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A case study on mega merger of SBI with its five Subsidaries

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Abstract

Mergers and acquisitions (M&A) are transactions in which the ownership of companies, other business organizations or their operating units are transferred or combined. As an aspect of strategic management, M&A can allow enterprises to grow, shrink, and change the nature of their business or competitive position. From a legal point of view, a merger is a legal consolidation of two entities into one entity, whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests or assets. However, from a commercial and economic point of view, both types of transactions generally result in the consolidation of assets and liabilities under one entity, and the distinction between a "merger" and an "acquisition" is less clear. On 15 February 2017, the Union Cabinet approved a proposal to merge five SBI associate banks with SBI. In this present case study, Merging of five state bank subsidiary banks into the parent bank SBI is named after Mega-merging. The present paper explores the economic and political pull and push factors cause merger of SBI associate banks into SBI. The paper also attempted to evaluate prospects and consequences of Mega-merging.

Keywords: Mega-merging, M&A

1. Introduction

1.1 Banking industry in India at glance

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy and usher in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. But to do so, it has had to control miles and miles of difficult terrain, suffer the indignities of foreign rule and the pangs of partition. Today, Indian banks can confidently compete with modern banks of the world. Before the 20th century, usury, or lending money at a high rate of interest, was widely prevalent in rural India. Entry of Joint stock banks and development of Cooperative movement have taken over a good deal of business from the hands of the Indian money lender, who although still exist, have lost his menacing teeth. In the Indian Banking System, Cooperative banks exist side by side with commercial banks and play a supplementary role in providing need-based finance, especially for agricultural and agriculture-based operations including farming, cattle, milk, hatchery, personal finance etc. along with some small industries and self-employment driven activities.

2. SBI at glance

The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding, in 1806, of the Bank of Calcutta, making it the oldest commercial bank in the Indian subcontinent. Bank of Madras merged into the other two "presidency banks" in British India, Bank of Calcutta and Bank of Bombay, to form the Imperial Bank of India, which in turn became the State Bank of India in 1955. Government of India owned the Imperial Bank of India in 1955, with Reserve Bank of India (India's Central Bank) taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India.

2.1 Key strengths of SBI

State Bank of India is a banking behemoth and has 20% market share in deposits and loans among Indian commercial banks.State Bank of India (SBI) is an Indian multinational, public sector banking and financial services company. It is a government-owned corporation. As of 2016-17, it had assets of 30.72 trillion (US$460 billion) and more than 14,000 branches, including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets. The company is ranked 232nd on the Fortune Global. 500 list of the world's biggest corporations as of 2016.

3. SBI and its Associate banks

SBI now has one associate bank, down from the eight that it originally acquired in 1959. All use the State Bank of India logo, which is a blue circle, and all use the "State Bank of" name, followed by the regional headquarters' name:

- State Bank of Patiala (founded 1917)
- State Bank of Mysore (founded 1913)
- State Bank of Bikaner & Jaipur (founded 1963)
- State Bank of Hyderabad (founded 1941)
- State Bank of Travancore (founded 1945)
- Bharatiya Mahila Bank(founded 2013)

SBI provides a range of banking products through its network of branches in India and overseas, including products aimed at non-resident Indians (NRIs). SBI has 14 regional hubs and 57 Zonal Offices that are located at important cities throughout India.

3 (a). State Bank Of Hyderabad (SBH)

Hyderabad State Bank was established on 8 August 1941 under the Hyderabad State Bank Act, by last Nizam of Hyderabad, Mir Osman Ali Khan now the new state of Telangana. It is one of the five associate banks of State Bank of India and is one of the scheduled banks in India. In 1956, the Reserve Bank of India took over the bank as its first subsidiary and renamed it as State Bank of Hyderabad. Since 1956 it has been a subsidiary and largest associate bank of SBI. The bank has performed well in the past decades, winning several awards for its banking practices. SBH has over 2,000 branches and about 18,000 employees. The Bank's business has crossed Rs. 2.4 trillion as on 31.12.2015 with a net profit of Rs. 8.12 billion. The bank has performed well in the past decades, winning several awards for its banking practices.

3 (b). State bank of Travancore (SBT)

SBT was established in 1945 as the Travancore Bank Ltd, at the initiative of Travancore Divan C. P. Ram swami Iyer. Following popular resentment against his dictatorial rule, the bank no longer credits his role. Instead, the Bank now considers the Maharaja of Travancore as the founder, though the king had little to do with the founding. Although the Travancore government put up only 25% of the capital, the bank undertook government treasury work and foreign exchange business, apart from its general banking business. Its registered office was at Madras. In 1960, it became a subsidiary of State Bank of India under the SBI Subsidiary Banks Act, 1959, enacted by the Parliament of India.

3 (c). State Bank of Mysore (SBM)

State Bank of Mysore was established in the year 1913 as The Bank of Mysore Ltd. under the patronage of Maharaja Krishna Raja Wadiyar IV, at the instance of the banking committee headed by the great Engineer-Statesman, Bharat Ratna Sir M.Visvesvaray. During 1953, "Mysore Bank" was appointed as an agent of Reserve Bank of India to undertake Government business and treasury operations, and in March 1960, it became a subsidiary of the State Bank of India under the State Bank of India (subsidiary Banks) Act 1959. Now the bank is an Associate Bank under State Bank Group and the State Bank of India holds 92.33% of shares. The Bank's shares are listed in Bangalore, Chennai, and Mumbai stock exchanges.

This bank has 976 branches and 10627 employees (June 2014) and the Bank has 772 branches (79%) in Karnataka State. The bank's turnover in the year 2013-2014 was around US$19 Billion and Profit about US$46 Million.

3 (d). State Bank of Patiala (SBP)

Bhupinder Singh, Maharaja of Patiala State, founded the Patiala State Bank on 17 November 1917 to foster growth of agriculture, trade and industry. The bank combined the functions of a commercial bank and those of a central bank for the princely state of Patiala. The bank had one branch at Chowk Fort, Patiala, undivided India.

The formation of the Patiala and East Punjab States Union in 1948 led to the bank being reorganized, being brought under the control of the Reserve Bank of India, and being renamed Bank of Patiala. On 1 April 1960 Bank of Patiala became a subsidiary of State Bank of India and was renamed State Bank of Patiala. Presently, State Bank of Patiala has a network of 1445 service outlets, including 1314 branches, in all major cities of India, Particularly in north India.

3 (e). State Bank of Bikaner & Jaipur

SBBJ came into existence on 1963 when two banks, namely, State Bank of Bikaner (established in 1944) and State Bank of Jaipur (established in 1943), were merged. Both these banks were subsidiaries of the State Bank of India under the State Bank of India (Subsidiary Bank) Act, 1959.

On 25 April 1966 SBBJ took over Govind Bank (Private) Ltd., Mathura, established on 8 February 1963.

In 1984 SBBJ sponsored and established Ganganagar Kshetriya Gramin Bank as a Regional Rural Bank. Thereafter, in 1985 SBBJ opened the Bikaner Kshetriya Gramin Bank, the second Regional Rural Bank sponsored by it. The third Regional Rural Bank, sponsored by SBBJ was Marwar Gramin Bank, which covered the districts of Pali, Jalore and Sirohi. On 12 June 2006, SBBJ merged all three regional rural banks that it sponsored under the name MGB Gramin Bank, with headquarters in Jodhpur.

It is an associated bank of State Bank of India. As of 2015, SBBJ had 1,360 branches, mostly located in the state of Rajasthan, India. Its branch network out of Rajasthan covers all the major business centres of India. In 1997, the bank entered the capital market with an Initial Public Offering of 13, 60,000 shares at a premium of Rs 440 per share. For the year 2015-16 the net profit of the company was 850.60 Crore.

4. Economic and Political factors trigger Mega-merger

The present chairman of SBI, Arundhati Bhattacharya has earlier gone on record that the merger of associate banks is not a priority at the current juncture. It is the cabinet approval to merge five SBI associate banks with SBI. There are a few economic factors trigger the Mega-merging. The merger of five associate banks with State Bank of India (SBI) will result in the capital adequacy ratio of the merged entity falling by about 54 basis points (bps) to 13.19% from 13.73%, chairman Arundhati Bhattacharya said on Thursday “ We will still be very close to 14% and, therefore, it is not a really major worry for us,” she said, explaining that 79 bps of capital from the fourth-quarter infusion of funds by the government and profit had not been taken into account. The new entity’s gross non-performing asset (NPA) ratio will rise by 147 bps to 8.7 %. Bhattacharya said the gross NPA ratio would not go up too much as the bank has been working to ensure that provisioning levels of the associate banks were raised to SBI’s standards. “By the time they come in, all of the provisions that they needed to have made will be made, to the extent possible,” the chairman said.

The bank expects the merger to lead to synergies in terms of treasury operations, the reorganisation of some head offices and the consequent redeployment of some administrative staff in direct operations. For large advances, where the associates are part of consortia heir limits will get taken over by SBI and people managing those accounts would also be released for looking after other businesses, Bhattacharya said. Other functions related to account management, such as audit and information technology, will also become consolidated. Bhattacharya refused to put a value on these synergies and said that it there will be more clarity on this once the merger is completed.

Table 1: Financial position of SBI and its associate banks at glance

SBI: Scaling Up Tobe In The Global League					
The merge of five associate banks and BHM with SBI is a step towards creating fewer but much larger banks					
Select the business parameters of SBI' associate Banks			After The Merger Combined		
			Asset Base		37.Lakh Cr.
			Total Branches		24000
			Total ATMs		58700
			Total Customers		50 Cr.
	SBBJ	SBT	SBM	SBP	SBH
Net Profit (cr.)	851	338	358	(972) loss	1065
Total Business Lakh.Cr.	1.69	1.68	1.25	1.89	2.5
Gross NPAs (%)	4.82	4.78	6.56	7.89	5.75
Branches	1316	1177	1037	1300	1964

Source: Banks; Compiled by: Manojit Saha (Published in The Hindu daily-Thursday, June16, 2016)

4 (a). Merge Sharing ratio of SBI with subsidiaries

Anshula Kant, chief financial officer at SBI, had earlier said that the terms of the merger are such that for every 10 shares of State Bank of Bikaner and Jaipur, shareholders will get 28 equity shares of SBI. For every 10 shares State Bank of Mysore, shareholders will get 22 shares of SBI and for every 1Oshares of State Bank of Travancore they will get 22 shares of SBI. The other two associates. State Bank of Hyderabad and State Bank of Patiala, are fully-owned, unlisted subsidiaries of SBI.

Table1 shows the Financial position of SBI and its associate banks at glance. About 1,500 branches of State Bank of India and its five associate banks will be merged following amalgamation of the latter with their parent bank, said a top official. According to government orders issued on February 22 under the State Bank of India Act, 1955, the entire undertaking of State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Travancore, State Bank of Patiala, and State Bank of Hyderabad will stand transferred to and vested in State Bank of India from April 1, 2017. The branch rationalisation will happen in the second half of the next financial year, said Rajnish Kumar, Managing Director (National Banking Group), State Bank of India. "Branch rationalisation will happen wherever the retail branches are in close proximity. We don't need two outfits in one building or in close proximity," said Kumar. To expand network But, at the same time, the bank, which is India's largest, has plans to expand its network because the country's population is increasing, newer localities are coming up, and newer demands arising, explained Kumar. He elaborated: "So, what will happen is some of these branches will get merged and new branches will be opened. Post-merger, we will have 24,000 branches. "And what I believe is that in the next two years, new branches will be opened and some of the existing branches will be merged.

But the overall number of branches would remain around the current level." Emphasising that customer experience will be better and a lot of inefficiencies will be removed as a result of the amalgamation, Kumar said SBI's retail book will go up to about Rs.10 lakh crore (post-merger retail portfolio) from about Rs.6.75 lakh crore (the bank's standalone retail portfolio now). On retail loan growth, the SBI MD said, "Retail loan growth has been good in February. I think, the retail growth story still remains intact; people are buying cars, there is activity in the housing loan market." Rajnish Kumar, MD, SBI

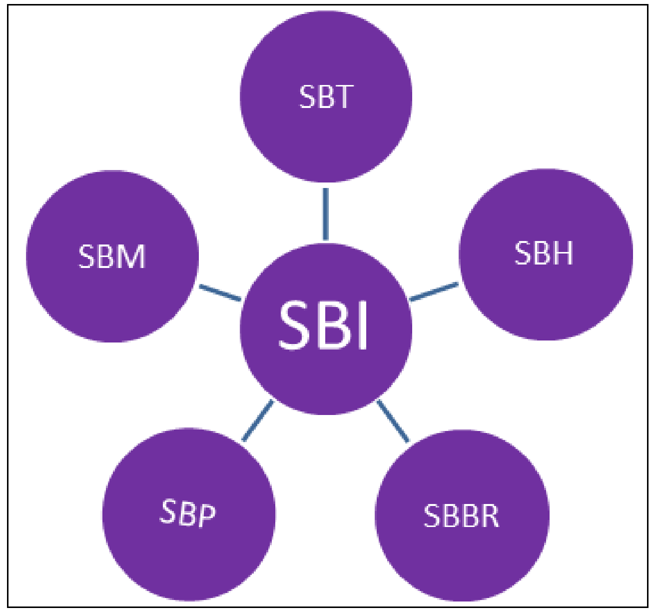

Fig 1

5. Challenges of Mega-merging

The mega-merger has several economic, strategic and structural advantages. However, this strategic move is not free from challenges. SBI must face several challenges at times ahead. The important challenges to address are;

5 (a). Overlap of branches

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. At many places SBI group has more than sufficient branches. For example, in Tirupati, in a single building there is State Bank of India on the first floor and State Bank of Hyderabad on the second floor.

5 (b). Too big to manage

SBI is going to become the largest bank in India. The merged SBI entity would have 24,000 plus branches, 58,000 ATMs and 2.7 lakh employees. This is going to become another challenge to the top management.

5 (c). Huge bad loans

This huge portfolio of bad loan makes the bank suffer from bad debts. The five associate banks for instance have stressed loans at a staggering Rs 35,396 crore level. This amount is almost half of SBI's Rs 66,117 crore stressed loans in 2015-16. It would be a huge task to resolve the bad loans given the challenging operating environment.

5 (d). People-side issues

In mergers it is not the two economic entities joining together, but also people with so much of career aspirations and expectations must join together. People’s concerns and their willingness to work with others are mostly ignored during a typical merger. SBI must address the issues like employee delight, morale and career.

6. Conclusion

The union cabinet has approved the merger of SBI, the country’s largest lender, and its associate banks- a move which is expected to bring the state-owned entity at paer with global lender. The merged entity will have an asset base of about Rs. 37 lakh crore, with nearly 24,000 branches and about 58,700 ATMs across the country. The merger is seen as win-win for both SBI and its associate banks. There are several economic and strategic advantage to the merged entity. However, the new entity is not free from challenges. It must gear up to face new challenges that are to come.

7. References

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