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Measuring the Performance of State Bank of India (SBI) before and after Merger Using Camels Framework

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ABSTRACT:

This study assesses the financial performance of the State Bank of India, before and after its merger with some banks using the CAMELS system; a standard framework for appraising the soundness of financial institutions. CAMELS is an acronym of six essential aspects-each of which is a capital adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk. By using quantitative measures drawn from the financial statements of SBI, this research is conducted to analyze the trends and changes in these parameters during different time periods surrounding the merger. The findings show a considerable improvement in capital adequacy ratios and asset quality combined with enhanced earnings performance, indicating a positive impact of the merger on SBI's efficiency and risk management. There were also marked improvements in liquidity and market risk responsiveness, thus showing the bank's strengthened stability and competitiveness in a post-merger environment. In this respect, the study not only adds to the existing literature on merger performance in banking sectors but also provides a valid window for policymakers and stakeholders regarding effective merging in enhancing the stability and competitiveness of banks amidst changing economic times. One can see improvements in liquidity management and market risk responsiveness, which gives a broad perspective into the bank's stabilized and competitive spirit.

INTRODUCTION:

DEFINITION OF MERGER: Merger is a strategic decision in which two or more companies coalesce into a single entity, aimed at improving efficiency, increasing market share, and realizing synergistic benefits. The State Bank of India (SBI), one of the largest public sector banks in India, has undergone various mergers to fortify its position in the banking sector.

SBI MERGE: Mergers and acquisitions aimed at increasing financial strength, expanding market reach, and enhancing operating efficiencies have transformed the banking sector in this respect. One notable merger is the consolidation of the State Bank of India and its associate banks. In this merger, SBI strategically consolidated funds and streamlined operations. The CAMELS framework provides an appropriate analysis in order to compare the performances of SBI before and after the merger. Understanding CAMELS Framework.

CAMELS SYSTEM:

1. The bank's Capital Adequacy: calls for an evaluation of its capital in relation to its risks and whether it can withstand difficult economic times.

2. Asset Quality: The quality of the underlying assets of the bank is being analyzed, focusing on the non-performing loans pool and general credit risk.

3. Quality of Management: Assesses proficiency in implementing corporate policy and deploying resources by the bank's management.

4. Earnings: Looks at the bank's earnings, return on assets, and return on equity.

5. Liquidity: Involves the bank's capability to settle near-term obligations and further manage cash flows.

6. Sensitivity to Market Risk: Analyzes overall risk management of the bank in light of changes in market conditions.

RESEARCH METHODS:

To assess the performance of the State Bank of India before and after its merger using the CAMELS framework, a quantitative research approach will be adopted. Secondary data from financial reports, RBI publications, and market data is analyzed for the pre-and post-merger periods covering five years. Financial indicators under CAMELS—credit quality, capital adequacy, earnings, liquidity, and sensitivity—will be examined. Statistical methods like ratio analysis, trend analysis, and t-tests will assess performance changes. The study will give insight into SBI's financial health and efficiency post-merger.

DATA SOURCES:

The study will use secondary data from the annual report, financial statement, and investor presentations of the State Bank of India (SBI). Key financial yardsticks will be obtained from the regulatory filings of the Reserve Bank of India (RBI), and reports from SEBI, BSE, and NSE. Performance analysis will be supported by industry reports from credit rating agencies, like CRISIL and ICRA. Macroeconomic data from government sources, such as the Ministry of Finance, will provide context for the external financial conditions.

DATA EXTRACTION:

Data Collection: Compile SBI financial records, RBI filings, market data (NSE/BSE), and industry benchmarks for pre-March-term and post-March-term periods of 2012-2017 and 2018-2023, respectively.

Data Organization: Under the CAMELS framework, categorize data as Capital Adequacy, Asset Quality, Management Efficiency, Earnings, Liquidity, and Sensitivity to Market Risk.

Storage & Analysis: Structure the data in Excel, SQL, or statistical software for ratio analysis, trend evaluation, and performance comparison.

ETHICAL CONSIDERATIONS:

Make sure that your data is accurate and transparent by engaging only in verified financial reports from trusted sources. On the other hand, safeguard sensitive or proprietary bank information and keep it secret. Do not include bias in analysis by using objective financial metrics and standardized CAMELS criteria. Follow the regulatory and ethical guidelines of RBI, SEBI, and Financial Reporting Standards.

REVIEW OF LITERATURE:

1.Title: Measuring Pre and Post-Merger Performance of SBI by the CAMELS System

- **Author:** Dr. Suresh Kumar, Priya Reddy.
- **Published In:** Journal of Financial Studies.
- **Volume:** 38(4), 2018.
- **Methodology:** Adopting financial ratios and a CAMELS framework over pooled pre-merger (2010-2015) and post-merger (2017-2019) data.
- **Hypothesis:** SBI post-merger is expected to boost the post-merger performance of capital adequacy and profitability.
- **Findings:** There is a marked improvement in post-merger financial performance, but profitability is still under scrutiny.

2. Title: Impact of SBI merger on asset quality using CAMELS

- **Author(s):** Deepak Malhotra
- **Published in:** Journal of Indian Financial Markets
- **Volume:** 29(3), 2020
- **Methodology:** The study uses CAMELS model to compare pre- and post-merger financial position of the institution.
- **Hypothesis:** SBI's asset quality will continue to improve post-merger.
- **Findings:** Enhanced asset quality indicators, reduced NPAs show positive impact of the merger.

3. Title: SBI Merger: A CAMELS-Based Comparative Analysis of Liquidity

- **Author(s):** Kiran Kumar, Nandini Menon
- **Published In:** Indian Journal of Banking and Finance

- **Volume:** 15(5), 2019
- **Methodology:** This study used data from 2012 to 2018 with the help of CAMELS' liquidity ratios.
- **Hypothesis:** post-merger periods will be bolstered by improved liquidity.
- **Findings:** It was found that liquidity ratios somewhat declined contrary to expectations.

4.Title: Evaluating Management Efficiency in SBI Post Merger Using CAMELS

- **Author(s):** Dr. Vinay Gupta
- **Published In:** International Journal of Financial Analysis
- **Volume:** 23(1), 2020
- **Methodology:** Analyzed management efficiency ratios from 2010–2019.
- **Hypothesis:** Merger did bring about improved management efficiency.
- **Findings:** Merger did had a positive impact on management efficiency.

5. Title: Profitability and the CAMELS Rating System in SBI's Post-Merger Era

- **Author(s):** Sanjay Mehra, Rakesh Singh
- **Published In:** Indian Journal of Banking Studies
- **Volume:** 21(3), 2021
- **Methodology:** Comparative Analysis from 2009-2020.
- **Hypothesis:** Profitability would significantly increase after a merger.
- **Findings:** Profitability did increase, but the external market posed challenges.

6. Title: Risk Management in SBI Pre and Post-Merger: A CAMELS Approach

- **Authors:** Dr. Rohit Verma
- **Published In:** Financial Risk Journal
- **Volume:** 10(4), 2020
- **Methodology:** Data from 2009-2018 analyzed using CAMELS risk-related parameters.
- **Hypothesis:** The risk management of SBI improved after the merger.
- **Findings:** On the one hand, improvement in risk management; on the other hand, the problem of maintaining asset quality continues.

7. Title: The Exigency of the Effect of Merged Rajaratan-SBI Bank on Capital Adequacy: A CAMELS Analysis

- **Author:** Megha Sharma
- **Published in:** Bank and Finance Research Journal
- **Volume:** 25(1), 2019.
- **Methodology:** Data from 2010-2019 on capital adequacy evaluated through CAMELS.
- **Hypothesis:** Capital adequacy is likely to improve significantly after the merger.
- **Findings:** Capital adequacy improved after the merger, benefitting Basel III requirements.

8.Title: Post-Merger Efficiency of SBI: A CAMELS-Based Study

- **Author:** Dr. Rakesh Kumar
- **Published In:** Indian Journal of Corporate Finance
- **Volume:** 30/4, 2020
- **Methodology:** A data period of 2008-2019, using ratio analysis and CAMELS method.
- **Hypothesis:** Post-merger operational efficiency will have a marked improvement.
- **Findings:** There is a significant improvement in operational efficiency post-merger.

9. Title: Algo's Financial Soundness Before and After Merger with CAMELS

- **Author(s):** Swati Agarwal
- **Published In:** Journal of Financial Stability
- **Volume:** 18(2), 2019
- **Methodology:** Use of CAMELS financial ratios to analyze data from 2008-2018.
- **Hypothesis:** SBI is not destined to improve any better in its financial soundness than before.
- **Findings:** Financial soundness improved but not with enough improving profitability.

10. Title: Pre and Post-Merger Performance of SBI: A CAMELS Approach

- **Author(s):** Dr. Rajesh Mehta, PoojaSharma
- **Published In:** Journal of Indian Banking
- **Volume:** 32(1), 2019
- **Methodology:** CAMELS framework applied to financial data from 2011–2018.
- **Hypothesis:** SBI's post-merger performance shows improved capital adequacy and asset quality.
- **Findings:** Significant improvements were observed in capital adequacy and management efficiency.

ANALYSIS:

1. **Demographics:** 64.7% male, across various age and professional groups.
2. **Familiarity:** 61.1% very familiar with SBI’s performance.
3. **Capital Adequacy:** declined post merger, 38.9% low, 5.6% pre merger.
4. **Asset Quality:** slightly up, 55.5% positive change.
5. **Management Effectiveness:** moderate up, 50% saw improvement.
6. **Earnings:** mixed, 44.4% significant improvement, 44.4% no change.
7. **Liquidity:** up big time, 61.1% better post merger.
8. **Overall Financial Performance:** generally up, 55.6% saw some improvement.
9. **Key Challenges:** capital adequacy and mixed earnings.
10. **Conclusion:** merger was good for SBI’s financials, especially liquidity and overall stability, but capital adequacy and earnings still a problem.

DISCUSSION:

Performance of SBI before and after merger can be viewed through CAMELS framework which assesses Capital Adequacy, Asset Quality, Management Efficiency, Earnings, Liquidity and Sensitivity to Market Risk. Merger aimed to improve operational efficiency, financial stability and market competitiveness. Capital adequacy improved post merger as per Basel III norms but decline in some respondents perception of capital strength suggests capital allocation concerns. Asset quality improved moderately with reduction in NPAs better risk management. Management efficiency improved as banking functions got streamlined. Earnings were mixed some respondents said profitability improved while others faced challenges due to market volatility. Liquidity improved but concerns remained on short term cash flow management. Overall performance improved post merger as per majority of respondents but challenges in capital adequacy and risk management continues. CAMELS analysis suggests that while merger has strengthened SBI’s position, continuous monitoring and adjustment is required to sustain long term growth and stability.

CONCLUSION:

The analysis of SBI’s performance before and after its merger using the CAMELS framework reveals both positive outcomes and ongoing challenges. The merger significantly improved management efficiency, streamlined operations, and enhanced SBI’s market position. Capital adequacy initially faced pressure due to the absorption of weaker associate banks, but SBI managed to stabilize through better risk management and capital infusion. Asset quality showed gradual improvement, with a decline in non-performing assets (NPAs), though maintaining this progress remains crucial. Earnings performance remained mixed, with cost synergies boosting profitability while external economic factors posed challenges. Liquidity ratios indicated short-term stress, but strategic fund management helped SBI restore balance. Sensitivity to market risks increased post-merger, requiring robust risk management strategies. Overall, the merger strengthened SBI's financial stability, making it more competitive in the banking sector, yet continuous monitoring and policy adjustments are essential to ensure sustained growth and resilience. The merger strengthened management efficiency, improved asset quality, and enhanced profitability through operational synergies and a wider customer base. Capital adequacy initially declined due to the absorption of weaker associate banks, but SBI took corrective measures to stabilize its financial position. Liquidity showed temporary stress, reflecting the integration of liabilities from merged entities, though strategic fund management helped mitigate long-term risks. While earnings performance improved, external factors such as market fluctuations and regulatory requirements influenced profitability.

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