in greater operational efficiency, and recurred savings and these are estimated to account to a whopping Rs.1,000 crores, due to the reduced cost of funds. After the amalgamation, the monitoring of the operations is deemed to be more effective and efficient, by overseeing the cash flows which will be done by one single organization rather than six individual banks.

However this transition may possibly have its own downfall. There will be certain hiccups and profitability issues in the initial period. The ineffective loans provided will hence result in a requirement of more asset quality reviews. This gives rise to the need for proper diligence in combining the workings and affairs of the associate banks with the State Bank of India.

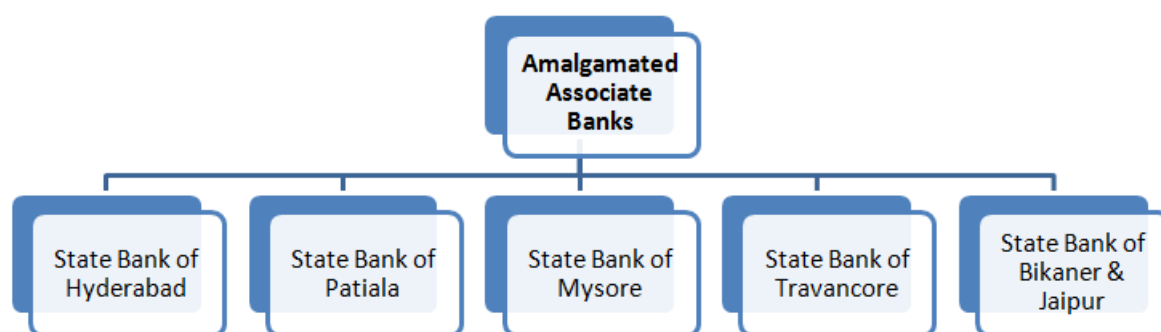


Figure 1- SBI And ITS Amalgamated Subsidiary Banks

Post-Implementation of SBI Amalgamation

The effect of this amalgamation can be viewed upon from three different dimensions. Firstly, from the point of view of the State Bank of India itself. Secondly, from the associate branches' position and lastly from the customers' view point.

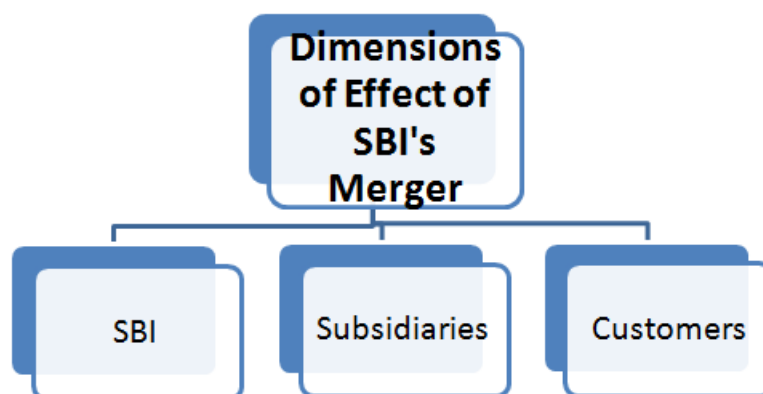


Figure-2 Three Fold Perspective Of The Amalgamation

(A)

Post merger, for SBI implies a large bank becoming larger and more powerful, and entering the top 50 league in terms of assets serving as a huge advantage to its image in the global scenario. The bank has now become the 4th largest in the world also entering the top 100 banks in the world in terms of performance. The process of a merger so huge included the reorganization of all systems and operations which was completed on April 24th, 2017. Furthermore, the entire granular level data merger was undertaken one bank at a time and was finally concluded on May 27th, 2017. It is said that the cost rationalization process will be tackled in the second quarter of the second financial year.

Post merger, SBI's business has enlarged from 17% to a promising 23% with total business of over 37 Lakh Crore rupees. The merged entity now has a deposit base of more than 26 lakh crore constituting more than one fourth of the deposit and loan market of the country. In contrast with the estimations, SBI's employee count has rightly escalated to 2.77 lakh employees.

(B)

For the associate banks, it proved to be a blessing in disguise as well as a curse; a blessing because it led the banks incoming out of their regional environment and centric focus and becoming an all India bank. Earlier, the operations and working structure of these subsidiaries had limited themselves to functioning as mere regional banks, but with the incorporation of this merger, the subsidiaries have finally been provided with a chance to expand their functions and utilities, therefore empowering themselves by way of better social image in terms of customer faith and trust. However the flipside of this transition is that, the resultant merger leads to a drastic change in the cultural ethos of the organizational functions of these subsidiaries. This has led to further resistance among the employees of the associate banks and they feared this amalgamation to pose a threat to their designations and hence their professional career.

(C)

Throwing light on the effect that this reform will upon customers, it is seen that it definitely is a suited alteration. Before the merger, the banks followed a rigid and cumbersome process of sanctioning loans which caused a lot of vexation to the local customers of these associate banks. After the confederation, the multiplied scale of performance of the bank, has led to an increase in its flexibility due to the resultant decentralization of its functions, which facilitates the customers to get loans easily from the local branches. It also provides the customers with larger number of ATMs thus enabling an extended access to banking services.

According to Arundhati Bhattacharya, the benefits of this merger will not just be reaped by the banks but its borrowers as well. With lower interest rates, the home, car and personal loans become much more accessible and affordable. SBI's marginal cost for the first year of lending rate stands unaltered at 8%-the benchmark linked to its home loans. Essentially, SBI's customer base has hiked to 37 crores, all of whom are experiencing the advantages of futuristic digital products and services offered by the bank. It is conducting profitable transactions prosperously through 35000 branches and 58000 ATM's.

From the recruitment angle, the issue of creation of employment opportunities has been debatable. A portion of population argues that, now that the size of the State Bank has become multifold, it will lead to the creation of new employment opportunities. In contrast to this, another portion of the populace claims that the employment will deteriorate due to attrition and digitalization of efforts, which may lead to retirement and voluntary retirement services, due to the employees being unable to cope with the change in the cultural ethos and work environment.

Table-1: Comparative quantitative study post amalgamation

(In crores)

BASIS OF JUDGEMENT	PRE-AMALGAMATION	POST-AMALGAMATION
TOTAL SHARE CAPITAL	776.28	797.35
REVALUATION RESERVES	1374.03	35593.88
NETWORTH	180592.36	217192.15
ADVANCES	1870260.89	1896886.82
CAPITAL WORK IN PROGRESS	785.70	694.92

m.moneycontrol.com

Inference

From the above table, it is inferred that there is a marginal increase in the Total Share Capital and Advances of SBI. However, it is seen that there is a significant increase in the Revaluation Reserves and the overall NetWorth of the bank. Also, a positive decline is witnessed in the Capital Work in Progress.

V. Conclusion

The merger will prove beneficial to India's economy by means of providing enhanced, effective and efficient banking products and services to the residents and non residents of the country. It will help optimize its functionalities and performance by offsetting the weaknesses of smaller branches and complimenting the strengths of the bigger ones. In order to maximize its reach to the customers, and to rationalize the network of branches, some of the branches can be relocated. This brings in substantial cost reduction and synergy in treasury functions, thus enhancing the productivity across the dimensions of the State Bank of India.

We need to look at the positives more than the negatives where the former will outweigh the latter. SBI will no doubt become a global bank with far reaching magnitude with the spread of 17000 branches and combined account base of over 75000 accounts. With the integration of technology, all the persons mainly the customers, employees and the society as a whole can avail the aid to their needs through this evolutionary transition and take a step forward towards welfare of the economy and the country subsequently.

References

All the sources used to write this paper, have been published by experts and are subject to least incorrections. The information was gathered from the following sources:

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