ASSIGNMENT OF M&A

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Q1. Why the big size of SBI (post-merger) is matter of concern?

The merger has made SBI very large, which is concerning. It might become so big that if it fails, it could threaten the entire financial system. When big institutions fail, they might need government help using taxpayer money to avoid a widespread economic crisis. Managing and running such a large bank raises questions about how well it can be controlled and how efficiently it will work. Former SBI officials are worried about the difficulties of managing such a huge institution, likening it to making an elephant dance. Dealing with a much larger bank could cause problems in combining operations, systems, and processes, which could affect how well it works and how quickly it can respond.

Q2. What are the employees related issues of this merger?

The merger of SBI with its associate banks has caused several employee issues. Staff have been transferred without proper rules, leading to dissatisfaction. Officers and clerks from the associate banks have lost seniority, affecting their career progression and benefits. Workload has increased, and SBI's servers have struggled to handle the extra load, causing longer working hours and adaptation problems. Concerns about job redeployment and branch closures have made employees worry about job security and the future of their branches. Overall, the merger has brought problems such as improper transfers, loss of seniority, increased workload, job redeployment, and branch closures, affecting the morale and stability of employees from the associate banks.

Q3. What effect this merger had on the share price of SBI and its associate banks?

The merger of SBI with its associate banks had a notable impact on their stock prices. After the cabinet's approval, the stock market responded positively. SBI's stock price rose to Rs 273.20, increasing by Rs 4.55 or 1.69 percent on the BSE. Shares of the associate banks, such as State Bank of Bikaner, State Bank of Mysore, and State Bank of Travancore, also saw an uptick. For example, State Bank of Bikaner’s stock price increased to Rs 752.45, marking a 4.80 percent rise. This positive reaction indicates that investors believe in the potential benefits and synergies of the merger.

Q4. Critically analyse the report given for pre and post merger details in respect of benefits and cost of merger

The merger has allowed SBI to grow and expand, making it one of the top 50 banks worldwide. With more assets, branches, ATMs, and customers, SBI has become more competitive in the banking sector. The merger aims to boost productivity and efficiency, improving loan management and credit availability to important sectors. Strategically, SBI plans to create long-term value through cost savings and a broader reach.

However, the merger also brings challenges. The larger size of SBI raises concerns about systemic risks if it were to fail, given its importance. Managing a bigger, more complex organization involves operational challenges like system integration and process alignment, potentially affecting efficiency. Additionally, employee issues such as transfers, loss of seniority, increased workloads, job changes, and branch closures highlight the human impact of the merger. Addressing these challenges is essential for SBI to achieve its strategic goals post-merger.

Q5. 'Mergers like this should be promoted for other Public sector banks'. Do you agree with this statement. Give reasons.

So supporting the merger of Public Sector Banks (PSBs) like the one between SBI and its associate banks has several benefits. Some instances are as follows:

First, merging can improve efficiency and productivity by removing redundancies, simplifying processes, and benefiting from economies of scale. This leads to better competitiveness and customer service.

Second, consolidation reduces risks by diversifying assets, enhancing capital adequacy, and improving overall financial health, making PSBs more robust against economic uncertainties.

Third, mergers allow PSBs to increase their market share, customer base, and service offerings, helping them compete better with private banks and adjust to market changes. Additionally, mergers can save costs through shared resources and optimized operations while aligning strategies to utilize combined strengths and expertise.

However, it is important to plan carefully to tackle challenges such as cultural integration, employee issues, regulatory requirements, and maintaining service quality. The unique situations and objectives of each PSB must be taken into account to ensure that the benefits of mergers outweigh the costs and risks.