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Major impact of merger on NPAs of SBI

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Abstract

In an open economy four sectors named household sector, production sector, government sector and foreign sector play important role. But Banking Sector play a vital role for the growth of all above mentioned sector. Keeping this in mind, there is a need of sound banking system. After independence Indian government adopt banking sector reforms and the same converted many Banks from private to Nationalized and in this process 27 banks were nationalized by government including SBI with their associated Banks and RBI (Central Bank of India). Financial sickness of banks in public sector became major problem for the growth of economy as per govt. analysis sector banks. During economic reform government of India was forced to reduce public sector Banks and increases private sector and also solved the problem of NPA in banking sector and make ready banking sector globally competent. So, on 1st April 2017 SBI and its associates Banks were merged. It was largest merger in Indian banking history. Continuously, in August 2019 the Finance Minister Nirmala Sitharaman announced in a press Conference that Indian government has decided to merge public sector banks and the number of 27 public sector banks existing in 2017 will be reduce to 12. The main reason behind this NPA. For renovating public sector banks the government of India is deciding to merge to create efficiency of public sector banks. This paper attempts to analysis the impact of public sector banks mergers especially of SBI. This merger will help to reduce high rate of NPA or not. In this context, the study analyses the financial performance of the SBI before and after merger.

Keywords: Merger, NPA, public sector, SBI, associated bank

Introduction

Banking sector is very important for growth of an economy. Because it fulfill the credit needs of an economy. But the financial indicator for the performance of a bank is NPAs. Low NPAs indicate high performance and high NPAs indicates Low performance. In order to do this for well-being of banks, Government of India had taken decisions of mergers of bank. So, in 2017 government of India merged SBI with their associated banks. That merger will improve the financial status of SBI and reduce NPAs. A merger is an agreement that unites two or more existing organizations into one. It means when two banks club their assets and liabilities to become one bank is known as bank mergers. The idea of banks merger was around since 1991, when Former RBI governor M. Narsimha committee had suggested the government to merge banks into a 3tiered structure. (1) Three large banks with a global presence (2) 8 to 10 national banks (3) a large number of regional and local banks.

Need of the study

This study will help to know about improvements in the business of SBI with their associated banks. It is very significant change in banking sector. It is extremely important to know the impact of mergers

Review of literature

Kotnal Jaya Shree (2016) discussed in a research paper named "The Economic Impact of Merger and Acquisitions on Profitability of SBI" impact of merger in Indian banking sector. In this paper, she compares pre and post-merger financial performance with the help of financial parameters like gross and net profit margin, operating profit margin, and return on equity and debt equity ratio.

MA Jai Bansal and Dr. Gurudatt Kakkar (2018). Researched study on "A Research on the Analysis of Merger of SBI with its 5 Associated Banks and Bharatiya Mahila Bank". The study focused on the detail of merger in Indian banking sector.

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Dr. Mubarak (Assistant Professor) and Asha Barikara (Research Scholar) - research paper on "Recent Mergers in Banking Sector – An Indian Scenario" to analyze the post-merger scenario of banks in terms of their performance improvement, decrease in nonperforming assets and value creation and contribution to Indian Economy.

Sanjay Sharma & Sahil Sidana (2017) in their research paper expressed the impact of SBI merger on financial condition of SBI. The SBI will get visibility at global level in the network increase of SBI & it is also able to provide cheaper funds more easily. The gross & net NPA of SBI it will come down after merger with their associate. The efficiency & effectiveness of the business it will increase because of single management.

Maria Susan Mathew (2020) ^[5] researched on "Bank Merging- Impact and Effects on Productivity, Customers and Employees. This paper analyzes some critical issues relating to merging of State Bank of India and State Bank of Travancore.

Analysis and Interpretation

Table 1: After Merger NPA ratios

Early results of state bank of India (In Rs. Cr.)	March 2023	March 2022	March 2021	March 2020	March 2019	March 2018
Gross NPA	90,927.78	112,023.37	126,389.02	149,091.85	172,750.36	223,427.46
Net NPA	21,466.64	27,965.71	36,809.72	51,871.30	65,894.74	110,854.70
% of Gross NPA	2.78	3.97	4.98	6.15	7.53	10.91
% of Net NPA	0.67	1.02	1.50	2.23	3.01	5.73
Return on Assets %	0.96	0.74	0.48	0.38	0.02	-0.19

Source: <https://www.moneycontrol.com/financials/statebankofindia/profit-lossVI/SBI/2#SBI>

Table -1 shows gross NPA and net NPA from March 2018 to March 2023 in crore Rs. Gross NPA reduction from 2018 to 2023 has become -132499.68 crs and net NPA reduction in this period is -89388.06crs. Table -1 also shows year wise

Objectives

1. To analyze the performance of banks after merging.
2. To evaluate the impact of before merger and after merger performance of SBI on NPA.
3. To evaluate the loss/ profit of SBI after and before mergers.

Research method

This study is descriptive cum analytical in nature. The data for the study has been gathered from secondary sources like reputed journal, books, websites and annual reports of banks.

Limitations

The investigation is only possible in a limited material and methods. The research paper is based on secondary data collected from various magazines, websites, journals etc.

percentage from March 2018 to March 2023 of both. There is a reduction in percentage of gross and net NPA. This merger helps to reduce NPA but the rate is not high. Return on assets percentage is slightly improved.

Table 2: Before Merger

Early results of state bank of India (In Rs. Cr.)	Mar '17	Mar '16	Mar '15	Mar '14
Gross NPA	112,342.99	98,172.80	56,725.34	61,605.35
Net NPA	58,277.38	55,807.02	27,590.58	31,096.07
% of Gross NPA	6.90	6.50	4.25	4.95
% of Net NPA	3.71	3.81	2.12	2.57
Return on Assets %	0.41	0.46	0.76	0.65

Source: <https://www.moneycontrol.com/financials/statebankofindia/profit-lossVI/SBI/2#SBI>

Table -2 shows gross NPA and net NPA from March 2014 to March 2017 in crore Rs. Gross NPA from 2014 to 2017 has become+50737.99 crs and net NPA increase in this period is +27181.31 crs. Table -2 also shows year wise percentage from March 2014 to march 2017of both. Before

merger, percentage of gross and net NPA was increasing yearly. Return on assets percentage is decreasing yearly. Table 2 indicates, before merger bank's NPAs and return on assets was poor.

Table 3: After Merger

Profit & loss account of state bank of India (In RS. CR.)	Mar 23	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18
total income	368,718.66	316,021.20	308,647.01	302,545.07	279,643.54	265,100.00
total expenditure	318,486.20	284,345.22	288,236.54	288,056.96	278,781.31	271,647.46
net profit / loss for the year	50,232.45	31,675.98	20,410.47	14,488.11	862.23	-6,547.45

Source: <https://www.moneycontrol.com/financials/statebankofindia/profit-lossVI/SBI/2#SBI>

Table 3 shows, bank was in loss in mar 2018 but after it, yearly, bank's loss convert into profit and it becomes

50232.45 crs in Mar 2023. It means bank is improving its financial status slowly after merging.

Table 4: Before Merger

Profit & loss account of state bank of India (In RS. CR.)	Mar 17	Mar 16	Mar 15	Mar 14
total income	210,979.17	191,843.67	174,972.97	154,903.72
total expenditure	200,495.07	181,893.01	161,871.39	144,012.55
net profit / loss for the year	10,484.10	9,950.65	13,101.57	10,891.17

Source: <https://www.moneycontrol.com/financials/statebankofindia/profit-lossVI/SBI/2#SBI>

Table 4 shows, before merger bank was in profit but the rate was almost constant.

Conclusion

After analyzing before-merger and after merger financial statements of SBI regarding NPAs, return of assets and profit, it is clear that merger is a big instruments to reduce NPAs. In earlier stage of merger, financial statements of SBI does not show any significant reduction in NPAs but later it is considerable. For achieving 5trillion dollar economy Government should be more carefully while adopting mergers as a tool to reduce NPAs. Because merger is not a permanent remedy to overcome NPAs in banking sector and to increase assets of the bank.

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