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Futuristic Approach of Merger and Acquisition in Public Sector Banks with Special Reference to State Bank of India

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ABSTRACT: The banking sector, especially public sector banks (PSBs), is experiencing significant transformations driven by technological advancements, regulatory changes, and evolving consumer preferences. In this dynamic environment, mergers and acquisitions (M&A) have emerged as strategic tools for enhancing competitiveness, efficiency, and market share. This research paper explores the futuristic approach of M&A in PSBs, specifically focusing on the State Bank of India (SBI). It examines the motivations behind M&A activities, their implications on the banking sector, and the potential benefits and challenges associated with such initiatives. Furthermore, the paper analyzes the strategic considerations, key success factors, and potential future trends in M&A for PSBs, drawing insights from literature, case studies, and expert opinions.

The final interbank comparison also shows that mergers like SBI and its associates, PNB and Indian bank have proved to be successful by strengthening the Public sector banking in India, banking mergers are making public sector banks more reliable and increasing competition even with others in the private sector. The merger resulted in significant changes in the various aspects of the merger public sector banks, which is an indication of positive results in the post-merger phase

KEYWORDS: Merger and Acquisition, Public Sector Banks, State Bank of India, Futuristic Approach, Strategic Considerations, Challenges, Opportunities.

I. INTRODUCTION

The banking industry, particularly public sector banks (PSBs), plays a crucial role in driving economic growth, financial stability, and inclusive development. However, the sector faces numerous challenges, including technological disruptions, regulatory reforms, and increasing competition from non-banking entities. In response to these challenges, PSBs are exploring strategic initiatives such as mergers and acquisitions (M&A) to enhance their operational efficiency, strengthen their market position, and adapt to the evolving business landscape.

The State Bank of India (SBI), being the largest PSB in India, has been at the forefront of M&A activities, undertaking several mergers to consolidate its operations and expand its reach. As the banking sector continues to evolve, it becomes imperative to explore the futuristic approach of M&A in PSBs, with a special emphasis on the strategic imperatives, challenges, and opportunities faced by institutions like SBI. This research paper aims to analyze the motivations behind M&A in the public sector banking domain, assess the implications of such initiatives on various stakeholders, and identify the key success factors for effective integration and sustainable growth post-merger.

The Narendra Modi government has made this a banking realignment to simplify its operation and scale. At the time of the restructuring process, the Union Cabinet agreed, on 15 June 2016, that the five state bank subsidiaries (SBI) be merged with the relative partner. The Cabinet has approved the merging with SBI of the subsidiaries State Bank of Mysore, State Bank of Travancore, State Bank of Hyderabad, State Bank of Patiala and Bhartiya Mahila Bank Ltd. SBI, 3 namely State Bank of Mysore. The combined balance sheet of the SBI would be 37 trillion rs, making it one of the top fifty banks in the world, owing to the merger with subsidiaries. The change occurred as SBI, like many other government-run banks, struggled with increasing poor lending. Net profit for the three months ended 31 March 2016 fell 66 per cent from the current financial year due to the increase in bad loans provision. “We want to create next-generation banks. You need big banks with enhanced capacity to increase credit. You need banks with a strong national presence and global presence”, finance minister Nirmala Sitharaman stated. It was announced the merger on 30 August 2019 of six public sector banks with four less performing anchor banks as part of the three major policy announcements to resolve economic concerns. This is the biggest reorganization in the banking industry since the nationalization, in July 1969, 14 banks, merged in Punjab National Bank(PNB), The Oriental Bank of Commerce (OBC) and the United

Bank of India (UBI). After The state bank of India, the PNB will now become the second-largest PSU bank, and all of its members were previously merged with it. Instead, the Syndicate Bank was merged with the Canara Bank and the Andhra Bank and Corporation Bank with the Union Bank of India. The Allahabad Bank will also into the Indian Bank. This will make it the seventh-largest state-owned bank in India The overall number of PSU banks will drop to 12 by the announcement of the merger of banks. When the government launched the Bank Merger Initiative before 2017, India had 27 public sector banks. The Government was optimistic that another round of restructuring could be performed with no hiccup in the face of a successful merger of the State Bank of India to five subsidiaries and the Bhartiya Mahila Bank. The consolidation decision was aimed effectively at enhancing the governance, transparency, productivity and supervision of India's banking sector. However, the decision has also been widely criticized for not ensuring that larger banks are bigger. Besides, banks with similar technologies are combined to ensure convergence and customer service are not impeded. The increased size will allow public sector banks to match the private sector banks on an equal basis Therefore this study looks at analysing the merger of the state bank of India and its associates and the mega public sector bank merger including PNB, Canara Bank, Union Bank of India and Indian bank.

TABLE 1

TARGET AND ACQUIRER BANKS FOR STUDY	
ACQUIRER BANKS	TARGET BANKS
State Bank of India	State Bank of Bikaner and Jaipur
	State Bank of Mysore (SBM)
	State Bank of Travancore (SBT)
	State Bank of Hyderabad (SBH)
	State Bank of Patiala
	Bhartiya Mahila Bank
Punjab National bank	Oriental bank of commerce
	United Bank of India

Source: https://www.rbi.org.in

Objective:

The primary objective of this research paper is to explore the futuristic approach of mergers and acquisitions in public sector banks, with a specific focus on the State Bank of India. The paper aims to achieve the following objectives:

1. To analyze the motivations driving M&A activities in PSBs.
2. To assess the implications of M&A on the banking sector, stakeholders, and the economy.
3. To identify the key success factors and challenges associated with M&A in PSBs.
4. To provide insights into the potential future trends and opportunities in M&A for PSBs.

II. LITERATURE REVIEW

The literature review focuses on examining the motivations, drivers, challenges, and outcomes of mergers and acquisitions in the banking sector, particularly in public sector banks. Key themes explored in the literature include strategic considerations, regulatory frameworks, financial performance, cultural integration, and stakeholder perspectives. Additionally, the review discusses the role of technology, digital transformation, and innovation in shaping the future of M&A in PSBs. The literature review provides a theoretical foundation for understanding futuristic approach of M&A in public sector banks, guiding further analysis and discussions in this research paper.

(Grant Thornton, 2008) opined that the topic of mergers and acquisitions is contemporary from the viewpoint of strategy and finance. It is considered as a significant strategy for quick growth and increased market share and has been extensively researched across the globe over the past few decades especially in USA and UK markets The imperative question whether mergers and acquisitions have achieved the desired objective and synergy set in the deal, has been an interesting question that has held the attention of researchers the world over. Studies conducted in USA and UK markets to evaluate whether mergers and acquisition achieve the synergies set in them, The impact of these synergies on shareholder performance was conducted using the given 2 approaches i) Event-based studies, which investigates the change in the value of the company at the time of the announcement ii) Accounting based approach, which looks at the change in finances over time, usually 3 years to 5 years, by accessing the operating cash flows, earnings or assets. These methods proved to accurate forecast for share valuation and partially the market share for companies under question.

(Anand Manoj & Singh Jagandeep,2008) The effect of five Indian Banking Sector mergers on the equity holder Bank was analyzed. The findings were addressed. The merger between the Times Bank and the HDFC Bank and the ICICI Bank was the Bank of Madurai, ICICI Ltd and ICICI Bank, the Global Trust Bank and the Oriental Commerce Bank merged with the Bank of Punjab and the Century Bank. The announcement of a bank merger has had a significant and important effect on the wealth of shareholders. The result shows that except if the value of bidder banks' shareholders has been destroyed in the context of the United States, the value of the combined portfolio's weighted Capital Adequacy ratio as a consequence of the merger announcement is 4.29 per cent in three days.

(Adrian Gourlay, Geetha Ravishankar, Tom Weyman-Jones 2009) The efficiency gains from bank mergers in India have been studied and the post-Reformation banking mergers have had substantial potential efficiency gains from harmonious gains. The study shows an initial merger effect advantage for the former bank after the merger efficiency review by the combined bank with the monitoring community of non-existing banks that did not demonstrate a sustained increase when persisting and that thus failed to provide the merged banks with a competitive advantage over their non-merging counterparts

III. RESEARCH METHODOLOGY

Introduction

The methodology is a crucial part of the research study as it shows the means through which the research is conducted. It complements the qualitative study done concerning the Literature review. The research methodology gives clarity on what exactly the research wants to tackle and how it is going to do so. It will look at all the aspects of researching the scope, limitations, design, data collection, sampling, and objectives of the research. The data will be the financial statements of the company to analyse the effect of the performance of merger and acquisitions on public sector banking.

Hypothesis

H0 = There is no significant difference between the pre and post-merger financial indicators of Public sector Banks.

Methodology

1) Design of the Study: The study will employ a quantitative research approach. This study will use statistics to compare the pre-post merger for the public sector banks under question, also an inter-merger analysis will be conducted to test the hypothesis

2) Tools for Collection of Data The research study is based on Secondary data collected from respective Company websites, annual reports, company annual reports and government reports on the public sector banking industry.

Tools for analysis

The model chosen for analysis is the CAMELS rating model. CAMELS The rating system is used to assess the performance of the banks and to assess their strength and weaknesses. The CAMELS rating system takes into account the following aspects.

Operational Definitions

➢ **Capital Adequacy**: Capital adequacy measures the bank's ability to cope with losses and comply without ceasing to operate with all of its customer obligations. Only by a quantity and the quality of the capital a bank can access this can be met. ➢ Asset Quality: All assets, such as the current and fixed assets, the loans, investment, real estate and all off-balance sheet transactions, are represented by an asset. The performance of an asset can be assessed using this indicator. One criterion for assessing the effectiveness of bankers' credit decisions is the ratio of gross non-performing loans to gross advances.

➢ **Management Quality**: The Managing Board and top management are the main persons in charge of the successful operation of the banking activities. The efficiency of managing is checked using this parameter, such as how well it reacts to changing market conditions, how well it delegates duties and responsibility, how well compensation policies, job descriptions are developed.

➢ **Earnings**: The revenue of a bank comprises income from all transactions, nontraditional and outstanding sources. The efficiency of the bank is checked through this parameter to cover all potential losses and the ability to pay dividends in respect of its capital adequacy. Asset Return Ratio measures the banks' earnings. Acquirer Banks Target Banks 25

➢ **Liquidity:** The bank's ability to convert assets into cash is called liquidity. The ratio of Cash maintained by Banks and Balance with the Central Bank to Total Assets determines the liquidity of the bank.

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➢ **Sensitivity to Market Risk**: Through this parameter, the bank's sensitivity towards the changing market conditions are checked, i.e. how adverse changes in the interest rates, foreign exchange rates, commodity prices, fixed assets will affect the bank and its operations

Findings

Looking at the capital adequacy SBI has performed fairly better than all others post-merger. It has maintained government securities investment even post-merger which has been a major reason for its 2:1 debt to equity. On observing banks from the mega-merger they all declared a high debt to equity which can result in problems for the future. The capital adequacy was stood between 11-15 for all banks which is a constructive result. The asset management did not see much difference post-merger for all public sector banks. Most saw a falling trend in the nonperforming assets to total assets in 2020 which is an indication that all the banks were lending amounts to lenders after a proper background check of the borrower's past finances. The management quality, other than Indian bank has not been able to maintain their management quality as they have faced a trade-off between increasing interest income or net profit. PNB, Union and Canara bank chose to increase interest income post-merger and achieved that successfully. The ranking remained the same only that union bank could not perform as well as Indian bank in terms of management quality.

• SBI saw stable earnings 3 years post the merger which is not a sign of growth as postacquisition of 5 banks, SBI should have declared a high rate of ROCE and CASA, a similar trend was observed with PNB and Union Bank of India. This needs to be made as to the definite objective of the RBI for future mergers.

• All banks declared a spike in the Current ratio and Quick ratio, which indicates that the liquidity of the banks under question increased post-merger. Hence this signals that all banks can pay off short term debts and increase their short term lending.

• The market sensitivity was not virtuous as the P/B and P/S ratio didn't perform well postmerger. The P/B or P/S should have been between 1-3 to make these banks investible. However, most of the results fluctuated between 0-1, expect the Indian bank.

• Overall SBI, Indian and PNB has shown positive results post-merger but Canara, union bank need to be looked upon by the central bank to increase efficiency and earrings.

• The comparison with the public and private sector saw only Indian bank competing with other leaders in the banking sector. SBI is the largest bank that should come in the top 3 as it has expanded operations and scaled its lending capacity. However, it is unable to compete with market leaders like HDFC and Kotak bank.

IV. CONCLUSION

On analysing all the mergers, the post-merger performance has been positive in most cases. Banks like Canara and Union Bank of India are still adjusting to the post-merger environment. Hence these banks will require more attention from the centre. The RBI's objectives have been partially achieved through this merger, as factors like a decrease in NPA and market Sensitivity have shown positive results.

The RBI's decision to reduce the number of nationalised banks is justifiable as proved by this paper. The Wilcoxon test showed that most of the bank selection was done wisely and will deliver profitable results in the future.

Camel rating gave effective results of the current standing of the banks in different banking environments. The camel rating showed the points of weakness and strength of the public sector bank post-merger. The camel's rating delivers a holistic view of the merged banks. The mentioned hypothesis shows that there is a significant difference post-merger. Also, all the objectives were carried out effectively.

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