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SBI associate banks merger to cost Rs 1,660 crore: Moody's

By PTI | Updated: May 20, 2016, 07.03 PM IST

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MUMBAI: The merger of five [associate banks](#) and newly created [Bharatiya Mahila Bank](#) with [SBI](#) will cost \$250 million (around Rs 1,660 crore) and have limited impact on the lender's credit metrics, ratings agency Moody's Investors Service said today.

Earlier this week, country's biggest lender [State Bank of India](#) had proposed merger of five associate banks and Bharatiya Mahila Bank (BMB) with itself.

The six lenders include five associate banks -- [State Bank of Bikaner and Jaipur](#) (SBJJ), [State Bank of Hyderabad](#) (SBH), [State Bank of Mysore](#) (SBM), [State Bank of Patiala](#) (SBP) and [State Bank of Travancore](#) (SBT).

"The merger will have limited impact on SBI credit metrics given that SBI already fully owns SBH and SBP and has majority stakes in the other three associate banks," the rating agency said in a report.

Based on current stock market prices, Moody's estimated the acquisition of the remaining outstanding shares in SBBJ, SBM and SBT would cost SBI about Rs 1,660 crore (approximately \$250 million).

"Assuming SBI completes the transaction using own cash, its common equity tier I ratio would decrease by only about 12 basis points," the report said.

Moody's said BMB only started operations in 2013 and accounts for less than 0.1 per cent of SBI's total assets.

On a consolidated basis, the merger will have limited impact on financial metrics of SBI, including asset quality and capitalisation level.

While the merged banks have different geographic areas of focus, they do have some overlap in their branch networks, particularly in the larger and mid-tier cities, which offer scope for streamlining.

"In addition, having full control of the associate banks will also help improve SBI's oversight and management of its consolidated operations," the report said.

It, however, expects the implementation of the merger will be challenged by strong employee unions that oppose this action.

Around 50,000 employees of the all associate banks are on strike today to protest the proposed merger plan.

"Given this context, there is considerable risk that the potential synergies, if any, may not materialise," the report added.

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