CURRENT MERGERS SCENARIO IN INDIAN BANKING SECTOR

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Abstract

This paper has analyzed few critical issues on current scenario of Indian banking mergers with particular focus on the SBI subsidiary banks and Bhartiya Mahila bank. There is some views of important stake-holders.

This type of experiment is not the first time in the banking sector of India, many times before it has happened. For reforms in the Indian banking sector, merger was done in 1991 to create a three-level structure with 10 national banks in 1991, in which about 49 have been merged.

With the State Bank of India five associate banks and Indian women bank can be called the biggest merger of 2017. Because keeping in mind the quick action and changing backing pattern, it is probably the decision of the State Bank of India. State Bank of India does not have any similarity with other commercial banks, but merger strengthens its strategy.

State Bank of India is known as India's largest lender bank. In the month of April, the Indian women bank and five other banks were included in it. The result of this will be the result of what will happen in the future. In the coming quarter, it may be that the expected result is not seen, but the merger has always been a good result, and everyone is aware.

The modern competition period, which has not only brought national status to the State but also the State Bank of India on the national level? With the help of merger, State Bank of India can achieve its place in the top 50 banks in the world.

Generally banks are considered as a financial institute which has given the authenticity by the central government or state government in securities. The main role of banks is day to day changing in the world of economy and growth of investments sectors. After globalization the banking sector is taking so many changes. These changes are making a great impact on the banks, both structurally and strategically.

Merger of SBI with its 5 associates namely State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore(SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH), State Bank of Patiala (SBP) and Bharatiya Mahila Bank

1 April, 2017. Shri Arun Jaitley is confident that the bank will become global player due to this step of its merger with its five associate banks and Smt. Arundhati Bhattachary, Chairperson of SBI, expects that profits of Bank shall increase by Rs. 3000 crore in upcoming 3 years.2

Banking sector usually affected through globalization, the banking sector is going to make so many changes in the banking regulations. These changes have affected the banking sector in a structural way. The dynamic environment has led to the adaption of many changes in this sector so as to remain efficient. One of the most important strategies is merger or Acquisition. The changing times has led the Indian banks to move from many small banks to a system where there are larger banks but smaller in number.

Indian banks background mirror

In fact, SBI came into existence when Bank of Bengal, Bank of Madras and Bank of Bombay amalgamated to form Imperial Bank of India in 1921 which was subsequently converted to State Bank of India in 1955.3

The bank of Hindustan was established In the year 1870. After that under the Presidency banks Act 1876, three presidency banks namely the Bank of Calcutta, Bank of Bombay and Bank of Madras were start up. These banks have fall down the foundation of modern banking in India. In the year 1921,
all the three banks merged and formed the Imperial bank of India. The RBI was not established and therefore these banks carried out the Central Bank functions but limited in numbers.

The RBI has authorized to control and supervise the nationalized and commercial banks. The RBI wanted to acquire fully control on the Imperial Bank of India set up in 1955 which be known as The State Bank of India, SBI in the year 1959 took over eight private banks. In 1969, the govt. of India nationalized 14 banks. Later in 1980, government acquired six more banks. Bank is the backbone of growth of a country’s economy.

**Process of Restructuring of weak banks**

Merger is a main weapon that has been adopted by the Government of India to restructure weak banks. So many weak bank mergers have taken place for the protection of the interest of account holders. If any bank declares big sickness like NPA, the RBI imposes moratorium as per Section 45 of the Banking Regulation Act of 1949.

The Indian banks have faced many economic and business crises. A lot of changes were brought about by means of rules and regulations which prevented Indian banks from the economic crisis. In the recent times, the banking scenario in India has become very dynamic. In the 1949 Reserve Bank of India was nationalized and empowered RBI to inspect and control all the commercial banks in India. It’s would be as per the Banking regulations act and it recessionary for new banks or branch could be opened without a license from Reserve Bank of India.

Section 7, the registrars has accompanied on merger or Acquisition applications. The bank merger will take place only with the final approval of the registrar. The pre-merger consent of the registrar gives the banks No Objection and the approval enables. The pre-merger consent stage requires the following documents:

- An application by the banks opting for merger to the registrar signed by the managing director.
- The successor bank’s proposed name.
- A statement stating objective of the merger.
- A copy of the agreement of the proposed merger.
- A copy of the articles of association and memorandum of association of banks opting for Mergers.
- A resolution by the board of directors of the merging banks giving the authority to the management to further proceed with the merger negotiations.
- The successor banks list of new shareholders along with their addresses and information about their shareholdings.

The registrar necessary may grant the final approval of the merger A few more documents need to be submitted for final approval.

- An application by the banks opting for merger or Acquisition addressed to the Registrar as well as bearing the signature of the Managing Director and the Chairman of the merging companies.
- The successor bank’s proposed memorandum of association.
- The successor bank’s Registration certificate.
- Resolution of the Board from the merging banks regarding the approval of merger.
- Resolution of the shareholders approving the merger.
- List of shareholders with their addresses and shareholdings.

**SBI Merger with Five Associate Banks: Reasons & Effects**

- The State Bank of India (SBI), India’s largest Bank has started working as a unified entity from 1 April, 2017.
- It merged with 5 associate Banks besides Bharatiya Mahila Bank (BMB).
- The associate Banks are State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH) and State Bank of Patiala (SBP).
According to a gazette notification dated 22 February, the government said that all shares of these associate banks would cease to exist as individual entities and would merge with SBI. (Source-http://www.bankexamstoday.com/2017/04/sbi-merger-with-five-associate-banks.html)

What is the reason behind SBI-associate banks merger?

The reasons behind the merger of SBI with its associate banks and Bharatiya Mahila Bank are listed as follows:  
1) Government of India provides subsidy and contribution for bad debt recovery and share capital to SBI and its associate banks. It will become easy for government to provide aid to this single amalgamated bank instead of giving it separately to SBI and its associate banks.
2) Profitability of SBI was going down for last few years and this merger will be able to show better position of profitability in books of SBI. Net profit of the group fell from Rs. 12,225 crores in Financial Year 2016 to Rs. 241 crores in Financial Year 2017 and the losses were mainly due to associate banks.  

- After this merger, SBI will probably join the league of top 50 Banks in terms of Assets.
- To decrease unhealthy competition among Public Sector Banks (PSBs).
- It is difficult for smaller outfits to sustain the pace of competition and regulatory / risk mitigation norms.
- The merger has been necessitated on account of change in banking environment due to emergence of new area for compliance like Basel III, risk management etc., which require heavy investment on technology and compliance.
- After merger, SBI is expected to compete with the largest bank in the world, with an asset base of Rs 37 lakh crore, or over $555 billion, with 22,500 branches and 58,000 ATMs. It will have over 50 crore customers.
- Now, Bank can better focus on defaulters. Many people had availed multiple finances. With merger, they can be brought under one roof which makes recovery easier.

How will the shares of different Associated Banks and SBI be distributed?

- The board of SBI has approved the merger plan under which SBBJ shareholders will get 28 shares of SBI (1 each) for every 10 shares (10 each) held. In the same way, SBM and SBT shareholders will get 22 shares of SBI for every 10 shares.
- SBI had approved separate schemes of acquisition for State Bank of Patiala and State Bank of Hyderabad. There will not be any share swap or cash outgo as they are wholly-owned by the SBI.

Status of SBI after merger

As a result of merger SBI will be among top 50 large banks of the world. Now SBI will have an asset base of Rs. 37 lakh crores. Presently number of SBI offices along with its associates are 809 which is likely to be reduced to approximately 687 after merger.  
SBI will now have 23,899 branches and employee strength of 271,765.
SBI now has a deposit base of more than Rs 26 lakh-crore and advances level of Rs 18.50 lakh crore.
The total customer base of the bank reaches 37 crore and nearly 59,000 ATMs across the country.
Now, SBI is set to be among the top 50 large banks of the world. SBI was ranked 52 in the world in terms of assets in 2015, according to Bloomberg.
Criticism
All the Associate banks were once owned by rulers of respective states. For example SBH was once a Nizam bank. Now, SBH losses its glory.
Last year, employees of the State Bank of Travancore (SBT) observed a strike under the aegis of the State Bank of Travancore Staff Union. The agitation was in protest against the move to merge the SBT with the State Bank of India.
SBT was the only bank headquartered in Kerala.

Conclusion
In the above analysis of the all aspect of SBI financial status the view show that profitability of SBI was going down or fall down, and it needed reconstruction, or boost up for merger, this step of merger seems to be a smart action for restructuring. It has brought SBI in list of top 50 banks in the world which is a big deal.
However, profitability of the bank after merger has fallen by approximately Rs. 3000 crore. This was mainly because of accumulated losses of associate banks which were shown in balance sheet of the amalgamated entity and it reduced the enthusiasm of investors. Still, investors should not lose hopes as such bold steps have effects in long run and they take time to become visible.

References