FINANCIAL PERFORMANCE OF INDIAN BANKING SECTORS DURING PRE AND POST MERGERS AND ACQUISITIONS

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ABSTRACT

Mergers and acquisitions (M & A) have been a very important market entry strategy as well as expansion strategy. This present era is known as competition era. In this era companies to avoid the competition, go for merger, and enjoys sometimes monopoly. Liberalization and technological advances are increasingly pushing the banking sector towards greater globalization to improve the operational flexibility of Banks, which is crucial in the competitive environment that banks operate in. The present study is mainly based on secondary data. In order to evaluate financial performance, Ratio analysis, Standard Deviation and't' test have been used as tools of analysis.

The researcher has found that overall the merger and acquisition does not effect of the financial position of banks except when a weaker & non-viable banks are merged with a financially sound and profit making bank in such case the profitability of the later bank will be affected.

Keywords: Merger & Acquisition, Corporate Restructuring, Financial Performance, Ratio Analysis

INTRODUCTION

The concept of mergers and acquisitions is very much popular in the current scenario. More, so it is significantly popular concept after 1990s where India entered in to the Liberalization, Privatization and Globalization (LPG). The winds of LPG are blowing over all the sectors of the Indian economy but its maximum impact is seen in the industrial sector. It caused the market to become hyper-competitive, to avoid unhealthy competition and to face international and multinational companies.

Meaning and Definition of Merger and Acquisition

Merger is defined as combination of two or more companies into a single company where one survives and the other lose their corporate existence. The survivor acquires the assets as well as liabilities of the merged company or companies.

According to the Oxford Dictionary the expression merger or amalgamation means "Combining of two commercial companies into one" and "Merging of two or more business concerns into one" respectively. A merger is just one type of acquisition. One company can acquire another in several other ways including purchasing some or all of the company's assets or buying up its outstanding share of stock.

To end up the word "**MERGER**" may be taken as an abbreviation which means:

M ➔ Mixing

E ➔ Entities

R ➔ Recourses for

G ➔ Growth

E ➔ Enrichment and

R ➔ Renovation.

Acquisition

Acquisition in general sense is acquiring the ownership in the property. Acquisition is the purchase by one company of controlling interest in the share capital of another existing company. This means that even after the takeover although there is change in the management of both the firms retain their separate legal identity.

Mergers Vs Acquisition

Although these are often used as synonymous, the terms 'merger' and 'acquisition' mean slightly different things. When a company takes over another one and clearly becomes the new owner, the purchase is called an acquisition. From the legal point of view, the target company ceases to exist and the buyer 'swallows' the business and stock of the buyer continues to be traded.

In the pure sense of the term, a merger happens when two firms, often about the same size, agree to go forward as a new single company rather than remain separately owned and operated. This kind of action is more precisely referred to as a "merger of equals". Both companies' stocks are surrendered and new company stock is issued in its place.

OBJECTIVES OF MERGER AND ACQUISITIONS IN BANKING INDUSTRY

The main objectives behind merger and acquisitions may be highlighted as under:

- To restrict competition and prevent overcrowding of banks
- To expand market without competing.
- To gain economies of scale with less amount of investment.
- To utilize under and unutilized resources so that the banks can compete the foreign banks in global era.

Benefits of merger and acquisition

Banks

The fruits of Merger and Acquisitions for banks are reducing unhealthy competition amongst banks, sound financial position, huge business, large assets, benefits of core banking solutions, networking and technological advancements at low cost, low cost of maintenance and human resource management, large profits, larger customer coverage. Moreover, recapitalisation of weaker banks in the lights of Basel – II Norms.

Customers

Customers are also benefited by better and faster services, competitive pricing of all products and services, increased number of branches, improved and upgraded technology, etc.

RBI

Through Merger and Acquisition RBI is benefited by better monitoring, interaction with less number of CEOs, easy implementation of policy and convenience in surveillance due to better and updated technology, etc.

Depositors

Depositors have better investment opportunity, negotiable environment, higher dividends, etc.

Other related parties

They get Indian banks of International Standards, sound and large Indian Banks, no risk in performance of contracts and higher dividends, better and huge deals with one banks rather than two or more etc

MERGER AND ACQUISITION IN BANKING – PRESENT SCENARIO

In the LPG era, the proposal to grant autonomy to bank's board could go a long way to improve the operational flexibility of Public Sector Banks, which is crucial in the competitive environment that banks operate in. the urgency of granting autonomy is so acute that unless the public sector banks managements are given adequate powers to speedily respond to the new competitive and information technology challenges, these banks may not be viable in the long run.

The Government also proposes to recapitalize weak banks. The recapitalisation of weak banks has not yielded the expected results in the past and hence should be linked to a viable and time bound restructuring plan. The process of merger and acquisition is not new for Indian banking – Times Bank merged with HDFC Bank, Bank of Madura with ICICI Bank, Nedungadi Bank Ltd with Punjab National Bank and most recently Global Trust Bank with Oriental Bank of Commerce.

RESEARCH METHODOLOGY

Research Objectives

The present research has been aimed at review operating performance of Bank going for expansion through mergers and acquisitions. The broad objective of this study is to measure the impact of mergers and acquisitions on financial performance of selected Banks under study.

Methodology

The data was collected for selected units for a period of five years before the merger and five years after the merger taking the merger year as base year. In the pre-merger years, the data consisted only of the acquiring firm and after the merger the data is that of the merged entity. Using t-test (Paired two samples for means), the pre-merger and post-merger performance was tested.

Research Hypothesis

On the basis of data collection, the researcher has identified the following broader hypothesis for the study:

H_0- There would be no significant difference in financial performance of selected Banks, before and after merger and acquisition (Ho = $\mu_1 = \mu_0$).

H_1- There would be significant difference in financial performance of selected Banks, before and after merger and acquisition (H1 = $\mu_1 \neq \mu_0$).

Tools of Analysis

The present study has analyzed the financial performance of selected Banks. In order to evaluate the financial performance tools like, ratio analysis, mean, standard deviation and student paired "t" distribution test has been used.

Period of the study

The present study is mainly intended to examine the financial performance of merged Banks five years before merger and five years after merger.

DATA COLLECTION AND ANYALYSIS

Data Collection

Data on key financial ratios depicting the operating performance for Upto five years after the acquisition year and two years before the acquisition year was extracted from the database of EMIS. The data relating to the selected units under study have been obtained from prospectus, pamphlets and annual reports of the selected units.

Data Analysis

Pre-merger and post-merger performance ratios were estimated and the averages computed for the selected units, during five years before merger and five years after merger. Average pre-merger and post-merger financial performance ratios were compared to see if there was any statistically significant change in financial performance due to mergers, using Student paired "t" distribution test.

Financial Analysis

Table 1. Analysis of Different Profitability Ratios of Banks for the Study Period

No.	Ratio	Mean (D)		S.D.(σ)	t_c	t_t	Result
		ICICI	HDFC				
1.	**RONCE**						
	Before	6.48	7.01	1.05	0.43	2.776	Ho
	After	5.64	6.31	2.43	0.33	2.776	Ho
2.	**ROI**						
	Before	16.95	17.00	4.69	0.01	2.776	Ho
	After	17.82	14.25	7.83	0.56	2.776	Ho
3.	**NPR**						
	Before	12.28	21.87	3.04	3.85	2.776	H1
	After	14.35	17.80	2.55	1.65	2.776	Ho
4.	**ROTA**						
	Before	0.86	1.72	0.44	2.39	2.776	Ho
	After	0.89	0.92	0.40	0.09	2.776	Ho
5.	**SETTA**						
	Before	1.66	4.58	1.83	1.95	2.776	Ho
	After	0.42	1.22	0.26	3.75	2.776	H1
6.	**ROSHF**						
	Before	14.02	20.75	5.10	1.61	2.776	Ho
	After	14.08	18.52	6.65	0.81	2.776	Ho
7.	**GPR**						
	Before	16.23	26.31	2.04	3.06	2.776	H1
	After	18.62	19.96	2.09	2.64	2.776	Ho
8.	**OPR**						
	Before	0.96	1.92	0.85	2.39	2.776	Ho
	After	0.56	0.62	0.42	0.09	2.776	Ho

In the above table no. 1, the researcher has calculated averages, standard deviation of different ratios like return on total assets, shareholder's equity to total asset ratio, return on shareholder's fund, return on capital employed, return on investment and net profit ratio for three years before merger and three years after the merger for the banks ICICI and HDFC. The different hypotheses for the T-tests are as under:

Ho = $\mu_1 = \mu_0$

H1 = $\mu_1 \neq \mu_0$.

In the above table the researcher has calculated the T-test for different ratios. In majority of cases the calculated value of 'T' is lower than the tabulated value of 'T', which means that there is no significant effect of merger and acquisition on the different ratios showing profitability of ICICI Bank and HDFC Bank but in the case of shareholder's equity to total assets ratio and net profit ratio the calculated value of 'T' is higher than the tabulated value of 'T', that means there is significant effect of merger and acquisition on shareholder's equity to total asset and net profit ratio of ICICI Bank and HDFC Bank.

FINDINGS

- There is no effect of merger and acquisition on return on total assets, return on capital employed, return on investment and return on shareholders' fund of ICICI Bank and HDFC Bank.
- There is significant effect of merger and acquisition on net profit and shareholders' equity to total assets of sampled banks.

LIMITATIONS

The study is based on secondary data collected from several websites. The limitations of secondary data, if any, will also influence study. The researcher has also modified some of the formula used in the study. The arbitrariness, if any, in the modification of the formula will also influence the study.

CONCLUSION

It is evident from the above analysis both the hypothesis are not fully accepted. The conclusion emerging from the point of view financial evaluation is that the merging companies were takeover by companies with reputed and good management. Therefore, it was possible for the merged firms to turnaround successfully in due course. However it should be tested with a bigger sample size before coming to a final conclusion.

Abbreviation

M & A	:	Merger and Acquisition
OPR	:	Operating Profit Ratio
GPR	:	Gross Profit Ratio
NPR	:	Net Profit Ratio
RONCE	:	Return on Net Capital Employed
ROSHF	:	Return on Shareholder's funds
ROI	:	Return on Investment
ROTA	:	Return on Total Assets
Tc	:	Calculated value of 'T'
Tt	:	Table value of 'T'

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