IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)
An International Open Access, Peer-reviewed, Refereed Journal

Financial Performance of SBI in the Pre & Post Merger

Prof. M. Yadagiri[1]
Mr. Gangadhar Macharla[2]
[1] Professor and Dean, Faculty of Commerce, Telangana University, Nizamabad – 503322. T. S.
[2] Research Scholar, Department of Commerce, Telangana University, Nizamabad – 503322. T. S.

Abstract

The Five Associate Banks of SBI: State Bank of Jaipur & Bikaner, Mysore, Travancore, Hyderabad, and Patiala merged with the SBI on April 1, 2017. As a result of merger SBI is among top 50 large banks and ranked 45th larger asset base bank of the world. Now SBI have an asset base of Rs. 37 lakh crore. SBI expected the merger to help drive synergies, reducing replication and save on resources. The profitability of the bank after merger has fallen in beginning two years. This was mainly because of accumulated losses of its associate banks which were shown in balance sheet of the amalgamated entity and it reduced the enthusiasm of investors. However, the investors have a confidence that in the long run the bank will improve its profit-making capacity. The present study is intended to explore the pre and post-merger financial performance of SBI through some select parameters.

Key words: Return on Equity, Profit per Employee, Earnings per Share and Dividend per Share.

Introduction

The financial performance is a subjective measure of how well a bank can use its assets and generate revenues. The term is also used as a general measure of a bank's overall financial health over a given period. There are many stakeholders in a bank, including employees, shareholders, managers, customers, deposit holders, lenders such as banks or microfinance providers, suppliers, the government, local community, pressure groups and competitors etc. Each group has its own interest in tracking the financial performance of a bank. The financial performance identifies how well a bank generates revenues and manages its assets, liabilities, and the financial interests of its stockholders. For effective utilisation of assets and operate the business activities in a large scale the small banks are merging with large banks. In this process the Government of India has taken a decision to merge the five associate banks of SBI; State

Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore with the SBI and the process was completed in 2017. The intension was to have strong bank rather than having large number of banks. This resulted in SBI being one amongst the 50 largest banks in the world. In this context, the present study is undertaken to know the financial status of the SBI after merging its five associate banks. The study is intended to compare and analyse the financial performance of the SBI in the pre and post-merger period with reference to some select parameters / ratios.

Research Methodology

The present study is confined to analyse the financial performance of SBI after merging its five associate banks. The required data on financial performance for four years before and four years after the mergers i.e., from 2013-14 to 2020-21 have been collected from the various issues of annual reports of SBI.

Objectives of the Study

The prime objective of the study is to compare and analyse the financial performance of SBI in the pre and post merger period. However, the prime objective is further divided into the following;

1. To know the Return on Average Assets and Return on Equity
2. To find the Profit per Employee, Earnings per Share
3. To analyse the Dividend per Share and Dividend pay-out Ratio
4. To identify the SBI Share Price on NSE.

Now, it is proposed to analyse all the above parameters / ratios one by one with a view to find out their effectiveness on the financial performance of the SBI in the post-merger period as compared to pre-merger period.

1. Return on Average Assets (ROAA)

The Return on Average Assets is an indicator used to assess the profitability of a firm's assets, and it is most often used by banks and other financial institutions as a means to gauge financial performance. Sometimes, ROAA is used interchangeably with Return on Assets (ROA) although the latter often uses current assets instead of average assets. The percentage of Return on Average Assets and its growth rate for the period of pre and post-merger of SBI shown in the Table –1.

Table-1: Percentage of Return on Average Assets

Period	Year	Percentage of Return on Average Assets	Growth Rate
Pre-Merger Period	2013-14	0.65	-32.98
	2014-15	0.68	4.61
	2015-16	0.46	-32.35
	2016-17	0.41	-10.86
	Average	**0.55**	**17.89**
Post -Merger Period	2017-18	-0.19	-146.34
	2018-19	0.02	-110.52
	2019-20	0.38	1800.00
	2020-21	0.48	26.31
	Average	**0.17**	**392.36**

Source: Various issues of Consolidated Annual Reports of SBI.

It is observed that the Percentage of Return on Average Assets declined from 0.65 per cent in 2013-14 to 0.41 per cent in 2016-17 of pre-merger period. Its average was recorded at 0.55 per cent. During the post-merger period the average percentage of return on average assets is registered at 0.17 per cent only. In the year 2017-18 there was a negative ratio of 0.19 per cent, then after it was slowly increased year after year and reached to 0.48 per cent in the year 2020-21. During the post-merger period the average growth rate is registered at 392.36. The return on average assets of the bank is comparatively less in the post-merger period than the pre-merger period.

2. Return on Equity (ROE)

Return on equity measures how efficient a corporation is at generating profit from money that investors have put into the business. Most nonfinancial companies focus on growing Earnings Per Share (EPS), while ROE is the key metric for banks. The return on equity of the bank during the pre and post period details are presented in the Table – 2.

Table-2: Return on Equity

Period	Year	Return on Equity (in Rs.)	Growth Rate
Pre-Merger Period	2013-14	10.49	-34.19
	2014-15	11.17	6.48
	2015-16	7.74	-69.28
	2016-17	7.25	-6.33
	Average	**9.16**	**-25.83**
Post -Merger Period	2017-18	-3.78	-152.13
	2018-19	0.48	112.69
	2019-20	7.74	1512.50
	2020-21	9.94	28.42
	Average	**3.595**	**375.37**

Source: Various issues of Consolidated Annual Reports of SBI.

It is noticed that in financial year 2020-21, India's largest bank, State Bank of India, reported a return on equity of nearly 10 percent, an increase from the previous year. It was the highest return on equity since financial year 2015-16. The average return on equity during the pre-merger period is registered at 9.16. In the first year of post-merger period i.e., 2017-18 the ROE is negative with 3.78, because in this year all associate banks returns are consolidated by adjusting some negative figures of associate banks. Immediately in the year 2018-19 onwards the bank strived to increase its ROE by taking all types of necessary measures. Whereas in the year 2018-19 the ROE very negligible i.e. 0.48 only. However, in the year 2019-20 there was an abnormal increase of 7.74with a growth rate of 1512.50 per cent. It can be concluded that the bank performance will reveal higher rate of ROE from the financial year 2021-22 onwards. Thus the merging of its associate banks is fetching to the bank to improve its return on equity and its market value.

3. Profit per Employee

Profit per employee, also referred to as Net Income per Employee, is a metric that can use to calculate the business net income divided by the total number of employees. Theoretically, the higher the net income per employee indicates the more efficiency of the bank. In order to calculate the profit per employee, it is need to know the bank's net profit, as well as the total number of full-time equivalent employees on roll. The data related to Profit per Employee of the bank for the periods of pre and post-merger is presented in the Table-3.

Table-3: Profit per Employee

(Rs. in '000)

Period	Year	Profit per Employee	Growth Rate
Pre-Merger Period	2013-14	485	-24.80
	2014-15	602	24.12
	2015-16	470	-21.92
	2016-17	511	8.72
	Average	**517**	**-3.47**
Post -Merger Period	2017-18	-243	-147.55
	2018-19	33	113.58
	2019-20	579	1654.48
	2020-21	828	43.07
	Average	**299**	**416.65**

Source: Various issues of Consolidated Annual Reports of SBI.

The data reveals that the average profit per employee during the pre-merger period is Rs.5, 17,000, whereas during the post-merger period it was recorded at Rs.2, 99,000 only. In the year 2013-14 the profit per employee Rs.4, 85,000, then after in the year 2014-15 it was increased to Rs.6,02,000 with a growth rate of 24.12 per cent. But in the year 2016-16 it was declined to Rs.4, 70,000 with growth rate of -21.92

per cent. However in the last year of pre-merger period 2016-17 the profit per employee of the bank increased to RS.5, 11,000 with a growth rate of 8.72 per cent.

During the first year of post-merger period i.e. 2017-18 the profit per employee is registered negatively as –Rs.2, 43,000, it's because of merging of all associate banks without any adjustments. The situation was recovered immediately from the year 2018-19 by taking various remedial actions and it was reported at Rs.33, 000 profits per employee. In the year 2019-20 there was a noticeable increase in profit per employee of Rs.5, 79,000 with an accelerate growth rate of 1,654.48 per cent. The highest profit per employee Rs.8, 28,000 was registered in the last year of the study period i.e. 2020-21with the growth rate of 43.07 per cent. From the 2018-19 onwards the profit per employee has been increasing continuously, thus the same trend will expect in the future also. Though in the beginning of post-merger period is negative the amalgamation effect shows the positive results in the remaining period. Thus it can be conclude that the merging of its associate banks by the SBI enhance the profit per employee.

4. Earnings Per Share

Earnings per share measures the profit available to the equity shareholders on a per share basis, that is, the amount that they can get on every share held. It is calculated by dividing the profits available to the equity shareholders by the number of the outstanding equity shares. The profits available to the ordinary or equity shareholders are represented by net profits after tax and preference shareholders dividend. This ratio is also helpful in estimating the capacity of the company to declare dividends on equity shares. It shows only how much profits belong to the ordinary shareholders. For the purpose of examine the earning per share of the bank during the pre and post-merger period the required data is shown in the Table -4.

Table-4.: Earnings per Share

Period	Year	Earnings Per Share (in Rs.)*	Growth Rate
Pre-Merger Period	2013-14	156.76	-25.37
	2014-15	17.55	-88.80
	2015-16	12.98	-26.03
	2016-17	13.43	3.46
	Average	**50.18**	**-34.17**
Post -Merger Period	2017-18	-7.67	-157.11
	2018-19	0.97	112.64
	2019-20	16.23	1573.19
	2020-21	22.87	40.91
	Average	**8.10**	**336.08**

Source: Various issues of Consolidated Annual Reports of SBI.
*The face value of shares of the Bank was split from Rs.10 per share to Re.1 per share w.e.f.22nd November, 2014.

During the pre-merger period in the financial year 2013-14 the face value of the share of the bank was Rs.10 then after from 2014-15 onwards the face value of the share is Re.1 only. Thus from the year 2014-

15 onwards the number of equity shares increased in ten times. In the year 2013-14 the earnings per share was Rs.156.76 where the face value of the share is Rs.10. In the year 2014-15, 2015-16 and 2016-17 earnings per share was recorded at Rs.17.55, Rs.12.98 and Rs.13.43 respectively where the face value of the share is Re.1. During the pre-merger period the average earnings per share was noticed at Rs.50.18.

The first year of the post-merger period 2017-18 earnings per share was negative of -Rs.7.67, then in the year 2018-19 it was slightly increased to 0.97. In the year 2019-20 and 2020-21 there was accelerate increase of earning of share of Rs.16.23 and Rs.22.87 respectively. The average earning of the share of the last 4 years is Rs.8.10. The accelerate growth of earnings per share from the financial year 2019-20 and 2020-21 indicating that there is a bright chance to increase the earning per share in year after year with the effect of merging its associate banks by the SBI.

5. Dividend per Share

The term Dividends per Share refers to the total dividend a company pays out over a 12 months period, divided by the total number of outstanding shares. A company uses this calculation to share profits with its shareholders. The dividend per share is the sum of dividends declared by a company for every outstanding ordinary share. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time, usually a year, by the number of outstanding ordinary shares issued. The data related to dividend per share for the period of the study from 2013-14 to 2020-21 is presented in Table-5.

. Table-5: Dividend per Share

Period	Year	Dividend Per Share (in Rs.)*	Growth Rate
Pre-Merger Period	2013-14	30	-27.71
	2014-15	3.5	-88.33
	2015-16	2.60	-25.71
	2016-17	2.60	NA
	Average	**9.67**	**35.43**
Post -Merger Period	2017-18	Nil	-100.00
	2018-19	Nil	NA
	2019-20	Nil	NA
	2020-21	4.00	NA
	Average	**1.00**	**-25**

Source: Various issues of Consolidated Annual Reports of SBI.
*The face value of shares of the Bank was split from Rs.10 per share to Re.1 per share w.e.f.22nd November, 2014.

It is noticed that in the year 2013-14 when the face value of the share was Rs.10 the bank has declared and paid the dividend Rs.30 per share. From financial year 2014-15 onwards the bank has declared the dividend for the face value of the share is Re.1. In the year 2014-15 the bank has paid the dividend Rs.3.5

per share. Whereas in the year 2015-16 and 2016-17the dividend per share Rs.2.6 in each year. It is noticed that the average dividend per share during the pre – merger period was recorded at Rs.9.67.

From the financial year 2017-18 and 2018-19 the bank has not declared dividend. These years are remained an eventful year for the banking fraternity. Asset quality, resolution of stressed assets and muted credit growth have been continued as major challenges for most of the banks. Higher NPAs impacted interest income adversely and led to elevated provisions, thus putting pressure on the profitability of the banks. Further, some of the Public Sector Banks (PSBs) have been put under the Prompt Corrective Action (PCA) framework of RBI, which puts restrictions on key areas viz. dividend payment and branch expansion, etc. Similarly the Reserve Bank of India banned banks from paying dividends for the financial year 2019-20, so that they conserve capital in view of the economic shock caused by the Covid-19 pandemic. In the opinion of the former RBI governor Shaktikanta Das, the ban on dividend payment will help banks conserve capital. It is imperative that banks conserve capital to retain their capacity to support the economy and absorb losses.

After recovering the Covid-19 pandemic situation the bank has declared and paid the dividend of Rs.17.49 per share in the financial year 2020-21. This sign indicating the financial restructuring of the bank and in the coming years the bank has to pay attractive amount of dividend to its shareholders. Therefore, it can be concluded that the merging of its associate banks by the SBI is attribute to enhance its profit making capacity in the result that the shareholders will get the higher rate of dividend per share.

6. Dividend Pay-out Ratio

The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the bank. It is the percentage of earnings paid to shareholders via dividends. The amount that is not paid to shareholders is retained by the bank to pay off debt or to reinvest in core operations. It is sometimes referred to as simply the payout ratio.

The dividend payout ratio shows how much of a bank's Earnings After Tax (EAT) are paid to shareholders. It is calculated by dividing dividends paid by earnings after tax and multiplying the result by 100. The dividend payout ratio is a key financial metric used to determine the sustainability of a bank's dividend payment program. It is the amount of dividends paid to shareholders relative to the total net income of a bank. The dividend pay-out ratios of the bank for the pre and post-merger period are depicted in the Table-6.

Table-6: Dividend Payout Ratio

Period	Year	Dividend Payout Ratio	Growth Rate
Pre-Merger Period	2013-14	20.56	2.18
	2014-15	20.21	-1.70
	2015-16	20.28	0.34
	2016-17	20.11	-0.83
	Average	**20.29**	**-0.0025**
Post -Merger Period	2017-18	NA	-100.00
	2018-19	NA	NA
	2019-20	NA	NA
	2020-21	17.49	NA
	Average	**4.37**	**-25**

Source: Various issues of Consolidated Annual Reports of SBI.

The data of the table reveals that the average dividend payout ratio during the post-merger period is 20.29, it means that 79.71 per cent of the profits retained in the business. The dividend ratios of the bank from the financial year 2013-14 to 2016-17 moved around 20 per cent. During the post-merger period first three years the bank did not pay any dividend to the shareholders, all profits are retained in the business in order to strengthen the financial stability of the bank. However, in the year 2020-21 dividend payout ratio of the bank is 17.49 per cent, which is very much lesser than the pre-merger period payout ratio. The merging of its associate banks of SBI reveals the more financial stability in the coming years, hence the bank's dividend payout ratio may increase in a stable manner.

7. SBI Share Price on NSE

The equity shares, equity related instruments and preference shares of the bank listed in National Stock Exchange of India Limited (NSE) as a primary stock exchange and also listed in the Bombay Stock Exchange (BSE) as a secondary exchange. Listed equity shares, equity related instruments and preference shares are measured at fair value on the Balance Sheet date. For the purpose of determining fair value, the closing price at primary exchange i.e. NSE is considered. If NSE closing price is not available, the closing price of the secondary exchange i.e. BSE is considered. The available data related to SBI share price on NSE for the financial year 2013-14 represents the face value of the share of the bank is Rs.10. Whereas from 2014-15 onwards the face value of the share represents Re.1. The SBI share price on NSE on the balance sheet data pre and post-merger period are shown in the Table- 7.

Table-7: SBI Share Price on NSE

Period	Year	SBI Share Price On NSE (In Rs.)*	Growth Rate
Pre-Merger Period	2013-14	1,917.70	-7.48
	2014-15	267.05	-86.07
	2015-16	194.25	-27.26
	2016-17	293.40	51.04
	Average	**668.10**	**-17.44**
Post -Merger Period	2017-18	249.90	-14.82
	2018-19	320.75	28.35
	2019-20	196.85	-38.62
	2020-21	364.30	85.06
	Average	**282.95**	**14.99**

Source: Various issues of Consolidated Annual Reports of SBI.
*The face value of shares of the Bank was split from Rs.10 per share to Re.1 per share w.e.f.22nd November, 2014.

The data reveals that in the financial year 2013-14 the share price of the bank recorded as per NSE trading at Rs.1, 917.70 for the face value of Rs.10 per share. In the year 2014-15 the share price of the bank recorded at Rs.267.05 for the face value of Re.1 per share. In the year 2015-16 the share price on NSE declined to Rs.194.25 and in the financial year 2016-17 the robust increase of the share price registered at Rs.293.40 with a growth rate of 51.04 per cent. During the pre-merger period the average share price on NSE is Rs.668.10.

The average share price on NSE during the post-merger period was RS.282.95. In the first year of the post-merger period i.e., 2017-18 the share price on NSE was Rs.249.90, whereas it was increased to Rs. 320.75 in the year 2018-19 with growth rate of 28.35 per cent. In the year 2019-20 the share price was sharply declined due to the pandemic situation to Rs.196.85. In the financial year 2020-21 despite the on-going pandemic situation the bank's business growth remained robust, hence the bullish trend was continued and the share price on NSE was abnormally increased to Rs.364.30. if everything is goes on good the share price of the bank continuously increase in every year.

Conclusion

Keeping in view of all the above parameters, the financial performance of the bank has remained impressed and robust in year after year from the year of merging its associate banks of the SBI. In spite of the economic headwind the bank has accustomed to the challenges posed by the Covid–19 pandemic and is better positioned to tackle any subsequent wave. The bank comfortably placed in terms of growth capital. The opportunities for lending in promising sectors will be explored to diversify the business activities of the bank.

References

1. Yadagiri, D. M., & Kumar, M. V. (2017). Sector–Wise Analysis Of Mergers And Acquisitions In India. Abhinav National Monthly Refereed Journal of Research in Commerce and Management, 6(7).

2. Yadagiri .M &Vijay Kumar .M (2016). The Pattern of Mergers and Acquisitions in India, Global Journal for Research Analysis.

3. Devangi Gandhi, ET Bureau, SBI’s Merger with associates to hurt its numbers, http://economictimes.indiatimes.com/markets/stocks/news/sbis-merger-with-associates-to-hurtits-numbers/articleshow/58834608.cms

4. Govind Bhardwaj, Treasury Head and CEO Secretary at Noble Bank What is the reason behind SBI-associate banks merger? What could be its pros and cons?, https://www.quora.com/What-is-the-reason-behind-SBI-associate-banks-merger-What-could-beits-pros-and-cons

5. HemindraHazari, Bad Loans and the Great SBI Merger, The Wire, https://thewire.in/141805/sbiassociate-merger-loss-npas/

6. IANS, SBI merger impact: 47% of associate banks' offices to shut down, http://www.businessstandard.com/article/finance/sbi-merger-impact-47-of-associate-banks-offices-to-shut-down117032100246_1.html

7. State Bank of India (SBI), http://www.iloveindia.com/finance/bank/nationalised-banks/statebank-of-india.html,

8. Wikipedia, State Bank of India, https://en.wikipedia.org/wiki/State_Bank_of_India,