Mergers and Acquisitions:
An Ongoing yet Emerging Trend in Indian Banking Industry

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Abstract

In current business environment changing trends are setting the direction for development in every industry. Financial sector has not remained untouched with these changes. The sector is witnessing various random trends now day's reason may be economic volatility in all over the world, intervention of IT, creation of big next generation banks to make them competitive enough, globalization, corrective measures to boost up the economy, better governance etc.. Getting a bigger size in terms of capital, asset base is a universal trend in any industry. To match with the trend banks are moving ahead by increasing their size either through organic or inorganic mode. Merger, an inorganic mode of expansion has become a trend in Banking industry which is renovating the structure, working style, culture of organization, enhancing bank's capacity to increase credit and bigger risk appetite, with national presence and global reach. In last one year more than ten Indian public sector banks merged into four big banks taking down the number of public sector banks to 12 against the earlier 27. This research paper is aimed at analyzing the pre and post-merger performance of banks with special reference to the merger of Bank of Rajasthan (BoR) with ICICI Bank, took place in year 2010. For the study various financial ratios are used to examine the impact of merger on performance of Bank. Financial data of the sample firms was taken and significance of changewas analyzed using p-value and t-value. Although the result was mixed but overall there was an improvement in bank's performance post-merger.

Key Words – Mergers & Acquisitions, Organic, Inorganic, Globalization, Governance.

Introduction

Merger has become the buzz word for growth and sustainability in the current rat race market. Merger and acquisition is the most acceptable mode of growth, firms are using to improve their competitiveness, market share, to reduce business risk and to attain economies of scale in the different geography. Recently government merged 27 public sector banks into 12 banks which include the merger of Oriental Bank of Commerce (OBC) and United Bank of India (UBI) with Punjab National Bank (PNB), amalgamation of Syndicate bank into Canara bank, Allahabad Bank into Indian Bank, Andhra Bank and Corporation bank in Union Bank of India in order to create strong establishments. In this paper we are focusing on India's second largest private sector bank ICICI Bank with the 5,324 branches and 15,688 ATM. This paper focuses on merger of India's largest private sector bank the ICICI bank's merger with Bank of Rajasthan (BoR) which took place on August 13, 2010. The deal was win-win situation for everyone as the BoR employees got the same position in the merged entity. The merger substantially enhanced the combined branch network to over 2500 across the country. This was the third acquisition by the ICICI Bank in the last decade following merger with Bank of Madura (2000-01) and Sangali Bank (2006-07). These mergers improved the branch presence in South India, Maharashtra and North India respectively.

Review of Literature -

Merger and acquisitions are a move in order to attain the bigger size i.e. increased market share, corporate growth, to increase long term profitability which gives them competitive advantage. PramodMantravadi and A Vidyadhar Reddy (2008) in his paper examined the impact of merger and acquisition in various industries and found variations in the results across different industries, but banking sector seems to be benefitted with the merger.

In recent past in Indian Banking industry, there is a storm of merger like ING Vyasa merged with Kotak Bank, SBI and its Associates, Punjab National Bank, Oriental Bank of Commerce and United Bank, Canara Bank and Syndicate Bank, Union Bank of India, Andhra Bank and Corporation Bank; and Indian Bank and Allahabad Bank. These mergers have impact on country's economy too. Various studies has been done to analyse the impact of mergers and acquisitions on the performance of Banks. All studies give mixed reviews about the performance post-merger.

Few studies say that merger has positive correlation with the financial performance of bank. DrNeenaSinha, Dr K. P. Kaushik, MsTimcyChaudhary (2010) examined the effect of M&A on financial efficiency of the banks and concluded that there is significant correlation between mergers and financial performance of the banks using ratio analysis and Wilcoxon signed rank test. Also significant change in the shareholders earning was reported but no significant change in the liquidity position was witnessed.

Financial ratios are directly affected positively and negatively with the merger. Ratios, efficiency are the few parameters that are constantly studied to analyse the performance after merger. Azeem Ahmad khan (2011) studied the changes in the performance pre and post-merger using ratio analysis and t-test and suggested that merged banks obtained efficiency and gain after the merger and also passed the benefits to the shareholders.

Ritesh Patel and Mitesh Patel (2015) in his paper examined the pre and post-merger performance by applying mean score and paired sample t-test and concluded that merger was beneficial for both the banks.

In some research it was found that Private and public sector reflect different effect after the merger. Madhurimalhotra and AnandBhartiya (2014) in their paper studied sample of 16 indian private and public sector banks.public sector banks witnessed decline in performance, showed inefficiency and rising Non-Performing assets while private sector showed an increasing trend in the profit margins post acquisition.

JignaChandrakantTrivedi (2013) in her paper used various test like Wilcoxon Signed rank test and skewness and kurtosis for examining the normality of data pre and post-merger. She concluded that data is not normally distributed but M&A are useful tool for banks and shareholder’s wealth maximization.

Research Methodology -

This research is based on secondary data sourced from various journals, bank websites, research papers etc. In the study various ratios are used to analyze the effect of merger. Variables taken into consideration are Credit to Deposit ratio, Operating Expenses to Total Income, Net Profit to Total Funds, Return on Assets, Return on Equity, PBDIT to Net Assets and Return on Net Worth. The Pre-merger (2004-2009) and post- merger (2011-2016) value of these ratios are compared. The year of merger (2010) considered as base year and excluded from the evaluation. Time duration to measure the impact of merger is 12 years i.e. 6 years before and 6 years after the merger. Paired t-test method employed to analyze the impact of merger on financial performance of the acquirer the ICICI Bank.

Research Hypothesis-

H1- There is a significant improvement in Credit to Deposit ratio post-merger.

H2 =There is a significant improvement in Operating Expenses to Total Income post-merger.

H3- There is a significant improvement in Net Profit to Total Funds post-merger.

H4- There is a significant improvement in Return on Assets (ROA) post-merger.

H5- There is a significant improvement in Return on Equity (ROE) post-merger.

H6- There is a significant improvement in PBDIT to Net Assets post-merger.

H7- There is a significant improvement in Return on Net Worth post-merger.

Analysis –

Tabel: 1

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	cdricicipre	92.0417	6	4.92937	2.01241
	cdricicipost	100.0733	6	4.55597	1.85997
Pair 2	oetiicicipre	23.3767	6	3.99643	1.63153
	oeticicipost	19.0500	6	0.63151	0.25781
Pair 3	nptficicipre	1.1817	6	0.17509	0.07148
	nptficicipost	1.5567	6	0.18316	0.07477
Pair 4	roaicicipre	1.2133	6	0.18239	0.07446
	roaicicipost	1.6133	6	0.19674	0.08032
Pair 5	roeicicipre	14.8317	6	5.15152	2.10310
	roeicicipost	12.3567	6	1.86207	0.76019
Pair 6	pbnaicicipre	.1983	6	0.03920	0.01600
	pbnaicicipost	.2083	6	0.03656	0.01493
Pair 7	ronwicicipre	14.8317	6	5.15152	2.10310
	ronwicicipost	12.3567	6	1.86207	0.76019

Note: This table contains mean value of ratios, standard deviation and mean error.

Table: 2

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	cdricicipre - cdricicipost	-8.03167	6.08023	2.48225	-14.41248	-1.65085	-3.236	5	0.023
Pair 2	oetiicicipre - oeticicipost	4.32667	4.33981	1.77172	-0.22769	8.88102	2.442	5	0.059
Pair 3	nptficicipre - nptficicipost	-0.37500	0.19756	0.08065	-0.58233	-0.16767	-4.650	5	0.006
Pair 4	roaicicipre - roaicicipost	-0.40000	0.14184	0.05791	-0.54886	-0.25114	-6.908	5	0.001

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Pair 5	roeicicipre - roeicicipost	2.47500	4.42221	1.80536	-2.16583	7.11583	1.371	5	0.229
Pair 6	pbnaicicipre - pbnaicicipost	-.01000	0.07294	0.02978	-0.08654	0.06654	-0.336	5	0.751
Pair 7	ronwicicipre - ronwicicipost	2.47500	4.42221	1.80536	-2.16583	7.11583	1.371	5	0.229

Note: This table contains paired difference and T values and P values.

Table: 3 Results and Interpretation

Parameter	**Premerger Value**	**Post-Merger Value**	**p-value (significant when p< 0.05)**	**Results**
Credit to Deposit ratio	92.0417	100.0733	0.023	There is significant improvement. (Null Hypothesis rejected)
Operating Expenses to Total Income	23.3767	19.0500	0.059	There is no significant improvement. (Null Hypothesis accepted)
Net profit to total funds	1.1817	1.5567	0.006	There is significant improvement. (Null Hypothesis rejected)
Return on Assets (ROA)	1.2133	1.6133	0.001	There is significant improvement. (Null Hypothesis rejected)
Return on Equity (ROE)	14.8317	12.3567	0.229	There is no significant improvement. (Null Hypothesis accepted)
Profit before Depreciation, Interest and Tax	0.1983	0.2083	0.751	There is no significant improvement. (Null Hypothesis accepted)
Return on Net Worth	14.8317	12.3567	0.229	There is no significant improvement. (Null Hypothesis accepted)

Note: This table contains the result and interpretation of the study.

As the above table shows there is significant positive change in Credit to Deposit Ratio as the p-value is lesser than 0.05.There is negative change in operating income to total expenses. In Net Profit to Total Funds and Return on Assets highly significant change was observed. Return on Equity and Return on Net Worth showed negative impact of merger. There is a positive change in Profit before Depreciation, Interest and Tax but the changes are not significant.

Conclusion-

In last twenty years various banks have been merged either voluntarily or by government decisions. The decision of mergers was taken in order to boost up and revive the weaker unit and to accomplish various other motives, as mentioned in the introduction part. In most of the cases the merger decision remained successful as the performance improved post-merger. This paper, which focused only on ICICI Bank and Bank of Rajasthan merger showed the mixed results. Some ratios showed significant improvement and some remained unchanged and negative. The overall performance of ICICI Bank increased positively.

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