"THE IMPACT OF MERGER STRATEGY ON THE FINANCIAL PERFORMANCE OF BANKING INDUSTRY IN INDIA"

(A SELECT STUDY ON PRE AND POST-MERGER ON SBI AND ITS ASSOCIATES)

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ABSTRACT:

The study examines merger strategy affects the financial performance of India's banking industry, with a particular emphasis on State Bank of India and its affiliated banks. The study's goal is to compare the financial results of SBI and its affiliated banks—State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore, and State Bank of Bikaner & Jaipur—before and after their merger. In order to combine quantitative analysis of financial indicators with qualitative evaluations of the major performance-influencing factors, the study uses a mixed-methods methodology. The results of the investigation also point to the merger strategy's beneficial effects. After the merger, there were increased client base, increased efficiency, and synergistic effects.

Keywords: Merger strategy, Financial performance, Banking industry, SBI, Associate banks, Pre-merger, Post-merger, Profitability, Asset quality, Liquidity, Efficiency ratios.

Introduction

In the dynamic landscape of the Indian financial sector, mergers have emerged as a pivotal strategy to bolster financial stability, enhance operational efficiency, and strengthen market competitiveness. The banking sector of India has seen significant transformations in recent years, with a multitude of mergers aimed at optimizing resources, mitigating risks, and fostering growth. In particular, the merger of the SBI bank in 2017 stands as a seminal event, setting the stage for substantial changes and innovations in the sector. The amalgamation not only created a banking behemoth but also served as a template for mergers in the country.

Mergers is a strategic strategy for expansion, consolidation, and increased competition in the Indian banking sector throughout the years, which has undergone major changes. Banks can pool their resources through mergers, which also helps them grow their clientele and market share. The purpose of the study is to examine how merger strategies affect the banking sector's financial performance. Due to a number of causes, such as regulatory changes, escalating rivalry, and the need for economies of scale, merger activities are increased. Several prominent mergers have occurred

recently, with the SBI (SBI) and its affiliated banksserving as one of notable examples. This SBI mergers had a great impact on thefinancialperformanceoftheassociatedinstitutions.This select study delves into the profound consequences of merger activities within the Indian banking industry, with a specific focus on merger of SBI and its associates.

LITERATUREREVIEW

The effect of the Union Bank and Andhra Bank, Corporation Bank merger on the performance of both banks, client satisfaction, the Indian economy as a whole, the decisions made by the merged banks' top management, the possibility of future mergers and acquisitions, and other relevant factors are all highlighted by Dr. Meenakshi Kumari (2022). The analysis emphasizes the historical significance of the largest banking industry merger, which united the United Bank of India and OBC to establish PNB on August 30, 2019. In his study on the impact of industry consolidation on India's banking sector, Naveen Kumar (2022) discovered that most financial metrics did not significantly increase as a result of the,specificallyanalysing the merger between Kotak Mahindra Bank and ING Vysya Bank.and concluded that the consolidation led to significant improvements in variousfinancialaspectsandenhancedtheefficiencyandperformanceofKotakMahindraBank, ultimately positioning it as the fourth-ranked bank.PatelRiteshandShahDharmesh(2016)conducted a study with the title "Mergers and Acquisitions - The Game of ProfitandLoss:AStudyofIndianBankingSector"concludedthat proper analysis of past data and consideration of financial performance, inaddition to other objectives, can lead to more successful mergers. Shareholders'interests were highlighted as essential, and managers could use merger shareexchangeratiostomotivateshareholderstoinvestmoreinbanksecuritiesafterthemerger.Gupt a Komal in 2015 titled "Mergers and Acquisitions in the IndianBanking Sector: A Study of Selected Banks"and found that mergers had a positive impact on the performance. SmitaMeena&PuspenderKumar(2014) In their paper titled "Mergers and Acquisitions Prospects: Indian Banks Study,"investigated the impact of mergers andacquisitions on selected Indian banks (HDFC, SBI, and ICICI Bank) and concluded that forced mergers among these bankswere successful in safeguarding the interests of depositors of weak banks, butstakeholders of these banks did not experience any gains from the mergers.

OBJECTIVESOFTHE STUDY

1. TounderstandtheeffectofmergerontheSBI.
2. ToanalysethefinancialperformanceofSBIanditsassociates before and after merger.

RESEARCH METHODOLOGY

SAMPLESIZE:

The data collected includes the impact that occurred before and afterthemerger;theyearspreceding2012–2016areconsideredasthepre-mergerperiodand from

2017 to present 2023 is considered as post-merger. Based on the yearsdata was collected from money control, Economic Times reports, Prowess are thesample size for testing the data and calculating the values arrives at the level ofsignificance.

VARIABLES FOR THE STUDY:

Forthisstudy,ReturnonAssetsisaDependentVariableandothervariables like Capital Adequacy, Asset Quality, Net Profit Margin, and FinancialLeverage are Independent Variables. All these ratios are taken from the financialreportsofbankspriorto themergerandpost to themerger.

STATISTICALTOOLSANDSOFTWAREUSEDFORTESTINGTHEDATA

The researcher used R programming software and MS-EXCEL ,ChowTestto testandinterpret thedatacollected forthisstudy.

SOURCESOFDATA

The study is majorly based on secondary sources of data collected from MoneyControl, Economic Times, Google Scholars, Research Gate, Prowess, and otherwebsitesthatwerealsoreferredtofordesigningthemethodologyforthisstudy.

HYPOTHESISTESTING:

H0(NullHypothesis): Thereisnosignificantimpactofthemergeron the financial performance of the SBI (SBI) and its associatespriortoand posttothemerger.

H1(Alternative Hypothesis): There is a significant impact of the merger on the financial performance of the SBI and itsassociatespriorto andpost tothemerger.

The null hypothesis (H0) assumes that the merger did not have any significanteffect, while the alternative hypothesis (H1) suggests that there is a significantdifference in performance or key indicators after the merger.

SIGNIFICANCE OFTHESTUDY

This study deals with the impact of pre and post-merger effects on the SBI (SBI) and its associates on its financial performance over a period. It assesses the effectiveness of merger in achieving its intended goals. Further highlighting improvements or

drawbacks.

DATA ANALYSIS & INTERPRETATION

HYPOTHESISTESTINGUSINGCHOWTEST:

Table.1: ThedatausedindeterminingthevaluesfortheSBI.

SBI

Year	Category	ROA	CAR	AQ	NPM	FL
2012	1	0.87	13.86	5	10.99	1.51
2013	1	0.9	12.92	5	11.78	1.71
2014	1	0.6	12.96	5	7.98	1.55
2015	1	0.63	12	4.2	8.59	1.56
2016	1	0.5	13.12	6.5	6.06	2.24
2017	1	0.38	13.11	6.9	5.97	2.03
2018	1	-0.18	12.6	10.9	-2.96	1.86
2019	1	0.02	12.72	7.5	0.35	2.05
2020	1	0.36	13.13	6.2	5.63	1.51
2021	1	0.45	13.74	5	7.69	1.81
2022	1	0.63	13.85	4	11.49	1.66
2023	1	0.91	14.68	2.8	15.12	1.64

Table 2: ResultofChowTest

Bank	Significance	Remarks
SBI	F=15.252, p-value=0.06267	AcceptNullHypothesis
StateBankofPatiala	F=2.0915, p-value=0.3544	AcceptNullHypothesis
StateBankofBikanerand Jaipur	F=7.2477, p-value=0.1257	AcceptNullHypothesis
StateBankofTravancore	F=0.77777, p-value=0.6456	AcceptNullHypothesis
StateBankofHyderabad	F=14.883, p-value=0.06415	AcceptNullHypothesis
StateBankofMysore	F=2.9664, p-value=0.2711	AcceptNullHypothesis

Interpretation: The Chow test results are presented for each bank with the corresponding F-value and p-value. The F-value indicates the ratio of between-group variation to within-group variation. A higher F-value suggests a larger difference between the groups being compared. On the other hand, the p-value indicates the statistical significance of the observed differences. A p-value below a certain threshold (often 0.05) is typically considered statistically significant.

From the above Table.2 it can be interpreted that the results of Chow test for all the banks SBI, SBP, SBB&J, SBT, SBH & SBM and the values of F-statistic and p-value are 15.252 & 0.06267, 2.0915 & 0.3544, 7.2477 & 0.1257, 0.77777 & 0.6456, 14.883 & 0.06415, and 2.9664 & 0.2711 respectively. The results acquired with the help of Chow test depicts that there is no significant difference between the regression models for SBI and its subsidiaries. This means that the models are all predicting the same thing, and there is no need to choose one model over the others. The results of the Chow test are consistent with the results of the F-tests that you provided. The F-tests also showed that there was no significant difference between the two models.

COMPARISON OF DATA USING CUSUM AND NYBLOM-HANSEN TEST

Table 3: CUSUM TEST RESULT

Name of Bank	Including Merger Period		Excluding Merger Period	
SBI	S= 0.44455	p-value=0.752	S= 0.61606	p-value= 0.3833
State Bank of Patiala	S= 0.26707	p-value= 0.9609	S= 1.0976	p-value= 0.01494
State Bank of Bikaner and Jaipur	S= 0.85925	p-value= 0.09392	S= 0.37726	p-value= 0.8841
State Bank of Travancore	S= 0.40999	p-value= 0.8247	S= 0.66091	p-value= 0.3066
State Bank of Hyderabad	S= 0.66848	p-value= 0.2948	S=0.562	p-value= 0.4898
State Bank of Mysore	S= 0.27667	p-value= 0.9595	S= 0.31021	p-value= 0.9538

Interpretation: The above table shows the results of the Cusum test for SBI and itsassociates by including and excluding the merger period. Forthemajorityofthebanksunderinvestigation,theCusumtestfindingsshownosignificant variation in the cumulative sum of the data series while taking intoaccountorexcludingthemergerperiod.Whenthemergerperiodisexcluded,thereisasignificantdifferenceinthecumulativeamount forStateBankofPatiala.

NYBLOM-HANSENTEST

Table 4: NYBLOM-HANSENTEST RESULT

Nameof Bank	IncludingMergerPeriod		ExcludingMergerPeriod	
SBI	f(efp)=1.08	p-value= 0.3211	f(efp)= 1.145	p-value= 0.2802
StateBankofPatiala	f(efp)= 0.77435	p-value= 0.5133	f(efp)= 0.93441	p-value= 0.4126
StateBankofBikanerand Jaipur	f(efp)= 1.2067	p-value= 0.2415	f(efp)= 0.92628	p-value= 0.4177
StateBankofTravancore	f(efp)= 0.71854	p-value= 0.5483	f(efp)= 1.0731	p-value= 0.3254
StateBankofHyderabad	f(efp)= 1.1433	p-value= 0.2814	f(efp)= 1.2853	p-value= 0.1927
StateBankofMysore	f(efp)= 0.89669	p-value= 0.4363	f(efp)= 1.2778	p-value= 0.197

Interpretation: The above table shows the results for all the banks examined, the Nyblom-Hansen test results suggestno substantial difference in variances when considering or excluding the mergerperiod.

Overall, the Nyblom-Hansen and Cusum tests find that, for the majority of thebanksunderconsideration,therearenoappreciabledifferencesinthevariancesorthe cumulative sum of the data series. However, for the State Bank of Patiala, theCusum test suggests a significant change in the cumulative sum when excludingthe merger period. It's important to consider these findings when evaluating theimpact ofthemergerperiodon thebanks'performance.

CONCLUSION:

Theperformanceofbankshadsomeperiodsofdeclineandrecoverypriortomerger.Butintherecentyears,thereare trending upwards since the merger in 2017. This suggests that the merger hashadapositiveimpactonSBI'sprofitabilityandfinancialhealth.Buttherewere certain causes for concerns after merger indicating that the bank is lending moreaggressively and may be taking on more risk. Overall, the collected data suggeststhat the merger of SBI and its associates in 2017 has had a positive impact on thebank's profitability. However, SBI should focus on improving   its   asset qualitybylendingmorecarefullyandmanagingitsexistingloansmoreeffectively.

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