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Shriram Transport Finance Company Limited and Shriram City Union Finance Merger into Shriram Finance Limited: It's Socio-Economic Implication A Case Study

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Abstract

Bank mergers are proven beneficial in terms of cost reduction, better handling of NPAs, elimination of job redundancy, better service to customers, avoid duplication of work because of the opening of branches in every small region. Multiple bank mergers have happened in the recent few years and it is evidently known bank mergers bring both positive and negative impacts on the various factors, though the positive impact outweighs the negative one. This paper is based on the socio economic factors impact on Shriram finance Limited merger which includes determinant variables financial inclusion,operational efficiency,enhanced customer satisfaction, digital inclusion, community development, Environmental, Social and Governance(ESG).

Keywords: *Merger, Socio-Economic Factor, Operational Efficiency*

1. Introduction

A bank merger takes place when two or more banks pool their assets and liabilities to become a single entity. The first bank of India was established in the year 1770 before the pre-independence period in Calcutta, but this bank failed to perform and was seized in 1832. Later on several banks have been established in the India Allahabad Bank (1865), Punjab National Bank (1894), Bank of India (1906), Central Bank of India (1911), Canara Bank (1906), and Bank of Baroda (1908). During the British rule in India East India Company established three banks: the Bank of Bengal, the Bank of Bombay, and the Bank of Madras, and called them presidential banks, which were later merged into a single bank in 1921, which was called the "Imperial Bank of India." The Imperial Bank of India was nationalized in 1955 and named the State Bank of India.From 1969 to 1991, 14 banks were nationalized by the Government of India. 1. Allahabad Bank, 2. Bank of India, 3. Bank of Baroda, 4. Bank of Maharashtra 5.Central Bank of India,6. Canara Bank, 7. Dena Bank, 8. Indian Overseas Bank, 9. Indian Bank, 10. Punjab National Bank, 11. Syndicate Bank,12. Union Bank of India, 13. United Bank, 14. UCO BankIn 1980 six more banks were nationalized. 1. Andhra Bank, 2. Corporation Bank, 3. New Bank of India, 4. Oriental Bank of Commerce, 5. Punjab & Sind Bank, Vijaya Bank The Banking Regulation Act 1949 specifies the merger of banks. The bank mergers idea began in India 1998 by the P. Narasimhan Committee recommended to merge banks on a three-tier structure.[1-5]

- Internationally operating three large banks
- 8 to 10 national banks
- large local and rural banks

P. J Nayak committee in 2014 recommended to merge some public sector banks In 2017 SBI and its 7 associate banks—State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Indore (SBN), State Bank of Mysore (SBM), State Bank of Patiala (SBP), State Bank of Saurashtra (SBS), and State Bank of Travancore (SBT))—merged with Bharatiya Mahila Bank.

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- Indian Bank and Allahabad Bank
- Punjab National Bank, Oriental Bank of Commerce and United Bank will be merged.
- The Union Bank of India will be merged with Andhra Bank and Corporation Bank.
- Canara Bank and Syndicate Bank
- Vijaya Bank and Dena Bank merged with Bank of Baroda.[5-10]

2. Industry Profile

A non-banking financial company is registered under the Companies Act 1956, which deals in loans and advances, acquisition of shares/stocks/bonds/debentures issued by the government or local authority. During December 1964, NBFC was introduced by RBI by amending the RBI Act 1934. The RBI regulates NBFC in India.Housing finance firms regulated by the National Housing Bank, chit fund firms, stockbroking companies controlled by SEBI, and the business of Nidhi are few examples of NBFC.[11-15]

3. Company Profile

On June 30, 1978, Shriram Finance Limited was established as a public limited company. The company was established to finance medium- and heavy-duty commercial vehicles through hire purchase and lease financing. The company introduced the Lease Portfolio Management Scheme in 1993 and used it to manage over 100 crore in revenue. The flagship business of the diversified Shriram Group, which includes interests in commercial vehicle finance, consumer finance, life and general insurance, stock broking, chit funds, and the distribution of financial products like mutual fund units and life and general insurance products, is Shriram Finance Limited (formerly known as Shriram Transport Finance Company Limited). The company's main business is financing passenger cars and commercial vehicles. On November 2022 the Shriram Capital Finance merged with its holding company Shriram Transport Finance Company Limited and with Shriram City commercial vehicle finance, consumer finance, lifeUnion Finance to Shriram Finance Limited.[16-18]

4. Literature Review

Employee perception on merger and acquisition of commercial bank in Nepal by Rayamaji Sushma Aug-Sept.2024 .The study was carried on merged commercial banks of Nepal for two month using judgemental sampling method to know the correlation of employee perception on mergers and acquisition with job security, working condition and remuneration.The results obtained after using multiple regression analysis is there exit positive and significant relation between employee perception on mergers and acquisition with working condition and remuneration .There is insignificant positive impact of employees perception on mergers and acquisition with job security. A comprehensive analysis of Union Bank's mergers and acquisitions in Hyder abad byShaik Reshma , Dr.M.Vijay Kumar Yadav July 2024 .This study was aimed at assisting the effects of mergers and acquisition on operational facets, customer service, technological advancement , employee dynamics of Union Bank of India in Hyderabad.The study found out there was a positive trajec tory in net sales, profitability was on rise, profit after tax (PAT) had a significant rise after the merger. The influence of cultural diversity on successful mergers and acquisitions in Nigeria's banking industry by AturAghedo, Calorine, Chukwumwa, Nancy Nnena, Okhiria ,Vincent Omozjie June 2024.The study was conducted with the objective to examine the influence of cultural diversity on successful mergers and acquisitions in the banking industry in Nigeria considering 3 parameters – gender, ethnicity and religious beliefs.The results showed there exists a strong and positive relationship between gender , ethnicity, religious beliefs and successful mergers and acquisition in Nigerian banking industry.The study futher stated that acquiring bank should be careful in balancing the cultural diversity of the acquiree bank. Using mergers and acquisitions to increase stock returns in the banking sector:A case study on the Indonesian Stock Exchange by I made Suidarma, Re Dream Is, Jacko Remses December 2023 conducted study on 11 companies listed on the Indian Stock Exchange from

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2019-2021 using purposive sampling method revealed positive effects on the abnormal stock returns after mergers and acquisitions.It also suggested that banks should consider alternate strategies such as enhancing the human capital quality, implementing technology advancements, increasing market share and customer base. A Study on Recent Acquisitions and Mergers in the Indian Banking Industry by Atul Garg and Dr. Manpreet Kaur September 2023, looks in to why banks go for merger taking into to factors competitive advantage, long-term objective. Bank mergers:A positive impact on the Indian economy by Atul Kumar, Prof.(Dr.) Deepak Kumar Agarwal August 2023. This study examines positive impact of bank mergers on the Indian economy with reference to financial stability, increased productivity, lending capacity, enhanced financial inclusion, economic growth. The outcome of the study was banks have a significant impact on Indian economy when balanced approach is used by taking in to consideration consolidation and competition which will help the merged banks to tackle the challenges. Reasons for Bank Mergers in the Indian Banking System by Atul Kumar and Prof. (Dr.) Deepak Kumar Aggarwal July 2023 studied the reasons for bank merger enhancement of financial strength, cost rationalization, synergies and business diversification, risk management, weak bank consolidations, and also the challenges that banks face after merger of cultural integration and alignment. An analytical study of merger of Syndicate Bank with Canara Bank by Shiv Swaroop Jha, Premanand July-December 2023.The study involved collecting data from National stock exchange to know the correlation between bank's and the markets profitability from premerger period, during merger period and post merger period .The study showed that during premerger period return on bank & return on market was positively correlated.An insignificant negative correlation existed between return on bank and return on market during the merger period.After the year of merger 9 existed favourable correlation between bank's profitability and market's profitability An empirical study on mergers and acquisitions in the Indian banking sector in January 2022 by Dr. Srinivasa Rao Kasisomayajula suggested that public sector banks should not go for a merger between stronger banks and weak banks, though it might reduce NPAs and protect the interest of depositors; rather, strong banks should merge with the stronger bank to be on a competitive edge in global platforms. Merger and acquisition of Indian Bank:Boon or cursefor Indian economy by Punam Agrawal 2022 observed that there are positive impact as well as negative impact of merger and acquisition on Indian economy .The positive outcomes are reduced NPA s , cutdown of legal cost, good financial performance , better position to compete in the market , advantages of economies of scale, better visibility in international banking system , reduction in operation costs, long run benefits while the negative impacts will be internal conflicts , technological implementation, over sized banks, slow loan growth.The outcome of the study was mergers and acquisition benefit Indian economy for the economic growth and expansion Mergers and acquisitions in banking sector of India byDr.Ashu Vyas Maharshi 2019 The research conducted to understand the purpose, merits and demerits, legal provisions, procedure as to mergers and acquisition in banking sector.The outcome of the study was mergers and acquisition is risky process but if done strategically it contributes to growth of economy in Indian in Indian as well as international market.An Impact of Mergers & Takeovers of Public Sector Banks in Enhancing Customer Satisfaction by Salauddeen Shaik, P.Raghu Kumar, A.Dalvin Vinoth Kumar July 2019: here the study conducted on certain parameters mergers, enhancement on customer base, the range of services and choices available to the customers, customer services, benefits and options, enhances the ATM center availability & proper communication. Their outcome was building trust among customers by having positive client engagement from a passionate bond was pivotal.Impacts of mergers and acquisitions on service quality of banks in Rajasthan by Khushbu Prajapati June 2019.The study aims to know the reasons for merger,challenges faced by bank before and after merger, to evaluate the banks performance in terms of profitability, service quality and customer perception after merger.The outcome of the study was when two strong banks Bank of Baroda and Vijaya Bank merged with weaker bank Dena Bank was for stability, reduce the capital burden. The challenges are integration of human resources and operation .The merged banks are more profitable and offer more products to customer enhancing their satisfaction.Mergers and acquisitions in Indian banks after liberalization:An analysis by Madan Mohan Dutta, Dr.Suman Kumar Dawn Jan 2012 the study was undertaken to examine the performance merged sample banks HDFC, ICICI, Punjab National Bank ,Bank of Baroda ,OrientalBank of Commerce on parameters of total assets, profits, revenue, deposit, number of employees.The outcome of the study there was significant growth of assets after merger, the profit was higher in post merger period than the pre merger period .Revenue of all sample bankS increased after merger .There was increase in growth of deposits after merger except one bank.The employees number increased after merger except one bank.Mergers in Indian banks: A study on mergers of HDFC Bank Ltd. and Centurion Bank of Punjab Ltd.by Devarajappa.S September 2012 which explores the motives of bank mergers in India by comparing pre and post-merger performance based on the financial parameters gross profit margin, net profit margin , operating profit margin , return on capital employed , return on equity and debt equity ratio .The outcome of the study was return on equity, debt equity ratio and gross profit margin improved after the merger which was analysed using t-test ,the overall financial performance of the bank has increased after the merger.[19-20]

5. Objectives of the study

1. To know the impact on financial inclusion
2. To assess the benefit provided to SMEs
3. To evaluate the digital inclusion success
4. To evaluate its customer-focused service**.**

6. Research Methodology

This study is based on the secondary data from economic times press release, company websites, company annual report, journals.

6.1. Research Design

This paper explains the socioeconomic effects of the merging of Shriram Finance Limited using a descriptive research design.

The Socio-Economic Impact of the Shriram Finance Limited Merger

6.2. Financial Inclusion Amplification

The newly formed Shriram Finance limited with the largest network of branches in maximum areas provides various product offerings to the customers. It basically gives credit to first-time loan takers and also the one who do not qualify for the loans by bank driver-turned-owners and small road transport operators.

6.3. Bolster the SMEs

Post merger Shriram Finance Limited providing loans to Small medium enterprise and boosting the economy, by injecting capital in to the economy it also supports underserved entrepreneurs in transport and logistics. It helps borrowers to take loan of 10 to 15 lakhs with less documentary proof.

6.4. Maximization of Operational Efficiency

The merger has made the new entity achieve operational efficiency by eliminating obsolete methods with efficient use of resources. The synergy 2+2=5 has been achieved. Post-merger, Shriram Finance Limited is the second largest NBFC and the third largest non-banking financier in India. Total assets under management as of 30th September, 2024, increased by 19.94% and stood at Rs. 243,042.55 crores as compared to Rs. 202,640.96 crores as of 30th September, 2023, and Rs. 233,443.63 crores as of 30th June, 2024. Its total asset management as of 31st December 2024 is 254,469 crores.

6.5. Digital Inclusion

The technology-oriented drive that has been induced after the merger. Shriram Finance Limited has made partnership with Paytm for digital distribution of credit. Shriram products are made available on Paytm digital platforms.The customers need not go to the office they can apply for loan through the company

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registered website.

Table 1 Total Asset Management

S.No	Month and year	Total asset management(TAM) (in crores)
1.	30th September 2023	202.640.96
2.	30th June 2024	233,443.63
3.	30th September 2024	243,042.55
4.	31st December 2024	254,469

6.6. Customer-Centric Services

The benefits of STFC and SCUF have been achieved. Shriram Finance Limited thrives on relationship model where employees are constantly engaged in serving the customers with combined products commercial vehicle loan, MSMEs, personal loans, gold loans or vehicle loans. Their priority is serving customers who are self-employed.

6.7. Credit Access to All

Shriram Finance Limited provides one stop solution to all customers including rural areas, their product includes commercial vehicles, two wheeler loans, car loans, home loans, gold loans, personal loans and small business loans, passenger vehicle loans, farm equipment loans, construction equipment loans. The company is keen on providing loans to Gen Z customers.

6.8. Environment, Social, and Governance (ESG)

Shriram Finance Limited has taken green initiatives to enhance sustainability and inclusive growth. It has launched Green Business Vertical to drive electric vehicle, battery charging stations, renewable energy and sustainable projects financing. Shriram Finance Limited has developed the social finance framework to issue social bonds to finance social projects that uphold sustainability and inclusive growth in international markets. SFL had issued social bonds worth USD 475 million in January 2022 and USD 150 million in March 2023 under the USD 3.5 billion Global Medium Term Note Programme. Recently, SFL raised USD 750 million under the same program. These were raised as per SFL's Social Finance framework, and the proceeds were utilized to finance investments in eligible social projects in accordance with the International Capital Market Association Social Bond Principles 2018, as permitted by the ECB Guidelines. It has also established "Sustainable Financing Working Group." Shriram Finance has an effective grievance redressal mechanism, and it does not have a promoter and is managed by the trust consisting of a group of employees.

6.9. Community Development

Shriram Finance Limited has taken certain initiatives which will contribute to community development.

- Scholarships for children from the family of SFL's transport fraternity.
- 102 women has become LMV and HMV drivers under SFL driver training program.
- The SFL driver training program has encouraged members of the community with a back ground in manual scavenging.
- SFL has setup "Mobile Medical unit/Clinic" across 23 locations in 11 states, providing free medical checkups, lab tests, health awareness sessions, tobacco cessation counseling and medicines to the trucker community.
- Preservation and promotion of Art& Culture-South Indian Club.
- Training to promote olympic sport
- Shree Shanmukananda Fine Arts and Sangeetha Sabha to provide benefit to armed forces and widows of veterans.

7. Challenges

7.1. Cultural Alignment

The newly formed entity,Shriram Finance Limited after the merger of Shriram Transport Finance

Company Limited and Shriram City Union Finance have challenges of cultural integration of personnel of both the companies .As on December 31st 2024 the employee strength is equivalent to 79405 with 3196 branches prior merger their specialization in financing was different and now aligning them cultural can pose a challenge.

7.2. Overlapping of Customer Base

Kulkarni Raju Ramrao Both the entities before merger had their own customer base but post-merger due to consolidation there will be ambiguity in customer base regarding administration of company, operational efficiency. [20-22]

7.3. Competition from Contemporaries

Shriram Finance Limited being one of the largest retail NBFC have strong competition from fintech start ups and public sectors banks, Bajaj Finserv limited,Cholamandalam investment and finance company, Mahindra and Mahindra Financial services limited.

Conclusion

The newly formed entity SFL by the merger of STFC and SCUF has made it one of the largest retail NBFCs in India with a positive socio-economic impact on enhanced financial inclusion, leveraged operational efficiency, financing sustainable projects on international markets, community development, digital inclusion, and supporting SME financing with few challenges of cultural integration, overlapping customer base, and competition from contemporaries.

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