Project Dissertation Report on

PRE MERGER AND POST MERGER PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANK-SBI & HDFC

Submitted By

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CERTIFICATE

This is to certify that the project report entitled ‘Analysis of pre-merger and post-merger performance of public and private sector bank- SBI & HDFC’’’ submitted to Delhi School of Management, DTU in partial fulfillment of the requirement for the award of the post graduate degree of MASTER OF BUSINESS ADMINISTRATION (MBA), is an original work carried out by Ms. Mansi Goel Roll No. 2K19/DMBA/50 under the guidance of Asst. Prof. Sonal Thukral. The report embodies the results of original work and studies carried out by Student himself.

DECLARATION

This is to declare that I have carried out this project titled 'Analysis of pre-merger and post-merger performance of public and private sector bank- SBI & HDFC'' myself in partial fulfillment of the Post Graduate Degree of Master of Business Administration from Delhi Technological University is a record of original work done under the guidance of Asst. Prof. Sonal Thukral. The information & data given in the report is authentic to the best of my knowledge.

ACKNOWLEDGEMENT

It gives me immense pleasure to be associated with this project. The project was a joyous learning process. The presentation of the report in the way required has been made possible by the way of contribution of various people. First of all, I would like to express my gratitude towards Prof. Sonal Thukral, my faculty guide, for his valuable advice, guidance, support, precious time & encouragement that he offered to me during the course of project preparation, it made actual complexities of the world a lot easier. I would like to thank all my beloved teachers for their support & confidence in me. I would also like to express my deep gratitude to all the respondents whose response was of utmost importance for the project. Last but not the least, I would like to thank God, my family, my teacher & friends who always supported me directly & indirectly & without their trust & co-operation my project would have proved to be extremely difficult.

Mansi Goel, 2K19/DMBA/50

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INTRODUCTION

Despite the global financial crisis or slowdown in the economy, the fastest growing economy in the world, India economy has to maintain its leading position.
RBI (Reserve Bank Of India) has the authority to regulate all the Banks. Banks are divided into public and private sector bank in India and both have their different market capitalization.

Banking sector has witnessed many tremendous mergers in previous years. This Project isabout the performance of both the sector of bank i.e. public and private sector bank in two scenarios before the merger and after the merger.
By taking the market capitalization as a main factor the banks had been choose for the project. As SBI (State Bank of India) has the market capitalization of 297858 crore in public sector and HDFC in private sector of694359 cr.
Both the banks face a major merger in 2008 in their own sector because of financial meltdown. State Bank of India merged with State Bank of Saurashtra and HDFC with Centurion Bank of Punjab.

SBI is an Indian public sector company which deals in financing and banking. The headquarter ofSBI was in Mumbai, Maharashtra. It is a government owned organization. In the Future Global 500 of world's biggest corporation SBI ranked as 236^{th}. 23% market share in asset, ¼ of the total loan deposit is held by SBI, the largest bank of India. The first step toward merger of SBI was taken in 2008-2009 reducing the no. of bank from seven to six.

HDFC is as private bank established in 1994. The headquartered of HDFC bank was situated in Mumbai, Maharashtra. It has largest market capitalization which lead HDFC to be the largest private bank. HDFC provide large number of products and services including different types of loans such as private loans, property loans, two and four wheeler loans and auto loans too and also deals in wholesale banking, retail banking.
Banking Sector plays an important role in every economy and also the fastest growing and developing sector in Indian economy. The competition is intense between domestic banks-public and private sector bank with multinational banks.

20 public banks, 44 foreign banks, 44 regional rural banks,22 private banks and 1542 urban cooperative banks comes under Indian Banking System. As banking is a growing sector they started mobile banking, internet banking, and various extensions at the ATM station.

Mergers in India are common aspect to grow after the New Economic Policy in 1991. The main reason behind this is to improve the functioning of banks and widen its capital base by merging the weak bank with the strong banks.

Both the Banks HDFC and SBI are the top most banks in their own sector. The main focus is on integrated approach to risk management adoption. The NPA’s of commercial banks records a recovery of 400000 cr. which is highest in the last 4years. Total credit extended by commercial bank in financial year 2019 was Rs.90.81 lakh crore and deposit grew to Rs. 120 lakh crore while on the other hand compare it with the last year FY18 asset of publicsector bank stood at Rs. 108.82.

LITERATURE REVIEW

- A.N.Tamragundi, Devarajappa S (2016) inspect the impact of mergers on performance of selected commercial banks in India. The main objective of the study is to study and analyze the impact of merger on physical and financial performance of Public and Private merged Banks. The impact of mergers on performance of the banks has been evaluated from there prospective. There is a significant -improvement in Deposits, Advances, Businesses and Number of Employees of all selected banks. He concluded that merger is a useful strategy to expand the business operation, serve largercustomer base, increase profitability and overall growth.

- Jyoti H. Lahoti (2016) opened that merger and acquisitions are important corporate strategy actions that support the firm in external growth and provide it competitive advantage on every platform. The objective of the study is to understand the purpose and know about the benefits of merger and acquisition. The banking system has increased undoubtedly numerous achievements in a very short time.
- M Jayadev, Rudra Sensarma (2007) analyzed some critical issues of considering the Indianbanking with particular emphasis on shareholders and managers. The study opens that in the case of forced mergers, neither the bidder nor the target banks shareholders have benefited. The study strongly supported that Indian financial system requires very large banks to absorb various risks emanating from operating in domestic and global environments.
- Devarajappa S, (2012)6 explored various methods and motives of mergers in Indian banking industry. It also compared pre and post-merger financial performance of merged banks with the help of financial parameters like, Gross Profit margin, Net Profit margin, operating Profit margin, Return on Capital Employed, Return on Equity, and Debt Equity Ratio. Finally the study indicates that the banks have been positively affected by the event of merger.

  Azeem Ahmed Khan (2011)5 explored various motivations of Merger and Acquisitions in the Indian banking sector. The objective of the study is to analyze the performance of banks of pre and post-merger situations. The result of the study indicated that the banks have been positively affected by the event of Merger and acquisitions. These results also suggested that merged banks could obtain efficiency and gains through Merger and Acquisitions and could pass the benefits to the equity share holders‟ in the form of dividend.
- Jayashree R Kotnal (2016) Mergers and Acquisition is a useful toolfor the growth and expansion in any Industry and the Indian Banking Sector is no exception. It is helpful for the survival of the weak banks by merging into the larger bank. This study shows the impact of Mergers and Acquisitions in the Indian Banking sector.
- M Jayadev, Rudra Sensarma (2007) analyzed some critical issues of consolidation in Indian banking with particular emphasis on shareholders and managers. The study revealed that in the case of forced mergers, neither the bidder nor the target banks shareholders have benefited. The study strongly supported that Indian financial system requires very large banks to absorb various risks emanating from operating in domestic global environments.

RELEVANCY OF THE STUDY

The relevance of this Research paper is to investigate the impact of merger of private and public sector banks. Here I have taken two examples one is state bank of saurashtra with state bank of India in public sector and other HDFC with center union bank of Punjab in private sector. The main focus of this study is to discuss pre-merger and post-merger performance of banks. And also try to make an attempt to predict the future of ongoing merger performance on basis of financial performance of respective sector of bank.

PROBLEM IDENTIFICATION AND STUDY OBJECTIVES

The objectives of the Study are:-

- To assess the performance of both select banks pre-merger as well as post-merger.

Following with that here is some sub-objective:-

- Profit Per Employee
- Deposit Per Employee
- Advances Per Employee
- Net Profit Per Branch
- Branch Deposit Per Branch
- Advances Per Branch

METGODOLOGY

Research Design:-Descriptive And Historical Design

The nature of Descriptive research designs are more structured and formal; the main objective under this study is to provide comprehensive and detailed explanation . In this project descriptive design are used to highlight the performance of bank with the help of some ratios.

The purpose of historical Design is to collection, verifying evidences from the past and compares it with the current situation or study to establish facts. In this study the collection of various variables from the past before the merger of banks during the time ofthe financial crisis (2008) and compare it with the situation after the merger.

Sampling Technique:- Judgmental and Non-Probability The Judgmental sampling relies on the researcher judgment which is also known as subjective or selective sampling. It is judgmental both the bank face merger during the period of global financial crisis.

In non-probability sampling or non-random samples are those where the selection of sample unit is based on the judgment of the researcher than randomness. The banks in thisstudy are taken because they faced merger during the period of financial crisis as well as both are the leading banks in their own sector with higher market capitalization.

Period Of Study:- The period of Study is Pre and Post Global Financial Meltdown (before 5 years and after 5 years of 2008). Many mergers have taken place in banking sector till now, some of them are forced merger (private bank with public bank) and some are voluntarily in nature. The merger we study in this project is happened during the period of global financial crisis in 2008.

Variables Of Study:- The variables taken in the study are deposits, advances, net profits, no. of employee and no. of branches . Deposit and advances represent the volume of business and show the impact on profit of the bank. Net Profit represents the sale after deducting the expenses, interest and taxes from the total revenue. Number of employee represent the total employability ratio of the bank and number of branches reflect the growing need of the bank in public.

Data Source:- The data used in the project is secondary data which include the Annual Report of the HDFC and SBI bank. The other sources from which the data has been takenare RBI Database, Banks official website and other website like money control.

Tools for Analysis :- In this study to check the performance of banks the various variables are taken with the help of some ratios.

DATA ANALYSIS AND INTERPRETATION

STATE BANK OF INDIA

Certain Parameters are identified and analyzed to study the impact of merger on performance of banks of both sector private as well as public. Following table includes details of identified performance parameters: - Deposit, Advances, Net Profit, and Number of employee and Number of Branches.

PRE AND POST MERGER PERFORMANCE PARAMETERS OF STATE BANK OF INDIA (SBI)

PRE MERGER PERFORMANCE PARAMETERS OF SBI

YEAR	DEPOSIT	ADVANCES	NET PROFIT	NO. OF EMPLOYEE	NO. OF BRANCHES
2003-04	318619	157934	3681	207039	9107
2004-05	367048	202374	4304	205515	9161
2005-06	380046	261801	4407	198774	9468
2006-07	435521	337336	4541	185388	9679
2007-08	537404	416768	6729	179205	10683
BASE YEAR	742073	542503	9121	205896	12022
CAGR	15.13%	22.83%	16.33%	-0.09%	4.74%
MEAN	254829.75	172026.63	2957.75	121990.13	6012.25

TABLE-1

POST MERGER PERFORMANCE PARAMETER OF SBI

YEAR	DEPOSIT	ADVANCES	NET PROFIT	NO. OF EMPLOYEE	NO. OF BRANCHES
2008-09	742073	542503	9121	205896	12022
2009-10	804116	631914	9166	200299	13039
2010-11	933933	756719	7370	222933	14350
2011-12	1043647	867579	11686	215481	14902
2012-13	1202740	1045617	14839	228296	15564
2013-14	1394409	1209829	10891	222033	16059
CAGR	11.09%	14.30%	3.00%	1.27%	4.94%
MEAN	1075769	902331.6	10790.4	217808.4	14782.8

TABLE-2

ANALYSIS

In the above Table 1&2, base year from 2008-2013 data before and after the merger of SBI Bank with sourashtra bank of India has been presented with their deposit, advances, net profit, number of employee, number of branches for calculating CAGR.

At the time of merger the no. of deposits of Bank of Saur Astra was 419425and State Bank of India 742073, same like that the advances were at the time of merger was 12309 and 542503.

HDFC BANK

PRE AND POST MERGER PERFORMANCE PARAMETERS OFHDFC

PRE MERGER PERFORMANCE PARAMETER OF HDFC

YEAR	DEPOSIT	ADVANCES	NET PROFIT	NO. OF EMPLOYEE	NO. OF BRANCHES
2002-03	22376	11755	483	4791	215
2003-04	30409	17745	510	5673	295
2004-05	36354	25566	666	9030	446
2005-06	55797	35061	871	14878	516
2006-07	68298	46945	1141	21477	666
BASE YEAR	100769	63427	1590	37386	745
CAGR	29%	32%	22%	41%	23%
MEAN	42646.8	27414.4	734.2	11169.8	427.6

TABLE 3

POST MERGER PERFORMANCE PARAMETER OF HDFC

YEAR	DEPOSIT	ADVANCES	NET PROFIT	NO. OF EMPLOYEE	NO. OF BRANCHES
BASE YEAR	100769	63427	1590	37386	745
2008-09	142812	98883	2245	52687	1422
2009-10	167404	125831	2949	51888	1729
2010-11	208586	159983	3926	55752	1999
2011-12	246706	195420	5467	66076	2553
2012-13	296247	239721	6726	69401	3046
CAGR	20%	25%	27%	11%	26%
MEAN	212351.00	163967.60	4262.60	59160.80	2149.80

TABLE -4

ANALYSIS

In the above Table-3 & 4, base year from 2008-2013 data before and after the merger of HDFC with centurion bank of Punjab has been presented with their deposit, advances, net profit, number of employee, number of branches.
At the time of merger the Deposit and Advances of Centurion Bank of Punjab was Rs. 14863.72 and Rs. 11221 crores, net profit was Rs.121.38, Employee were 7500 and Braches with 374.
While HDFC had Deposit and Advances of Rs.100679 and Rs.63427, Net profit was Rs.1590 crore, Employee and Branches with 37386 and745.

Following methods are taken to compare and analyze the performance ofbank are discussed below:-

<u>COMPARATIVE METHODS</u>

<u>CAGR AND MEAN OF BOTH THE SELECTED BANKS</u>

- **CAGR**

- <u>CAGR OF HDFC</u>

		DEPOSITS	ADVANCES	NET PROFIT	NO. OF EMPLOYEE	NO. OF BRANCHES
CAGR	PRE MERGER	29%	32%	41%	23%	22%
	POST MERGER	20%	25%	11%	26%	27%

- <u>CAGR OF SBI</u>

		DEPOSITS	ADVANCES	NET PROFIT	NO. OF EMPLOYEE	NO. OF BRANCHES
CAGR	PRE MERGER	15.13%	22.83%	16.33%	-0.90%	4.74%
	POST MERGER	11.09%	14.30%	3%	1.27%	4.94%

❖ **MEAN**

- **MEAN OF HDFC**

CAGR (Compound Annual Growth Rate) is the growth rate of return that would be required for an investment to grow. Three parameters show fall after the merger, the highest fall was shown by the net profit in SBI while the number of employee and branches increases.
It may be the reason of pooling of resources during the merger for gaining the profit in future.
Similarly in the case of HDFC the major decrease was seen in the net profit, while the employee and branches increases.

- **MEAN OF SBI**

		DEPOSITS	ADVANCES	NET PROFIT	NO. OF EMPLOYEE	NO. OF BRANCHES
MEAN	PRE MERGER	42646.80	27414.40	11169.80	427.60	734.20
	POST MERGER	212351.00	163967.00	59160.00	2149.80	4202.60
	DIFFERENCE	169704.20	136552.60	47990.20	1722.20	3468.40

		DEPOSITS	ADVANCES	NET PROFIT	NO. OF EMPLOYEE	NO. OF BRANCHES
MEAN	PRE MERGER	254829.75	172026.63	2957.75	121990.13	6012.25
	POST MERGER	1075769.00	902331.60	10790.00	217808.00	14782.80
	DIFFERENCE	820939.25	730304.97	7832.25	95817.87	8770.55

Mean show the average increase of the parameter we have taken for the study. After both the bank merged the highest increase was shown by the deposits after the merger with 820939.25 deposits in case of SBI and in HDFC it is 169704.2.
And the lowest increase was in the net profit with only 7832.25 of profit after the merger in SBI, while in HDFC the lowest increase was in the number of branches with 3468.
This shows that the banks is doing well by generating increased amount of deposit and advances.
However the increase in deposits and advances does not reflect the net profit.-

In the present study one of the main objectives is to compare the employee productivity and branch productivity of the following selected banks.

MERGER PRODUCTIVITY RATIOS OF SBI BANK

Following are the ratios for checking the productivity of Employee and Branches.

- **Deposit Per Employee (D/E):-** The deposit per employee is the ratio of amount of Total Deposits divided with the No. of Employee.

- **Advances Per Employee (A/E):-** The Advances per employee is the ratio by dividing the amountof Total Advances by No. of Employee.

- **Net Profit Per Employee (N/P):-** The Net profit per employee is the ratio of the amountof Net Profit divided by the No. of Employee

- **Deposits Per Branch (D/B) :-** The Deposits per branch is the ratio calculated by the amount ofTotal Deposits by No. of Branches.

- **Advances Per Branch (A/B) :-** The Advances per branch is the ratio calculated by dividing the amount ofTotal Advances by No. of Branches.

- **Net Profit Per Branch (P/B) :-** The Net profit per branch is the ratio of the Net Profit divide by No. of Branches.

FINANCIAL RATIOS:-

STATE BANK OF INDIA

YEAR	D/E	A/E	P/E	D/B	A/B	P/B
2003-04	1.54	0.76	0.02	34.99	17.34	0.40
2004-05	1.79	0.98	0.02	40.07	22.09	0.47
2005-06	1.91	1.32	0.02	40.14	27.65	0.47
2006-07	2.35	1.82	0.02	45.00	34.85	0.47
2007-08	3.00	2.33	0.04	50.30	39.01	0.63
AVERAGE	2.1	1.4	0	42.1	28.2	0.5

YEAR	D/E	A/E	P/E	D/B	A/B	P/B
2008-09	3.60	2.63	0.04	61.73	45.13	0.76
2009-10	4.01	3.15	0.05	61.67	48.46	0.70
2010-11	4.19	3.39	0.03	65.08	52.73	0.51
2011-12	4.84	4.03	0.05	70.03	58.22	0.78
2012-13	5.27	4.58	0.06	77.28	67.18	0.95
2013-14	6.28	5.45	0.05	86.83	75.34	0.68
AVERAGE	5.64	4.65	0.06	84.52	69.41	0.88

In the above table, Taken five years of pre-merger and five years of post-merger ratios of employee productivity and branch productivity. Tremendous increase in the productivity ratios have been observed while decrease in productivity per employee and productivity per branch for the year 2010-2011 and 2013-2014 because of decrease in net profit and increase in No. of Employee in 2010-11 and in the year2013-14 both are decreasing net profit and no. of employee**.**

The average of five year of Deposit per Employee is 2.1 pre-merger and 5.64 post merger with an increase, Advances per Employee 1.4 and 4.65with an increase and same with that average of Profit per Employee 0 and 0.06 with also an increase. Therefore, employee productivity shown increase in ipost-merger.

However Branch productivity is also increasing in all the three ratios.

PRE AND POST MERGER PRODUCTIVITY RATIOS OF HDFCBANK

YEAR	D/E	A/E	P/E	D/B	A/B	P/B
2002-03	4.67	2.45	0.10	104.07	54.67	215.00
2003-04	5.36	3.13	0.09	103.08	60.15	1.73
2004-05	4.03	2.83	0.07	81.51	57.32	1.49
2005-06	3.75	2.36	0.06	108.13	67.95	1.69
2006-07	3.18	2.19	0.05	102.55	70.49	1.71
AVERAGE	4.20	2.59	0.08	99.87	62.12	44.32

YEAR	D/E	A/E	P/E	D/B	A/B	P/B
2007-08	2.70	1.70	0.04	135.26	85.14	2.13
2008-09	2.71	1.88	0.04	100.43	69.54	1.58
2009-10	3.23	2.43	0.06	96.82	72.78	1.71
2010-11	3.74	2.87	0.07	104.35	80.03	1.96
2011-12	3.73	2.96	0.08	96.63	76.55	2.14
2012-13	4.27	3.45	0.10	97.26	78.70	2.21
AVERAGE	4.08	3.06	0.08	126.15	92.55	2.35

In the above table, Taken five years of pre-merger and five years of post-merger ratios of employee productivity and branch productivity. Asymmetric pattern(sudden increase and decrease in the ratios) have been observed during the pre-merger period of productivity ratios. While after the post-merger period Deposits per Employee, Advances per Employee, Profit per Employee, and Profit per Branch have recorded continuous increasing trend. The average of five year shown increase in all the ratios excepting a slight decrease in the deposits.

FINDINGS AND ANALYSIS

- While looking all the key parameters in HDFC and SBI Bank, SBI Bank has recorded the increase in number of employees during the pre-merger period if compare to post-merger period.
- During the post-merger period all the parameter shown increase excepting the Number of Employee, Number of Profit in case ofSBI and Number of Employee in case of HDFC Bank.
- Average of Productivity Ratios from Pre to Post merger hadexhibited an increase in both the Banks.
- Mean in all the parameters were increasing from pre-merger topost merger showing the average increase in the all parameters.
- CAGR was decreasing after the merger in NET PROFIT whileincreased in EMPLOYEE and BRANCHES.

CONCLUSION

The main focus of this Research paper is to examine the performance of pre-merger and post-merger of SBI and HDFC Bank. They have been chosen to participate in this merger activity for different reasons. The growth of Bank can be measured through the parameter taken and by calculating the productivity ratios. However the Net Profit of some years is decreasing while the number of employee andbranches are increasing which shows the pooling of resources on that particular year forearning profit in future. However, there may be many reasons for the decrease in profitfor that we have to take further study about the topic.

So, from the study it can be said that the merger was not really helpful in both the Banks considering the Net Profit per year.