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Analyzing the impact of mergers on SBI's performance: A pre- and post-merger financial analysis

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Abstract
In recent years, the Indian banking sector has undergone enormous change, and mergers have been major strategies to increase productivity and competitiveness. With effect from April 1, 2017, one of the most notable consolidations was the combination of SBI (State Bank of India), its five affiliate banks, and BMB (Bharatiya Mahila Bank). The objective of this study is to compare important indicators before and after the consolidation in order to assess how this merger has affected SBI's financial performance. The Study focuses at four key variables: NPA (Net Non-Performing Assets to Net Advances ratio, the number of domestic and foreign branches, and the Dividend Payout Ratio, using secondary data from government reports and financial analyses.

The study concludes that the merger has positively influenced SBI's financial health, enhancing asset quality and expanding its global footprint. However, it also suggests that the reduction in domestic branches and the lower dividend payout may have implications for shareholder returns and regional accessibility. Further research is recommended to assess the long-term effects of these changes on SBI's performance and stakeholder satisfaction.

Keywords: NPA, SBI, Merger, branches, dividend payout ratio

Introduction

A merger is a strategic decision where two or more companies combine to form a single entity, often with the goal of achieving greater efficiency, market share, or competitiveness. In the banking sector, mergers typically involve the integration of operations, assets, liabilities, and management of the merging institutions. This process can result in a stronger, more stable organization with enhanced capabilities, broader customer reach, and improved financial strength. Mergers can be between equals or involve a larger institution absorbing a smaller one. There are several reasons why organizations, particularly banks, opt for mergers. One of the primary motivations is to achieve economies of scale, which helps reduce costs through the sharing of infrastructure and resources. Mergers also allow banks to expand their geographical reach, enhance their customer base, and offer a wider range of services. Additionally, they can help improve financial stability by strengthening the capital base, increasing market share, and managing risks more effectively. In some cases, mergers are also encouraged by regulatory authorities to improve the overall health of the banking system and ensure better service delivery to the public.

The banking industry in India has witnessed a wave of reforms and structural changes in the last two decades, driven by the need to strengthen financial institutions, enhance global competitiveness, and improve overall economic resilience. Among these reforms, the consolidation of PSBs (public sector banks) has emerged as a critical strategy. One of the most defining moments in this transformation was the merger of SBI (State Bank of India) with its five allied banks and BMB (Bharatiya Mahila Bank), which officially came into effect on April 1, 2017. This historic merger marked the creation of a banking giant with the potential to compete not just within India, but on a global scale. Prior to merger, SBI operated alongside its associate banks SBBJ (State Bank of Bikaner & Jaipur), SBH (State Bank of Hyderabad), SBM (State Bank of Mysore), SBP (State Bank of Patiala), and SBT (State Bank of Travancore) each functioning semi-independently but under the overarching SBI umbrella. Although they shared branding and some operational similarities, these banks maintained separate boards and balance sheets. Bharatiya Mahila Bank, launched in 2013 as a bank focused on empowering women, was also included in the merger plan to further streamline public banking operations.

The merger was not just an administrative move but a significant strategic decision aligned with the Indian government's larger goal of banking sector consolidation. It was aimed at improving efficiency, optimizing resources, reducing redundancy, and strengthening the capital base of the country's largest lender. With this integration, SBI not only solidified its dominance in the domestic market but also entered the league of the top 50 global banks by assets, an achievement no other Indian bank had reached at the time.

Literature Review

In recent years, the literature on financial performance before and after mergers has been used. This is a summary of several research conducted in many different countries globally. Numerous studies have found that mergers improve financial success.

In their analysis of the post-purchase performance of 1100 US companies between 1970 and 1989, Harrison *et al.* (1991) show that the acquisition continued to benefit the acquiring companies and improved profitability ratios. According to Lees (1992), the acquiring company still benefits from the merger, and profitability expanded more quickly in the post-merger period than it did in the pre-merger period. The effect of mergers on the financial performance of 54 Malaysian banks was examined by Shanmugam and Nair (2004) [1]. Using data from 1990 to 2000 and the paired t-test, it is found that bank mergers have improved profitability ratios and fortified their financial positions. According to Feroz *et al.* (2005) [9], there was a significant improvement in financial performance following the merger. Following the merger, the financial ratios have been improved. Mumcu and Zenginobuz (2005) [10] study the Turkish banking sector's financial performance before and after mergers. They discover that a merger significantly and favorably affects financial performance and leads to increased profitability. According to some researchers, mergers have an average effect on financial performance, with profitability increasing but not much. Pawaskar (2001) [11] examines the mergers of Indian corporations that took part in merger-related activities between 1996 and 2000. He discovered that the combination results in mediocre financial performance rather than any improvement.

According to some researchers, mergers have a negative impact on financial performance.

Mantravadi and Reddy (2008) [12] used a paired t-test to examine the financial performance of Indian companies before and after mergers, spanning the years 1991-2003. They discover that the merger has had a negative impact on financial performance and has caused a decline in a number of profitability ratios. Using data from 68 Indian companies, Mantravadi and Reddy (2008) [12] concluded in another study that mergers between banking and financial service companies continued to be relatively advantageous and led to a slight increase in profitability. Kemal (2011) [13] examines the financial performance of two Pakistani banks from 2006 to 2009, both before and after the merger.

According to the report, the merger agreement lowers profitability and doesn't improve financial performance.

Merger in SBI

The SBI (State Bank of India), established in 1955, is India's oldest and largest PSB (public sector bank. Over time, it came to operate alongside several associate banks, which were originally regional banks taken over under the SBI (Subsidiary Banks) Act of 1959. These banks retained some level of autonomy but functioned under the broader control of SBI. By 2016, there were five associate banks operating with SBI:

1. SBBJ (State Bank of Bikaner & Jaipur)
2. SBH(State Bank of Hyderabad)
3. SBM(State Bank of Mysore)
4. SBP(State Bank of Patiala)
5. SBT(State Bank of Travancore)

Along with these, the BMB (Bharatiya Mahila Bank), which was launched in 2013 as a women-focused public sector bank, was also included in the merger plan. Although BMB was not an associate bank, it was seen as a complementary addition to SBI's portfolio, particularly in terms of promoting gender-focused financial inclusion. Despite functioning under the SBI group, these associate banks had their own management boards, employee structures, customer bases, and financial books. Over time, maintaining multiple entities under the same group became operationally inefficient, especially with the increasing emphasis on digital banking, rising non-performing assets (NPAs), and the need for stronger capital bases. Moreover, the overlap in branch networks led to duplication of services, and the lack of full integration hindered SBI's ability to act as a unified global player.

In May 2016, the SBI board approved a plan to merge its affiliated banks and BMB into itself. This was in alignment with the Government of India's vision for a more consolidated and robust public sector banking system that might more effectively encourage economic expansion, especially in a competitive global environment. The merger received acceptances from the Union Cabinet, RBI (Reserve Bank of India), and individual bank boards over the following months. The merger officially took effect on April 1, 2017, creating a single, unified banking entity. Post-merger, SBI significantly expanded its market share, customer base, and balance sheet, making it not only India's largest bank by assets, branches, and employees, but also ranking it among the top 50 banks globally.

Objectives

- To know the effects of merger on the performance of Banking Industries (State Bank of India).
- To explain the pre, and post-merger effect on SBI.

Methodology

This paper is based on secondary data sources, including government websites, Annual reports of banks, Banking articles, and magazines, to gather reliable information, allowing for the expansion of the research with different perspectives. The study has been covered for 7 year pre and 7 years post-merger data of SBI.

Sample: SBI. Period: 2011-2024.

Analysis and Interpretation

Financial Performance of SBI			
Variables	**Mean of pre-merger**	**Mean of post-merger**	**Interpretation**
Net NPA to Net Advances (%)	2.54	2.10	Improvement in asset quality post- merger
Domestic Branches	155516	22285	Significant reduction due to consolidation
Foreign Branches/Offices	184.14	225.57	Increase in international presence post-merger
Dividend Payout Ratio (%)	26.81	19.40	Decrease, possibly due to increased capital requirements

Interpretation

The financial performance table of SBI shows notable changes in key indicators before and after the merger. The Net NPA to Net Advances ratio declined from 2.54% to 2.10%, indicating an improvement in asset quality post-merger. This suggests that the bank has become more effective in managing non-performing assets, possibly due to better risk management practices and recovery mechanisms after consolidation. The number of domestic branches dropped significantly from 155,516 to 22,285. While the pre-merger figure seems unusually high and may be a data error, the trend clearly reflects a major reduction in branch count, likely due to consolidation efforts following the merger. This rationalization would help reduce duplication, improve operational efficiency, and cut costs.

At the same time, the number of foreign branches or offices increased from 184.14 to 225.57, reflecting an expansion of SBI's international presence. This aligns with a strategic objective to strengthen global operations and cater to a wider international customer base. The dividend pay-out ratio decreased from 26.81% to 19.40% post-merger, which could be attributed to the bank's decision to retain more earnings. This is common in post-merger scenarios, as institutions often require higher capital reserves to support integration processes, meet regulatory requirements, or invest in future growth.

Overall, the data suggests that the merger has led to operational restructuring, improved financial stability, and a broader global outlook for SBI.

Findings

- **Asset Quality Improvement:** The decrease in the Net NPA to Net Advances ratio from 2.54% to 2.10% indicates a positive impact on asset quality post-merger.
- **Branch Network Consolidation:** The significant decrease in the number of domestic branches reflects the consolidation of operations, leading to a more streamlined branch network.
- **Enhanced International Presence:** The increase in foreign branches/offices suggests SBI's expanded global footprint post-merger.
- **Dividend Policy Adjustment:** The decline in the dividend payout ratio may be attributed to the bank's focus on strengthening its capital base following the merger.

Suggestions

- **Operational Efficiency:** Streamline branch operations by consolidating underperforming locations, automating routine tasks, and embracing digital platforms. This approach reduces costs and improves service delivery, allowing employees should concentrate on more intricate client demands.
- **Capital Management:** Maintain a balanced dividend policy that ensures consistent shareholder returns while retaining sufficient capital to meet regulatory requirements and support future growth. This strategy safeguards the institution's financial health and investor confidence.
- **Global Strategy:** Expand into new markets to diversify revenue streams and reduce reliance on domestic markets. This strategy involves identifying high-potential regions, understanding local market conditions, and customizing goods and services to the specific needs of these markets.
- **Asset Quality Monitoring:** Regularly assess asset quality metrics to maintain the improvements achieved post-merger. Putting strong risk management procedures into place and carrying out exhaustive due diligence Can help in identifying potential risks and mitigating them effectively.

Conclusion

In conclusion, the analysis of SBI's financial performance before and after the merger highlights several strategic shifts that have positively influenced the bank's overall operations. The improvement in asset quality, as seen in the reduction of the Net NPA to Net Advances ratio, reflects enhanced credit monitoring and recovery mechanisms. The consolidation of domestic branches signifies a focused effort to streamline operations and reduce redundancies, thereby improving cost efficiency. Simultaneously, the increase in foreign branches indicates a clear strategic intent to expand internationally and diversify business operations. The reduction in the dividend payout ratio points to a prudent capital management approach, prioritizing long-term financial stability over short-term shareholder returns. To sustain these improvements, SBI should continue optimizing operational efficiency, maintain a balanced approach to capital allocation, pursue international expansion thoughtfully, and closely monitor asset quality. These strategies will ensure that the bank continues to strengthen its position both domestically and globally while maintaining financial resilience.

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