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"A Study of Merger of SBI & Associate Banks in relation with NPA"

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ABSTRACT

Non-performing assets is the serious problem of banking sector specially of 27 public sector banks among these 19 were nationalised in 1969 and 1980& SBI with eight associate banks were nationalised in 1959 by Central Act. On 1st April, 2017 merger of six associate banks with SBI leading to a new scenario of opportunities as well as challenges before Indian public sector banks in light of its overburdening of bad loans resulting into non-performing assets. This is serious attempt to find relation of SBI merger with its NPA because in coming days same pattern of mergers are mostly likely expected in public sector banks as a Banking Reform Policy by RBI and Central Government's policy of liberalisation by privatisation i.e. Liberalisation, Privatisation &Globalisation (LPG) initiated differently from 1991 onwards.

KEYWORDS : Merger policy, Bad Loan, NPA, SBI, Associate Banks, Public Sector Banks, etc.

I. INTRODUCTION:

Post liberalisation era experience a huge increase in gross NPA of public sector banks amounting of Rs. 39,250 crores to Rs. 9,50,000 crores from the year 1992-93 to 2017-18 and stressed assets amount will reach to Rs. 11,50,000 in year 2018(ASSOCHAM - CRICIL joint study).This is an alarming situation impacting on the interest of working class and toiling people in India as well as future of public sector banks will be in peril and disastrous to Indian economy also.

Therefore critical study of SBI and Associate banks merger is essential to highlight prose & cones specially

those points were neglected in merger process. Hence thecase study of SBI and its associate banks merger in relation with its raising NPA especially during period of 2013 to 2016 become relevant to overcome challenges of reforms.

2 .HISTORY:

With an over 200-year history, SBI has its origins dating back to 1806 when Bank of Calcutta (later called Bank of Bengal) was established. In 1921, Bank of Bengal and two other banks (Bank of Madras and Bank of Bombay) were amalgamated to form Imperial Bank of India. In 1955, the Reserve Bank acquired the controlling interests of Imperial Bank of India and SBI was created by an Act of Parliament to succeed Imperial Bank of India. Thus SBI and its associated banks continuously exist more than 200 years by transforming its status from 'bank of king' to the 'bank of people' due to pro poor and mixed economic policy of central government& in its execution process SBI played very significant role during these period.

3. Objectives:

In history of Indian Banking sector it is the largest merger which attracts attention towards following objectives:

1) To study the SBI and its associate banks merger policy.

2) To understand relation among merger and NPA especially during 2013 to 2016.

4. RESEARCH METHODOLOGY:

Data for the research are collected from the secondary sources like websites, newspapers, reports, journals, magazines, etc. Data then analysed in order to understand critically the merger policy and its relation among merger and NPA of SBI and its associate banks.

5. SBI AND ASSOCIATE BANKS MERGER POLICY:

In 2008 first merger of SBI with State Bank of Saurashtra and second merger of SBI with State Bank of Indore was take place. Hence this is third merger of associate banks with SBI.

On 1st April, 2017 central government issued orders under section 35 of State Bank of India

Act, 1955 for merger of six SBI associate banks with SBI i.e. State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT) and Bharatiya Mahila Bank.

Out of thesesix subsidiary banks, SBBJ, SBM and SBT were listed on stock exchanges. The SBI board has approved the merger plan under which SBBJ shareholders will get 28 shares of SBI for holding 10 sharesand SBM and SBT shareholders will get 22 shares of SBI for holding 10 shares.

Whereas SBI board has approved separate schemes for SBP and SBHin whichnotany share swap or cash outgo has given because both was wholly-owned by SBI.

SBI decided to shut down almost 47% offices of these associate banks including the head offices of three of them along with 27 zonal offices, 81 regional offices and 11 network offices of the associate banks.

Whereas employees are directly affected by these shutdowns around 1,107 employees will be redeployed and only 12,500 among around 73,000 employees of associate banks will be eligible to take Voluntary Retirement Scheme (VRS).

This VRS scheme was open for limited period only i.e. for 15 days from the date of announcement of merger though the central government cabinet approved merger of associate banks with SBI on 15th February, 2017. It only appliesto those employees who completed 20 years of service or completed 55 years of age as on September 30, 2016. It has offered ex-gratia amounting to 50% of salary for residual period of service subject to a maximum of 30 months' salary.

In criticising this merger policy Mr.C.H.Venkatachalam, General secretary of the All India Bank Employees' Association (AIBEA) stated that VRS launching only for five associate banks is not fair especially for those who do not eligible under VRS so that they may feel disadvantaged psychologically from the day merger. So that SBI should come with VRS after considering the overall staffing picture after merger and not before the merger, Five associate banks had total deposit of over Rs 5 lakh crore & 8,964 ATMs net worth.With this merger of all the associate banks SBI has reached an asset base of Rs 37 trillion (Rs 37 lakh crore) or USD 555 billion, 22,500 branches, 58,000 ATMs, over 50 crore customers, over 2,70,000 employees, 191 foreign offices spread across 36 countries and become one of larger bank among top 50 larger banks of the world.

6. SBI AND ASSOCIATE BANKS MERGER POLICY:

Bad loans are inevitable part of banking business because in every loan there is an element of risk involved and a possibility of loan not being repaid. But in the last two decades we find that taking huge loan from the banks and making it as NPA has become an industry itself by big corporate borrowers is amounting to daylight robbery and loot of public money.

Year	Bad Loans/ NPAs in Public Sector Banks (Amount in Crores)
31.03.2008	39,030
31.03.2009	44,954
31.03.2010	59,927
31.03.2011	74,664
31.03.2012	1,17,000
31.03.2013	1,64,000
31.03.2014	2,16,739
31.03.2015	5,39,956
31.03.2016	8,00,000
31.03.2017	9,50,000

(MSBEF, 2017)

Bad loans in banks have been alarmingly increasing over the years. Gross NPA and Public Sector Banks have increase from Rs. 39,030 crores toRs. 9, 50,000 from year 2008 till 2017.

Now let us see the Gross NPA position of SBI & Associate banks from 2013 to 2016:

Banks	Gross NPAs (Amount in Crores)			
	2013	**2014**	**2015**	**2016**
I. State Bank of India (SBI)	51,189	61,605	56,725	98,173
II. Associate Banks of SBI:				
1. State Bank of Bikaner and Jaipur	2,119	2,733	2,945	3,603
2. State Bank of Hyderabad	3,186	5,824	5,393	6,591
3. State Bank of Mysore	2,081	2,819	2,136	3,636
4. State Bank of Patiala	2,453	3,758	4,360	6,767
5. State Bank of Travancore	1,750	3,077	2,357	3200
Total of 5 Associate Banks (II)	11,589	18,211	17,192	23,796
Total of State Bank Group (I + II)	**62,778**	**79,816**	**73,917**	**1,21,969**

(MSBEF, 2017)

Thus in all the banks of State bank Group, the bad loans are going up. As seen in the figure above, there is specifically clear that NPA difference between SBI and its Associate Banks was always remain more in the range of Rs.39533 to Rs. 74,377 in just four years duration it means NPA of SBI is increasing quantitatively & qualitatively more than its associate banks.

Therefore bank unions consider the closure of associate banks by mergers was unwarranted as these banks were in existence for very long years, more than 100 years successfully in many states by transforming its face and status from the 'bank of king' to the 'bank of people' after financial reforms of nationalisation of bank did during 1969 and 1980.

Thus these associate banks had sound financial fundamentals, commendable financial rationals, well established branches and serving people at large in rural, semi-urban and urban areas. Mr. K.S. Krishna, General Secretary, State Sector Bank Employees Association stated that association banks was premier banks in respective states with sizable market share and credit deployment to productive sectors i.e. agriculture, micro-small-medium-large industries, trade, service sectors at the region and states

Mr. K. S. Krisnha further stated that associate banks have been forced to give excessive

provisions for the reason that those loan accounts with the associate banks — even though are standard assets — may be considered as NPA if the same group's account with SBI is NPA. Whereas the associate banks made a net profit of Rs 1,700 crore in the half year of FY16 thereafter the banks have been forced to show a loss of Rs 5,100 crore in FY17 half year. The operating profit had risen from Rs 5,000 crore in FY16 to Rs 5,600 crore in FY 17. After the announcement of merger work in the associate banks had came to standstill. (The Indian Express, 20th February, 2017)

Arundhati Bhattacharya said that the consolidated balance sheet of the merged entity would be Rs. 32 lakh crores from 23 lakh crores. The merged entity would have deposit worth Rs. 26 lakh crores and nearly Rs. 18.76 lakh crores worth advances on its books.

The business mix of five associate banks is around Rs. 10 lakh crores which is almost equal to the size of second largest bank of the country .i.e. Punjab National Bank and thus after merger SBI now become one of the bank among the top 50 larger banks in the world.

7 .CONCLUSIONS:

From this study we conclude that no doubt SBI become one of the larger bank in the world and in India with some of pores and cones which are going to effect on the future of public sector bank, its operation, objectives are again transforming from the 'bank of people' to the 'bank of corporate'. The issues of NPA remains great challenge after merger also and raise a significant question whether bank will use people's money for people's welfare or for corporate benefits by way of write-off bad loans and provision of restructuring of stress loans? Will these facilities bank will extend in the interest poor people i.e. farmers, students, marginalized communities etc. as a responsible system for implementing state welfare policy?

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