



UNLOCKING THE LOCK- A MIRROR IMAGE EFFECT OF SBI MERGER IN INDIAN BANKING SYSTEM

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Abstract:

The economic growth of the nation largely depends upon the banking and financial institutions. The steadiness in the financial structure leads to the stable growth of the country. Indian banks comprise of public banks, private banks, rural banks, cooperative banks, industrial banks, agricultural banks and foreign banks. Several banks in India are operating in a limited area and the turnover of the bank is not that eye-catching in the present competitive world. Presently majority of banks, including the public sector banks reported huge losses over past consecutive quarters. Compared to the banks of developed countries, Indian banks need to become stronger in terms of operation, technology, turnover and spread. The banks are on-the-way in the task of becoming stronger. Merger in simple words is a method to unite two or more surviving banking companies into one new bank. A merger is done for achieving some reach, which may differ from one company to the other. The largest public sector bank in India i.e. State Bank of India has 5 subsidiaries, more than 16,500 branches in India and 191 foreign branches, is now thinking of becoming among world's top banks through the merger process. During the procedure, the bank is in the path of merging its 5 subsidiaries and Bharathiya Mahila bank with it. The bank's objective behind the merger is to achieve the operational synergies, to reach the new customers and to increase the market share. Merger affects the employees of the companies as well as the shareholders. Resistance is seen the banking industry regarding the mergers and continuous strikes was made by employees union opposing the merger process. Therefore, this particular paper throws light on the impact of merger on the employees and shareholders of the SBI associate banks.

Index Terms: Merger, State Bank of India, Indian Banks, Employees & Shareholders

1. Introduction:

'The laurel-tree grew large and strong, its root went searching deeply down; It split the marble walls of wrong, and blossomed o'er the despots crown'. Well said by Richard Henry Horne, efforts to become stronger result in being strong. The corporate world is subject to change. The factors such as competition, external and internal policy shifts, survival, turnover are factors responsible for the change in the business.

Even though majority of Indian population depend upon agriculture, the contribution of agriculture and industries (primary & secondary activities) for the economic development is very less. The economic development depends upon the service (tertiary sector). India is second largest populated country and can very well flourish with the service based activities. Banking companies form a very important role in the Indian economy and it is based on the financial service offerings to the society as a whole.

Service based organizations has gained much importance in the society such that it has proved profitable, reliable and long lasting. The competition gradually increased among the service based organizations, presently it is the condition arose among the banks that survival of the strongest. Indian banks are not competent globally, because of a large number of small banks. Due to this reason, most of the foreign banks have

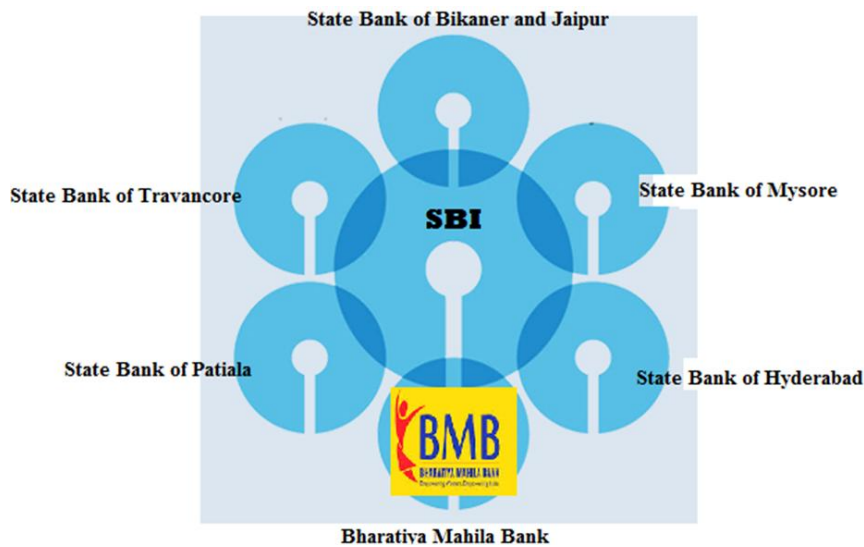
gained success in India. The Indian Public Sector Banks are unable to compete with the private and foreign banks. The State Bank of India, being the largest bank operating in India is in the process of changing its operating structure by merging its subsidiaries with it. SBI is all set to become stronger to compete nationally and globally. The paper is a conceptual work and it deals with the effects, pros and cons of merger of SBI and its associates.

2. What is Merger?

Merger in simple words is a method to unite two or more surviving banking companies into one new bank. A merger is done for achieving some aims, which may differ from one company to the other. The merger may be the horizontal merger or a vertical merger or concentric merger.

3. Merger: State Bank of India and its Associates:

The largest public sector bank in India i.e. State Bank of India has 5 subsidiaries, more than 16,500 branches in India and 191 foreign branches spread across 36 countries, is now thinking of becoming among world's top banks through the merger process.



In the year 2008, SBI had merged State Bank of Saurashtra and in 2010, State Bank of Indore was merged with it. In the process of merger presently (2016), the SBI Board had decided to merge 5 subsidiaries and obtained the permission for merger plan in the month of July 2016 from the Cabinet. Thus, SBI is going to merge State Bank of Bikaner & Jaipur (SBBJ), Travancore (SBT), Patiala (SBP), Hyderabad (SBH) and Mysore (SBM), and the Bharatiya Mahila Bank (BMB) with it.

SBI stated that the gross NPA of the five associate banks during the end of March 2016 stands at 5.98% and in June 2016, NPA raises to 9.14% which is not a right sign. The five associate banks reported Rs. 2,018 crore loss in the June quarter. Private players are dominating the banking market, leaving very less space for PSB.

The merger will increase 36 percent of SBI's assets and SBI is expected to take a position amongst top 50 global banks. The emerging structure of SBI will have the network of 24,000 branches with 58,000 ATMs, total employees of 2,70,000 and 50 crores of customers.

The SBI board had finalised the merger plan and decided to swap agreement, this includes State Bank of Bikaner & Jaipur's (SBBJ) shareholders will get 28 shares of SBI (Re. 1 each) for every 10 shares (10 each), State Banks of Travancore's (SBT) & State Banks of Mysore's (SBM) shareholders will be getting 22 shares of each of SBI for every

10 shares they hold, in the case of the Bharatiya Mahila Bank 4,42,31,510 shares of SBI will be swapped for every 100 crore and SBI will be fully owning the shares of State Bank of Patiala (SBP) & State Bank of Hyderabad (SBH).

The merger plan is made to attain operational efficiency. Increasing the market share by creating an enlarged customer base is one of the objectives behind the merger plan. The Bank's Board forecasts that, increased presence of bank in a vast geographical area will increase deposits and thus the cost of funds can be reduced. Thus the bank can serve the customers at a reduced cost on advances (loans). The bank also presumes that, there will be a drop in overheads, centralisation of treasury and administrative offices will reduce the running costs. The Bank also states that fast and uniform digital system can be brought easily wherein previously uniformity was the nightmare because of the existence of different entities with separate management.

4. Post-Merger Estimates:

The merger will result in SBI being the 44th largest global bank and biggest Indian bank. SBI plans for the fresh issue of equity shares. Soon after the merger, the SBI's capital adequacy ratio may come down to 50 basis points. The merger will result in the closure of five banks and the business will be merged with the SBI. Many of the branches may be closed which result in the transfer of employees. For some spell, SBI will not be undertaking fresh recruitment. The merger will have a negative impact on the health of the SBI, because the cumulative bad loan of the five associate banks amounts to 35% of the bad loan of SBI.

The SBI officials believe that cost synergy benefits are the biggest advantage of the merger, that can be achieved in near future. Treasury improvement and lower cost of funds is also a major aim. The merger will lead the increase of treasury to 90 basis points. After the merger of SBI groups, the bank will be deploying the human resource on customer centric areas. All the efforts are made to ensure customer satisfaction and creating a strong customer base. The additional capital may be employed for increasing the efficiencies and to achieve economies of scale.

5. Post-Merger Status of Employees and Investors of Associate Banks:

The bank feels that merger is a must in the existing aggressive competition formed by the private and foreign banks. Do the employees and the investors of the associate banks are happy about the merger?

Several strikes carried out by the employees, unions and associations show that the employees resistant over the merger. The associate banks will be losing their identity after the merger. SBI had announced that the employees of associate banks will be continued under the umbrella of SBI and the bank have assured the associate bank's shareholder will be settled in the form of the share swap. The associate Banks and the shareholders opines that, the swap value is not satisfactory and are unhappy about the share swapping because of lesser value.

6. Suggestions:

The major bank had finalised the decision to merge the associate banks. The authors, after the conceptual study about the merger of SBI and its associates identified the problem areas and Thus, the following suggestions are recommended.

- ✓ The bank has to give prime importance in bringing down the non-performing assets.
- ✓ The bank must focus its efforts to recover the bad loans of the associate banks through continuous follow ups. Thus, strict rules have to be introduced to the issue of fresh advances to the corporate and to the general public.

- ✓ After the merger, there is a high chance that customers of the associate banks may move out to other banks. SBI has to take necessary action for retaining the customers of associate banks with it.
- ✓ Superiority and Inferiority complex may arise between the employees of SBI and the employees of associate banks, which may effect on the level of performance. Thus, the bank has to take up necessary action about it.

7. Conclusion:

State bank of India, the oldest bank in India plays very important role in the financial system of the country. The bank undertakes the treasury function, advisory function of the government along with banking activities. The only Indian bank, which has more branches in foreign countries. The bank is aiming at achieving the success nationally and internationally. Becoming strong and large is the main objective behind the merger. There are several challenges that are expected in the way of change. The challenges are unavoidable for the corporates in the present competitive world. Lets wish SBI -ALL THE BEST.

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