Asset Quality of State Bank of India During the Pre and Post-Merger Period

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ABSTRACT. The State Bank of India is an Indian multinational public sector bank with a 23 percent market share of assets, and 25 percent of total loans and deposits on 25th March 2022. The associates of SBI viz., State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Hyderabad, State Bank of Travancore, State Bank of Patiala, and Bharatiya Mahila Bank were intermingled with SBI on 1st April 2017. For the first time, SBI came the third lender and seventh Indian company with a Rs.5 trillion market capitalization on the Indian stock exchanges on 14 September 2022, HDFC bank and ICICI Bank achieved this corner before. Asset quality is the major concern of the merged entity. The asset quality of the SBI is badly affected after the merger due to the huge NPAs of the associate banks. The huge provisioning for NPAs erodes the capital base. In this backdrop, the study concentrated on the asset quality of SBI during the pre and post-merger period. The asset quality refers to the loan quality of the banks. The standard assets include loans that are being repaid on time. The net NPA to advances ratio, net NPA to total assets ratio, and total investments to total assets ratio are the metrics used to determine the asset quality of SBI. For the purpose of analysis, the period from 2012-13 to 2016-17 was taken as the pre-merger period and the data from 2017-18 to 2021-22 was taken as the post-merger. The descriptive statistics and paired sample t-tests have been employed. The study reveals that the NPA has dropped from Rs 110854.7 crore in 2017-18 to Rs. 27965.71 crore in 2021-22. This trend of lower NPAs increased the asset quality of SBI in the post-merger period.

Keywords: Asset quality, merger, and acquisitions, NPA, pre-merger, post-merger.

1 INTRODUCTION

The banking sector has witnessed enormous changes worldwide in the last decade. Since 1991, the banking sector in India can be divided into two eras: pre-liberalization and post-liberalization. Mergers and Acquisitions have been increased to gain high market share, reduce business pitfalls, enter into new markets, and capitalize on economies of scale. The banking industry is being consolidated to use the benefits of mergers and

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acquisitions. In India, there are numerous successful mergers and acquisitions happened in the both public sector and private sectors. The first and foremost merger in the nationalized bank was the merger of the New Bank of India with Punjab National Bank. After the above merger, there are various mergers happened in the Indian banking industry. In 1921, the three presidency banks namely Bank of Bengal, Bank of Bombay, and Bank of Madras were composite and renamed Imperial Bank of India. This bank acted as the banker to the government until the formation of the Reserve Bank of India. In 1955, it was nationalized and named as SBI under the SBI Act 1955. In 2008, the State Bank of Saurashtra merged with the SBI. Next, in 2010 the State Bank of Indore was merged with SBI. Another five associates of SBI namely, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Hyderabad, State Bank of Travancore, State Bank of Patiala, and Bharatiya Mahila Bank were merged with SBI on 1st April 2017. In the history of the banking industry, the State Bank of India (SBI) with its five associates was the recent and successful merger. The SBI is the largest commercial bank in India in terms of assets, profits, branches, customers, deposits, and employees.

2 Need for the study

Asset quality is one of the crucial areas to determine the bank's financial soundness. It indicates the risk associated with the loan assets held by the bank. Maintaining asset quality is important for banks. The banking system has to ameliorate the asset quality by using various strategies. The appropriate recovery channels have to be employed to recover the bad loans. A proactive preventive measure to be taken for the stressed assets to maintain the asset quality.

3 Classification of NPA in banks:

Non-Performing Asset (NPA) is an important measure to ascertain asset quality. NPA is a loan for which the principal interest payment remains overdue for a period of 90 days. The bank has classified the NPA into three categories namely sub-standard assets, doubtful assets, and loss assets.

Table 1. Types of NPAs

S.NO	CATEGORY	MEANING
1	Sub-standard Assets	Assets that have remained NPA category for a period lower than or equal to twelve months.
2	Doubtful Assets	An asset is classified as a doubtful asset if it remains as NPA category for more than twelve months.
3	Loss Assets	An asset that has remained NPA category for more than three years

4 REVIEW OF LITERATURE

O C Aloysius, (2020), has analyzed the post-merger performance of SBI. The researcher has estimated the performance of SBI using various indicators like employee size, profitability, asset quality, branch efficiency, and employee efficiency, etc., The study found an inimical change in all the indicators except Net NPA to Net assets, Spread, and Business per employee during the post-merger. V Mahesh Yadav, (2019), studied the fiscal position of SBI after the merger. The main objective of this study is to examine the NPA position of the State Bank of India after the merger. The study revealed that the NPA was well managed during the post-merger period. Steven A. Seeling et al, 2003 mainly discussed the recent trends in banking and De Novo expansion. The researchers used four years of data from 1995 to 1998. The analysis revealed a weak positive relationship between legal constraints and de novo entry. Muhammad Usman Kemal, (2011), examined the post-merger profitability of Royal Bank of Scotland. The researcher has used accounting ratios to analyze the post-merger financial performance of the Royal Bank of Scotland (RBS) in Pakistan and found that the financial performance of the RBS was satisfactory after the merger deal.

4.1 RESEARCH HYPOTHESIS

1. The merger and acquisition have no impact on the net NPA to net advances ratio of the SBI.
2. There is no significant impact on the net NPA to total assets ratio of the SBI between the pre and post-merger period
3. There is no significant impact on the total investments to total assets ratio of the SBI during the post-merger period

4.2 RESEARCH METHODOLOGY

The SBI associates merged with SBI in 2017. Hence, the data were taken from five years preceding the merger (i.e.) 2012-13 to 2021-22. Thus, the study period has been divided into pre and post-merger periods, from 2012-13 to 2016-17 is the pre-merger period, and from 2017-18 to 2021-22 is considered as post-merger period. The data were taken from the annual report of the SBI, the websites of the RBI, Journals, and Magazines. The following ratios were used to calculate the asset quality of SBI.

Net NPA to Net Advances (NNPANAR) = Net Non-Performing Assets/Total Advances*100

Net NPA to Total Assets (NNPATAR) = Net Non-Performing Assets/ Total Assets*100

Total Investments to Total Assets (TITAR) =Total Investments/Total Assets*100

5 RESULTS AND FINDINGS

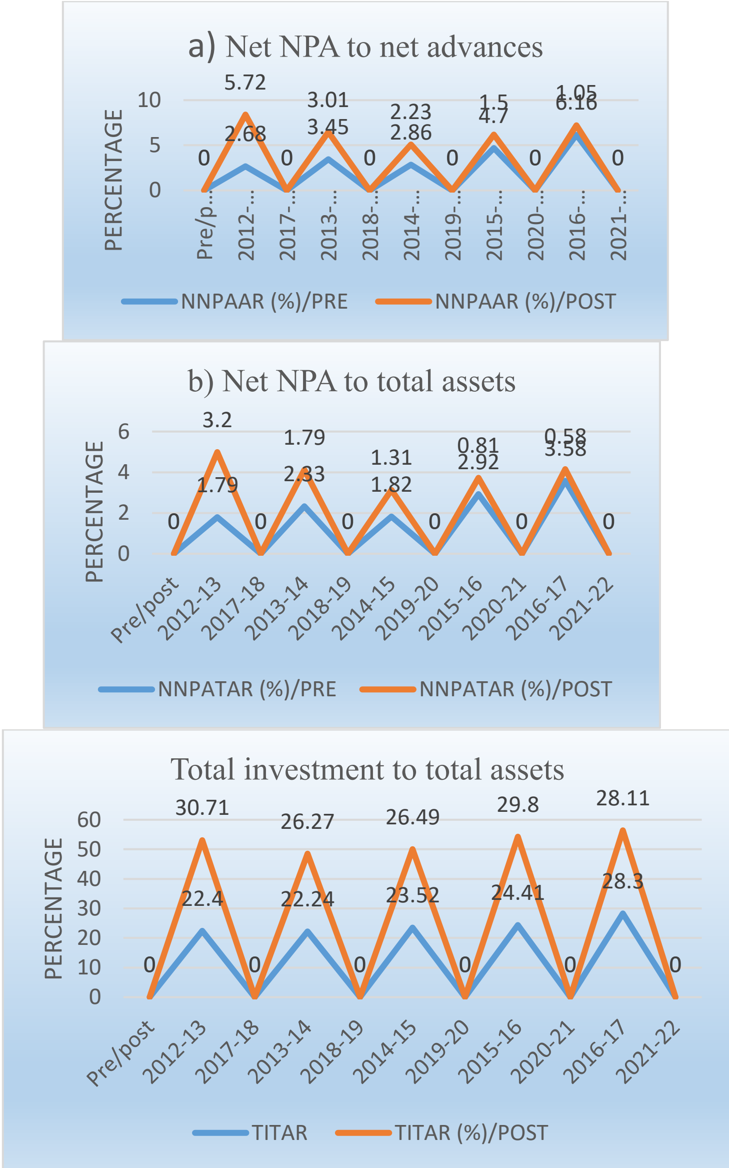

Fig. 1. 1 a) Net NPA to net advances, b) Net NPA to total assets, and c) Total investment to total assets ratio of SBI during the pre-merger and post-merger period

Chart 1 (a) gives the net NPA to net advances of the SBI for the pre-merger period and post-merger period. The net NPA to net advances ratio increased from 2.62 per cent in 2012-13 to 6.16 per cent in 2016-17. It reduced to 1.05 per cent in 2021-22 from 5.72

per cent in 2017-18 in the post-merger period due to the improvement in the profitability and write-offs of bad loans. Chart 1 (b) provides, that the net NPA to total assets ratio was registered at 3.58 per cent in 2016-17 from 1.79 per cent in 2012-13. Meanwhile, the net NPA to total assets ratio was registered at 3.2 per cent in 2017-18 which decreased to 0.58 per cent in 2021-22. Moreover, the total investment to total assets ratio was 22.4 per cent in 2012-13 which grew up to 28.3 per cent in 2016-17 in the pre-merger period**.** However, the total investment to total assets ratio declined from 30.71 per cent in 2017-18 to 28.11 per cent in 2021-22 in the post-merger period.

Table 2. Descriptive statistic of SBI during the pre and post-merger

	Pre-merger				Post-merger			
Year	Mini	Max	Mean	Year	Mini	Max	Mean	Impact
NNPAAR (%)	2.69	1.79	22.25	NNPAAR (%)	1.05	0.58	26.27	I
NNPATAR (%)	6.17	3.58	28.31	NNPATAR (%)	5.72	3.2	30.71	I
TITAR (%)	3.97	2.48	24.17	TITAR (%)	2.7	1.53	28.27	I

Source: Computed by the author using secondary data

Note: "I" refers to Increase and "D" refers to Decrease

Interpretation: The ratios and its minimum and maximum values are given in the table 1. of SBI during pre and post-merger have been shown in the above table 1. The mean value of NNPAAR was 2.7 per cent during the post-merger period. This decreasing ratio of bad loans showed that SBI had followed the RBI guidelines by making provisions against NPAs. The minimum NNPATAR of SBI was recorded 0.58 per cent in 2016-17 and the maximum NNPATAR was registered 3.2 per cent in 2012-13 during the post-merger period. The mean value was 1.53 per cent. This ratio helps to measure the quality of assets and this lower ratio indicates the better quality of advances of the SBI during the post-merger period. Despite, the asset quality of the SBI has improved with a decrease in gross non-performing asset and decline in the net non-performing assets. The minimum TITAR of SBI was recorded at 6.28 per cent in 2018-19 and the maximum TITAR was 30.71 in 2012-13 with a mean value of 28.27 per cent which implies the percentage of investments locked in the assets of SBI fluctuated during the post-merger. This above analysis indicates that the asset quality of SBI has been improved and the future provisioning needs would be low.

Table 3. Comparison between pre and post-merger performance of Net NPA to net advances, Net NPA to total assets, and Total investment to total assets ratio ratios of SBI using Paired Sample T-test.

SBI	Mean		Std. Dev		t-value	p-value	Corre-lation
	Pre	Post	Pre	Post			
NNPAAR	3.97	2.7	1.45	1.84	0.923	0.408	-0.746
NNPATAR	2.48	1.53	0.76	1.03	1.254	0.278	-0.757
TITAR	24.17	28.27	2.47	1.96	-2.931	0.043	0.021

Interpretation: Table 2 shows the t-test analysis of the asset quality ratios of the SBI during the pre and post-merger period. The p-value of NNPAAR and NNPATAR of the SBI was recorded at 0.408 per cent and 0.278 per cent respectively which means it was above the standard value of 0.05 per cent. The null hypotheses "there is no significant impact on the NNPAAR and NNPATAR of the SBI during the post-merger period" has been accepted at 5% level of significance. Hence, the p-value of TITAR of the SBI was registered at 0.043 per cent. It inferred that the p-value was less than 0.05 percent. Hence, it revealed that there is a significant impact of the merger on the TITAR of the SBI during the post-merger period.

6 CONCLUSION

The bank merger has some primary pretensions such as strengthening the nation's economy, raising profitability, reducing the quantum of NPAs, adding effectiveness, and improving the branch networks to global reach. The merger is the strategy to take over the weaker banks and enhance their capability to compete with the market with high productivity. The foregoing discussion clearly revealed that the asset quality of SBI during the post-merger period has been improved with the lower NPAs which reduced from 4.9 per cent to 3.52 per cent. Because of this reason, the provisions for bad loans have been declined from Rs.2,699 crore to Rs.2011 crore.

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ANNEXURE

Year	Net NPA (Rs)	Advances (Rs)	Total Assets (Rs)	Total Investments (Rs)

2012-13	28100.73	1045616	1566261	350927
2013-14	41815.1	1209829	1792748	398800
2014-15	37277.73	1300026	2048080	481759
2015-16	68894.38	1463700	2357617	575652
2016-17	96932.22	1571078	2705966	765990
2017-18	110854.7	1934880	3454752	1060987
2018-19	65894.74	2185877	3680914	967022
2019-20	51871.3	2325290	3951394	1046954
2020-21	36809.72	2449497	4534430	1351705
2021-22	27965.71	2644702	4782751	1344689