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Merger & Acquisition of ICICI Bank with Bank of Rajasthan

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Abstract

The purpose of the present paper is to explore various reasons of merger of ICICI and Bank of Rajasthan. This includes various aspects of bank mergers. It also compares pre and post-merger financial performance of merged banks with the help of financial parameters like, Return on Assets, Net Profit margin, Net worth, Ratio. This performance is being tested on the basis of two grounds i.e., Pre-merger and Post- merger. Finally, the study indicates that the banks have been positively affected by the event of merger.

Key words: - Banking, merger and acquisition, Financial performance, ICICI Bank, Bank of Rajasthan.

Introduction: -

In banking sector, merger and acquisition have the capacity to ensure efficiency, profitability and synergy. They are controlled or regulated by the apex financial authority of the country. For example: the merger and acquisitions in the banking sector India are overseen by the reserve bank of India.

The term merger can be defined in broad and narrow contents. This board definition of merger characterizes it as a takeover in which the strong banks take over the weak banks. Acquisition are very different from the merger to some extend but they always go along because both pursue similar goals. (McClure,2009). However, many authors put a clear parallel between the two concepts. An acquisition is the takeover of the ownership and management control of one company by another (Coyle, 2000) in which the buyer purchases an asset such as plant a division or even an entire company (Sherman & hart,2006)

In the banking sector mergers and acquisition have become very popular because it helps them to achieve the cost reduction through economies of scale, economy of scope, rationalization of the man power, possible reduction in tax obligation etc. bank merger can increase value by reducing the costs or by increase I the revenue. Merger and acquisition help bank to reduce the credit risk as when they will merger with the other bank they will then be operating in the wider geographies or product range. If they are merging, they will have cheaper sources of inputs with the increase in the bargaining power with the vendors and suppliers and will also have the ability to enter the new businesses with the reduced cost as compared to a new set up.

Literature Review:

1. Achaean et al. (1997) found little change in cost efficiency but an improvement in profit efficiency of large US banks from 1980-90 following M&A, especially when both merger participants were relatively inefficient prior to the merger. Also, after merging, banks tended to shift their portfolios to take on more loans and fewer securities. They attributed gains in profit efficiency to the benefits of risk diversification as larger banks have more diversified loan portfolios and lower equity-asset ratios.

2. Landerman (2000) explored potential diversification benefits to be had from banks merging with non-banking financial service firms. Simulated mergers between US banks and non-bank financial service firms shows that diversification of banks into insurance business and securities brokerage were optimal for reducing the probability of bankruptcy for bank holding company.
price reactions to mergers and acquisitions activities taken place in banking industry with special reference to private and public sector banks. The author has found from the analysis that the share prices are market sensitive. From the financial analysis it was observed that majority of the banks went for branch expansion and this has affected profitability to some extent and it resulted in unhealthy competition among the players.

3. Sharma (2010) examined M&A in the United States banking industry involving the formation of mega banks by using event study methodology and accounting performance techniques to determine the valuation effects of structural changes. Acquisitions that concentrated on increasing the diversity of the business earned the highest abnormal returns. However, other types of mergers neither created nor destroyed shareholders value.

4.Raiyani J. R. (2010) uses CAMEL rating to investigate the effect of merger on efficiency and productivity of Indian banks. The financial data for five years before the merger and five years after the merger of 6 banks has been analyzed. The study used t-statistic also to measure the changes in financial performance pre- and post-merger period. The research concluded that the private sector merged banks were in advantage compared to public sector merged banks in terms of profitability and liquidity, but the case was opposite in terms of capital adequacy and NPAs. Nalwaya N. &Vyas R. (2010) in their paper, have tried to evaluate the impact of mergers and acquisitions on financial performance and value create of Indian companies by taking example of ICICI and Erstwhile Bank of Rajasthan Ltd. The financial results of both the banks during pre- and post-merger period are compared. The analytical study was done with help of financial ratios and their mean, which concluded that the profitability had improved after the merger resulting in value addition to shareholders. Khan A. (2011) analyzed the various aspects of banking industry's Mergers and Acquisitions in India post liberalization period. The financial performance before and after of merged banks have been compared on the basis of various financial parameters.

Research Methodology

- **Data collection**
- The data is collected from secondary sources such as:
    - Website of the banks
    - Annual reports of the Banks.

Objectives:

To study the impact of Financial performance of ICICI Bank Post merger.

To understand the use of merger & acquisition Strategy in Indian banking industry.

Hypothesis:

- Null (H0): there is no significant difference between pre-merger and post-merger financial performance of ICICI bank
- Alternative (H1) there is significant difference between pre-merger financial performances of ICICI bank

Profile of the Bidder and Target Banks:

ICICI BANK

- ICICI Bank is the second largest bank in India and the biggest in the private sector. It started its operations in 1994 as a new generation private sector bank. ICICI Bank is the first Indian bank to be listed on the New York Stock Exchange with US GAAP accounting and has a worldwide presence including in the UK and Canada.
- **Merger experience:** The bank has been using mergers as a strategy to expand their geographical coverage, increase customer base and to meet regulatory requirements since the year 2000. The present merger with BoR is the 4th acquisition of ICICI Bank. The other deals are:

  ICICI Bank- Bank of Madura in 2000

  ICICI Bank- ICICI Ltd in 2002

  ICICI Bank- Sangli Bank in 2006

- **Focus**: ICICI Bank aims at long-term wealth creation through 'Cs' strategy of Current Account Savings Account (CASA) growth, cost control, credit quality and capital preservation.
- **Size and distribution reach**: The number of branches and ATM counters were 1709 and 5219 respectively at the end of fiscal 2010. The Bank has a total business of 3832222 million as of 31.03.2010 and has 37000 employees with a business per branch of 304 crore.

Bank of Rajasthan

- Bank of Rajasthan is an old private sector bank which has a strong presence in the northern part of India with registered office at Udaipur, Rajasthan. It started its operation in the year 1943.
- **Branch network:** Bank has a branch network of 466 branches out of which 280 were in Rajasthan with 4000 employees. Further, the bank sponsors Mewar Aanchalik Gramin Bank (MAGB) which was established in 1983 under the RRB Act, 1976.
- • **Asset base**: The Bank's asset base and number of customers stands at 173000 million and 3 million respectively as on 31st March 2010.
- **Business:** The total business amounted to 233918 million and the business per branch is 47 crore.
- **Efficiency:** BoR reported a net loss of 102.13 crore in 2009-10 against a profit of 117.71 crore in the previous financial year.

Merger of ICICI Bank with Bank of Rajasthan:

- During the period 2002-2004, through the close relative of the promoter Mr. P K Tayal Bank of Rajasthan acquired the properties in Mumbai. Promoters were under the huge pressure of the Bank of Rajasthan the from the regulatory authorities for the restructure of the bank for variety of problems from year 2009 onwards. BoR controlled by Tayal Group was asked to lessen their shareholding to bring down to 10% from 28% by RBI. As per the SEBI, the promoter's shareholding in the old private sector bank accounted to 55%. On February 26th 2010 the RBI imposed a penalty of 25 lakhs for a series of violations including irregular property deals, actions against money laundering norms, deletion of corporate records from the information systems, irregularities in the accounts of corporate groups, extension of repayment period over permissible limits on intraday overdraft and also the lack of enough credit communities and poor corporate governance. ICICI bank was learnt to indicate that they are willing to pay more than the present market valuation of the Bank of Rajasthan.
- The boards of both the banks on may 23, 2010 approve the merger.
- The reserve bank of India approves the merger of bank of Rajasthan with ICICI bank ltd., India's largest private sector bank.

MERGE HISTORY		
	BANK MERGED WITH	YEAR OF THE MERGER
ICICI BANK	TAKEOVER OF ANAGRAM FINANCE	1998
ICICI BANK	BANK OF MADURA	2000
ICICI BANK	ICICI LTD	2002
ICICI BANK	ACQUIRES RUSSIA'S IVESTITSIONNOKREDITNY BANK	2005
ICICI BANK	SANGLI BANK	2007
ICICI BANK	Bank of Rajasthan	2010

Important dates of the Merger

- 26th Feb 2010 – Due to serious violation penalty of 25 lakhs was imposed on Bank of Rajasthan by RBI
- 8th March 2010 – 100 Entities allegedly holding the shares of Bank of Rajasthan were banned by SEBI
- 18th May 2010 – News of Merger on Newspaper
- 23rd May 2010 – Meeting of Board of Members approved the Amalgamation
- 20th June 2010 – EGM was cancelled by Bank of Rajasthan on Calcutta civil court order
- 21st June 2010 – Meeting of shareholder's convention
- 23rd June 2010 – information to Stock Exchange
- 24th June 2010 – Merger Application was submitted to RBI
- 12th August 2010 – Merger Approved by RBI.

Analysis of Merger:

- ICICI bank approved to merge with the Bank of Rajasthan on 18th May 2010 and the swap ratio was announced at 25:118 which was 25 shares of ICICI bank for 118 shares of the Bank of Rajasthan. The Reserve Bank of India gave their decision to carry on with the merger on 13th August 2010 and by following the sanctioning of the scheme of amalgamation of Bank of Rajasthan with ICICI bank, all the branches of Bank of Rajasthan should start operating as the new entity with effect from August 13th. It was a no cash deal and the value of the deal was 30.41 billion. The deal gave ICICI bank a sizeable presence in the northern Rajasthan.

Value of the deal

Particulars	Swap ratio (Crores)	Outstanding Shares (crores)	Market Capitalization (crores)	Deal Value (crores)
ICICI	25	111	889.35	3041
BoR	118	16	99.5	1597

Source: Annual Reports of the bank and the calculations were based on the secondary data

Data Analysis and Interpretation:

Pre and Post-Merger Performance measurement though Profitability ratios:

	Net Profit Margin	Return on Assets	Return on Equity
Pre-Merger			
2007-08	31.10	1.10	13.4
2008-09	41.58	1.10	11.1
2009-10	37.58	1.00	7.70
Total [A]	110.30	3.2	32.2
Post-Merger			
2010-11	40.25	1.1	7.90
2011-12	51.51	1.34	9.58
2012-13	64.65	1.50	11.09
2013-14	83.25	1.66	12.94
2014-15	98.10	1.76	13.73
2015-16	111.75	1.86	14.3
2016-17	97.26	1.49	11.32
Total [B]	546.77	10.71	69.54
Grand Total [A+B]	657.07	13.91	101.74

Interpretation:

The highest pre- merger performance of return on equity was recorded 13.4:1 in the year 2007-08 as against lowest return on equity was recorded 7.70:1 in the year 2009-10. Further the post- merger performance, the highest return on equity was recorded 13.73:1 in the year 2014-15. As against lowest return on equity was recorded 7.90:1 in the year 2010-11. To be conclude that post- merger financial performance is high or better compared to the pre - merger financial performance of profitability ratios in ICICI Bank Ltd.

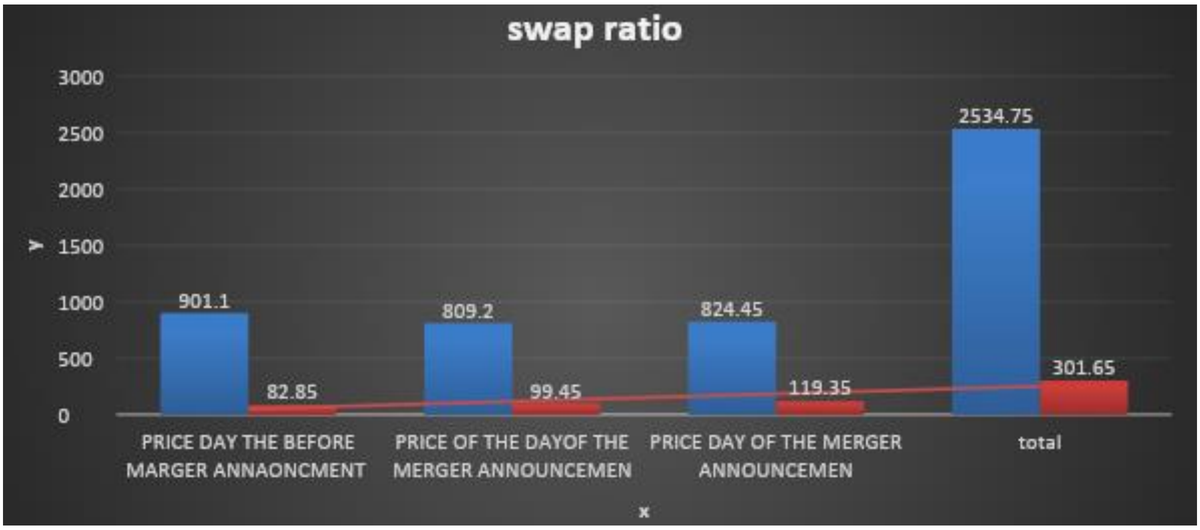
Pre- and Post-Merger Performance through Growth ratios:

Growth Ratios	Earnings Per Share (EPS)	Dividend Per Share (DPS)
Pre-Merger		
2007-08	34.84	10.00
2008-09	39.4	11.00
2009-10	33.8	11.00
Total [A]	108.04	32.00
Post-Merger		
2010-11	36.1	12.00
2011-12	45.27	14.00
2012-13	56.11	16.50
2013-14	72.20	20.00
2014-15	84.99	23.00
2015-16	19.32	5.00
2016-17	16.75	5.00
Total [B]	330.74	95.50
Grand Total [A+B]	439.14	127.50

Interpretation:

As per above data it is to be conclude that post-merger financial performance are high or better compared to the pre-merger financial performance of growth ratios of ICICI Bank Ltd.

ICICI BANK	BANK OF RAJASTHAN	
Swap ratio	1:4.72 (25:118)	
Price day before the merger announcement	901.10	82.85
Price of the day of the merger announcement	809.20	99.45
Price day after the merger announcement	824.45	119.35

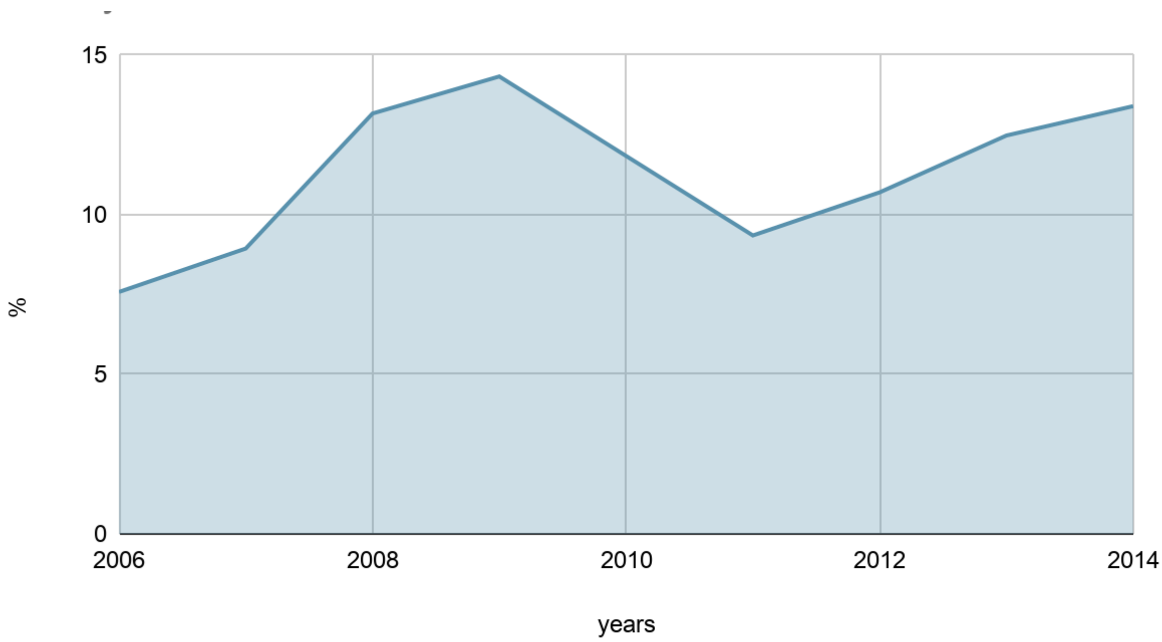


The above chart shows the swap ratio before and after merger of banks.

Net Worth Ratio

Pre-merger		Post-merger	
Years	%	Years	%
2006	7.58	2011	9.35
2007	8.94	2012	10.7
2008	13.17	2013	12.48
2009	14.33	2014	13.4

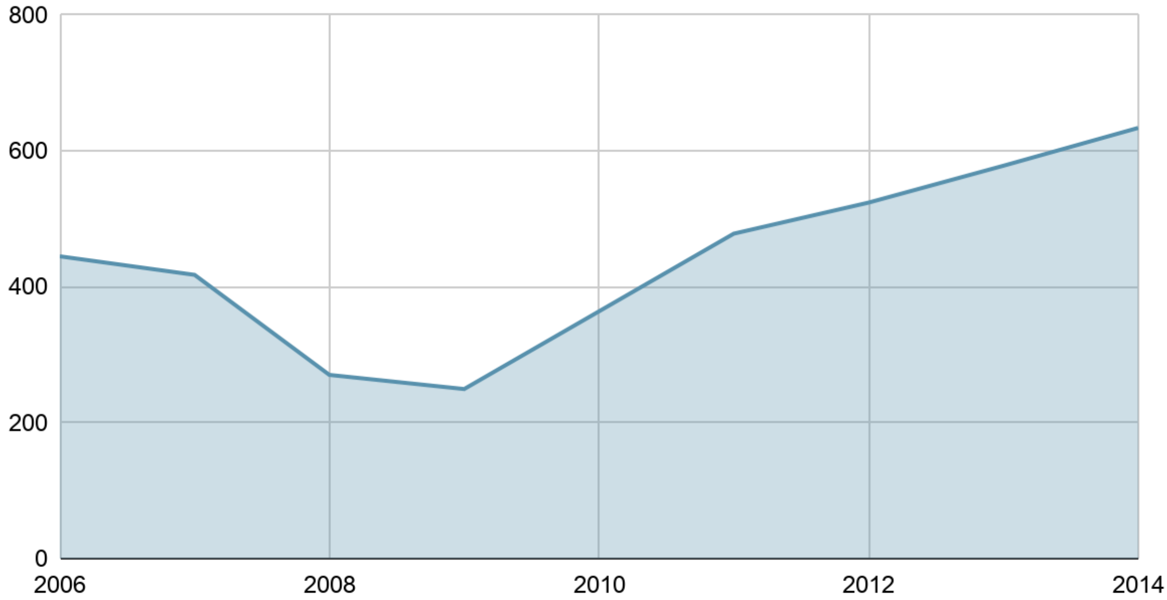
The above table shows the net worth of ICICI bank before and after merger.



From the above graph we can say that the merger affected the net worth of icici bank a lot in the year of 2010 and 2011 the down fall in the net worth. After the merger shock effect icici bank starts recovering the net worth ratios.

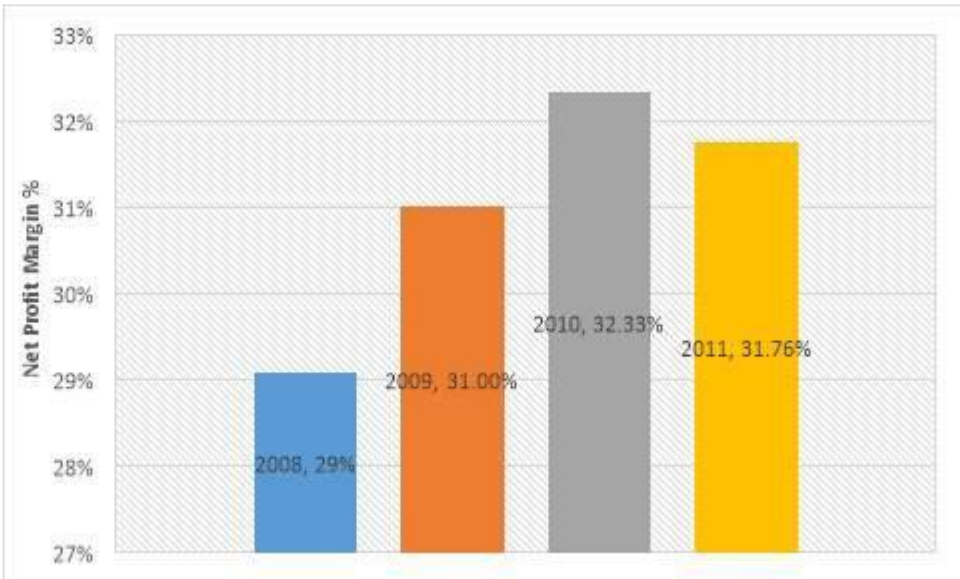
Return on Assets Ratio

Pre merger		Post merger	
Years	%	Years	%
2006	444.94	2011	478.31
2007	417.64	2012	524.01
2008	270.37	2013	578.21
2009	249.55	2014	633.92



The above table shows the pre merger and post merger Return on Assets Ratio.There is high and constant growth in the ROR of icici bank after the merger happen . Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue.

Net profit margin



The Graph above shows the net profit margin between the year 2008 to year 2011 pre-merger and post-merger period.

Findings

This Study Found that the BOR did many mistakes and manipulation in their transaction tayals have been under pressure to sell this bank due to all this it had merged with ICICI bank which is ranking second place in Indian banking sector. The ICICI Bank financial performance had increased.

Conclusion

Merger is helpful for survival of weaker banks by merging into larger bank. This study shows the financial performance of ICICI post-merger with Bank of Rajasthan in terms of Credit to Deposit, Capital Adequacy, Return on Assets, Net Profit Margin and Return on net worth ratios mean values had increased. Hence it concluded that there is significant difference in financial performance.

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