MERGERS IN INDIAN BANKING INDUSTRY: A CASE STUDY OF ICICI Bank and Bank of Rajasthan

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ABSTRACT

Mergers and Acquisition have become very popular throughout the world in the recent times. This has become popular due to globalization, liberalization, technological developments and intensely competitive business environment. Mergers and acquisition are a big part of corporate finance world. This process is extensively used for restructuring the business organization. The present paper studies the reasons for the merger of ICICI bank and Bank of Rajasthan. The aim of the paper is to study the impact of merger on the operating profit of the ICICI Bank. The analysis consists of two phases first is the pre-merger and second is the post-merger.

Keywords: Profitability; Efficiency; Merger and Acquisitions; Financial; Ratios

INTRODUCTION

In today's global marketplace, banking organizations have greatly expanded the scope and complexity of their activities and face an ever changing and increasingly complex regulatory environment. It has been realized globally that M&A is only way for gaining competitive advantage domestically and internationally and as such the whole range of industries are looking for strategic acquisitions within India and abroad. Today, the banking industry is counted among the rapidly growing industries in India. In the last two decades, there has been paradigm shift in banking industries. A relatively new dimension in the Indian banking industry is accelerated through M&A. In order to attain the economies of scale and also to combat the unhealthy competition Consolidation of Indian banking sector through M&A's on commercial considerations and business strategies are the essential pre-requisite. Consolidation has been a significant strategic tool and has become a worldwide phenomenon, driven by advantages of scale-economies, geographical diversification, and lower costs through branch and staff rationalization, cross-border expansion and market share concentration. The new Basel II norms have also led banks to consider M&As.

MERGER OF BANKS IN INDIA

Merger can be defined as a mean of unification of two players into single entity. Merger is a process of combining two business entities under common ownership. According to Oxford Dictionary the expression "merger means combing two commercial companies into one"
Bank merger is an event of when previously distinct banks are consolidated into one institution (Pilloff and Santomerro, 1999).
A merger occurs when an independent bank loses its charter and becomes a part of an existing bank with one headquarter and unified branch network (Dario Farcarelli 2002)
Merger occurs by adding the active(bidder) bank assets and Liabilities to the target(Passive)banks balance sheet and acquiring the bidder‟s bank name through a series of legal and Administrative measures.
Merger and Acquisition in Indian banking sectors have been initiated through the recommendations of Narasimham committee II. The committee recommended that "merger between strong bank / financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts
and have "force multiplier effect"

List of M&As in Indian Banking Industry Post-Reforms

Date / Year	Acquirer	Target Bank
September 4, 1993	Punjab National Bank	New Bank of India
1993-1994	Bank of India	Bank of Karad Ltd
January 1, 1996	State Bank of India	Kashinath Seth Bank
April 8, 1997	Oriental Bank of Commerce	Punjab Co-op Ltd
April 8, 1997	Oriental Bank of	Bari Doab Bank Ltd

	Commerce	
June 3, 1999	Bank of Baroda	Bareilly Co-op Ltd
December 22, 1999	Union Bank of India	Sikkim Bank Ltd
February 26, 2000	HDFC Bank Ltd	Times Bank Ltd
March 10, 2001	ICICI Bank	Bank of Madura
2001-2002	Standard Chartered Bank	Grindlays Bank
May 3, 2002	ICICI Bank	ICICI Ltd
June 20, 2002	Bank of Baroda	Banaras State Bank Ltd
February 1, 2003	Punjab National Bank	Nedungadi Bank Ltd
June 25, 2004	Bank of Baroda	South Gujarat Local Area Bank
August 14, 2004	Oriental Bank of Commerce	Global Trust Bank
April 2, 2005	IDBI Ltd.	IDBI Bank Ltd
October 1, 2005	Centurion Bank Ltd	Bank of Punjab
September 2, 2006	Federal Bank	Ganesh Bank of Kurandwad
October 3, 2006	IDBI Ltd.	United Western Bank
March 31, 2007	Indian Overseas Bank	Bharat Overseas Bank
April 19, 2007	ICICI Bank	Sangli Bank
August 29, 2007	Centurion Bank of Punjab	Lord Krishna Bank
May 23, 2008	HDFC Bank Ltd.	Centurion Bank of Punjab Ltd.
, 2008	State Bank of India	State Bank of Saurashtra
August 13, 2010	ICICI Bank Ltd	The Bank of Rajasthan
August 26, 2010	State Bank of India	State Bank of Indore
November , 2014	Kotak Mahindra Bank	ING Vysya Bank
April 1, 2017	State Bank of India	1. State Bank of Bikaner and Jaipur
"	"	2. State Bank of Hyderabad
"	"	3. State Bank of Mysore
"	"	4. State Bank of Patiala
"	"	5. State Bank of Travancore
"	"	6. Bharatiya Mahila Bank

REVIEW OF LITERATURE

Merger of two weaker banks or merger of one healthy Bank with one weak bank can be treated as the faster and less costly way to improve profitability then spurring internal growth (Franz, H. Khan 2007). Mergers also help in the diversification of the products, which help to reduce the risk. Anand Manoj & Singh Jagandeep (2008) studied the impact of merger announcements of five banks in the Indian Banking Sector these mergers were the Times Bank merged with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the Global Trust Bank merged with the Oriental Bank of commerce and the Bank of Punjab merged with the centurion Bank. Mehta Jay & Kakani Ram Kumar (2006) stated that there were multiple reasons for M&A's in the Indian Banking Sector and its simply because of the strict control regulations had led to a wave of M&A's in the Banking industry and states many reason for merger in the Indian Banking sector. Kuriakose Sony et al., (2009), focused on the valuation practices and adequacy of swap ratio fixed in voluntary amalgamation in the Indian Banking Sector and used swap ratio for valuation of banks, but in most of the cases the final swap ratio is not justified to their financials. Kuriakose Sony & Gireesh Kumar G. S (2010) in their paper, assessed the strategic and financial similarities of merged Banks, and relevant financial variables
of respective Banks were considered to assess their relatedness. The result of the study found that only private sector banks are in favour of the voluntary merger wave in the Indian Banking Sector.

IMPACTS OF MERGER & ACQUISITIONS

1. Growth
2. Synergy
3. Purchase Of Assets At Bargain Prices
4. Enhanced Managerial Skills
5. Acquiring New Technology
6. Broader Array Of Products
7. Income Tax Advantages
8. Own Developmental Plans
9. Strategic Purpose:
10. Corporate Friendliness

OBJECTIVES OF THE RESEARCH

(i)To analyze the impact on the operating performance of mergers and acquisitions in banking sector post merger and acquisition.
(ii)To evaluate the impact on shareholders wealth of mergers and acquisitions in banking sector post merger and acquisition.
(iii)To give recommendations for prospective merger and acquisitions in banking industry.

STATEMENT OF THE PROBLEM

The main problem area of the research study is related to the subject of mergers and acquisitions. The research attempts to investigate whether mergers and acquisitions have an impact on the operating performance of the acquiring firm and does it create wealth for the shareholders. This problem stems from the fact that there have been mergers and acquisitions which have created wealth only for the acquiring firms and few have created wealth for only the target firms. Likewise mergers and acquisitions have sometimes benefitted the shareholders of only the target company and vice versa. By way of this research the study is trying to find out whether mergers and acquisitions impacts the operating performance of the acquiring firm and enhances shareholders wealth.

RESEARCH METHODOLOGY

Hypothesis of the study

Ho = There would be no significant effect of Mergers and Acquisition on financial performance on selected Banks.
H1 = There would be significant effect of Mergers and Acquisition on financial performance on selected banks.
Ho = $\mu 1 = \mu 0$
H1 = $\mu 1 \neq \mu 0$

DATA COLLECTION

The task of data collection begins after the research problem or the objective of research has been defined. There are two kinds of data that is collected. One is primary, which is original in character that is collected for the first time. The other one is secondary, which has already been collected and needs only to be compiled.
For this research, I have chosen the secondary sources of data collection. For the purpose of research we have taken the financial statements of BOR & ICICI Bank. For this research data have been taken for pre-merger Analysis from 2008 to 2010 for both the banks and for post-merger analysis data has been taken till 2011 for ICICI Bank.

METHODOLOGY

The empirical study analyses the financial data of the merged banks before and after the merger. Since the merger took place in May 2010 but implemented in August 2010 so, the financial analysis has been done for the year 2008 to 2010 (pre-merger) and from 2011 to 2014 (post-merger). The analysis has been done on the basis of key financial ratios of both the banks.

Financial ratios has been measured for pre-merger and post-merger for both the banks. The following are the three parameters on which the analysis has been done

a) Liquidity parameters

b) Solvency parameters

c) Profitability parameters

Pre-merger analysis of ICICI Bank and Bank of Rajasthan

a) **Liquidity Parameters (Short term solvency):** Liquidity ratios measure the short-term solvency, i.e. the firm's ability to pay its current dues. In the present study current ratio and quick ratio is used to check the liquidity position of the firm. A current ratio of 2:1 is considered as an ideal one for a sound business. A very high ratio is not good sign as it will result in idleness of funds. On the other hand a very low ratio would mean inadequacy of working capital.

Current Ratio	2008	2009	2010
ICICI Bank	0.11	0.13	0.14
BOR	0.01	0.01	0.02

ICICI is maintaining its current position in the constant way. In case of BOR the current ratio is also increasing.

Quick Ratio	2008	2009	2010
ICICI Bank	6.42	5.94	14.7
BOR	9.6	8.8	7.5

The above shows that there is a high liquidity in BOR as compared to ICICI bank in the year 2008 and 2009. It shows that BOR have more cash and cash equivalents/current assets as compared to their current liabilities. But in the year 2010 the Current position of ICICI bank is much better than BOR

b) **Solvency parameters:** Solvency parameters indicate the ability of an enterprise to meet its long term requirements. In this study debt-equity ratio is used to measure the solvency position.

Total Debt/Equity Ratio	2008	2009	2010
ICICI Bank	5.27	4.42	3.91
BOR	26.15	23.6	27.82

The debt portion is more in case of BOR. In the year 2008 the Debt/equity ratio was 26.15 then it went down in the year 2009 to 23.60. In the year 2010, the debt equity ratio is increased to 27.82. It means that ICICI is doing good.

c) **Profitability Parameters:** The main objective of business is to earn profit. In this study Net Profit margin, Return on net worth is used to measure the profitability position of the firm.

Net Profit Margin	2008	2009	2010
ICICI Bank	10.51	9.74	12.17
BOR	9.75	7.81	-6.85

In case of ICICI the net profit margin is 10.51 in the year 2008 and it went down in the year 2009 and again it went up in the 2010. In case of BOR the Net profit margin was 9.75 in the year 2008 and it went down in the year 2009 it becomes negative in 2010.

Return on net worth(%)	2008	2009	2010
ICICI Bank	8.94	7.58	7.79
BOR	21.75	18.29	-18.86

In case of ICICI banks the return on net worth is decreasing in the year 2009 and increasing in the year 2010. But in case of BOR it is decreasing in the year 2009 and it went negative in the year 2010.

EPS	2008	2009	2010
ICICI Bank	37.37	33.76	36.1
BOR	8.57	7.3	-6.33

In case of ICICI banks the EPS is decreasing in the year 2009 and increased in the year 2010. But in case of BOR it is decreasing in the year 2009 and it went negative in the year 2010.

Year	2011	2012	2013	2014
Current Ratio	0.11	0.13	0.14	0.11
Quick Ratio	6.42	5.94	14.7	15.86
Total Debt/Equity Ratio	5.27	4.42	3.91	4.1
Net Profit Margin	10.51	9.74	12.17	15.91
Return on long term funds	62.34	56.72	44.72	42.97
Return on Net Worth	8.94	7.58	7.79	9.35
EPS	37.37	33.76	36.1	44.73

Post merger results are satisfactory. The liquidity position i.e the quick ratio has increased after merger. Debt equity ratio is also improving, Net Profit margin is increasing year by year. Return on net worth has been increased after merger and the EPS has taken a good move after merger. Hence, the merger is good for both the banks.

LIMITATIONS OF THE STUDY

The study is mainly based on secondary data. It was very difficult to find the data related to Bank of Rajasthan. The limitation of Secondary data will also influence the study. And recent changes in RBI guidelines also affect the study. The values of BOR & ICICI bank as per the books were not available and the annual financial statements were also not available.

CONCLUSION

The amalgamation of ICICI bank with Bank of Rajasthan came in to effect on August 13, 2010 when RBI approved the deal. Post merger results are satisfactory. Merger has increased the liquidity and profitability position of ICICI bank. **HR ISSUES** has always being a major concern for the merging firms because the major impact of this merger is on the employment position of employees of BOR. The merger has increased no. of branches and no. of ATM's. Hence, the merger is beneficial for both the banks.

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