RESEARCH ARTICLE OPEN ACCESS

A study on the impact of Mergers and Acquisitions in Indian Banking Sector

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Abstract:

Mergers and acquisitions are a normal occurrence in today's world economy, and they are a powerful vehicle for growth and development. It does, however, include a number of problems and obstacles that must be overcome, making it a challenging success story at times. Many banks tend to be preparing for the arrival of interstate banking by forming holding companies or forming joint branching agreements. Commercial bank mergers have increased dramatically in recent years, fueled by deregulation, expense, and risk factors. This research project aims to investigate the effects of mergers and acquisitions with reference to the Indian banking industry. Pre-merger and post-merger analyses of core financial metrics unique to banks were used to test the chosen factors, such as Return on Assets, Capital Adequacy Ratio, Return on Equity, Net Interest Margin, and Loan-to-Assets Ratio. The paper highlights the merits and limitations of bank mergers.

The statistical tools and techniques used are ratio analysis, growth rate, graphs, and percentage change. Tables, charts, and MS- Excel are also used for analysis purposes. The required data will be collected from secondary sources. The study concluded that after the merger there is an improvement in some of the parameters of the banks.

Keywords **—MERGERS & ACQUISITION, INDIAN BANKING SECTOR, FINANCIAL PERFORMANCE, RATIO ANALYSIS**

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INTRODUCTION

In terms of structure, roles, resource mobilization, socio-economic position, challenges, and solutions, the Indian banking system has undergone many changes since 1992. Since 1992, the Indian banking system has advanced from a highly regulated environment in terms of various parameters such as branch, location, the interest rate on deposits and advances, priority sector lending, and so on, to a highly competitive environment. Profitability was not considered a significant yardstick to evaluate the performance of banks, especially public sector banks, prior to the reform era. However, after policy proposals have been implemented, commercial banks' philosophy, attitudes, and operations have all changed dramatically. It will be

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useful to research the major changes in the banking sector during the post-reform era in order to understand the evolving position of commercial banks and the difficulties and challenges they are currently facing.

The mechanism of restructuring by mergers and acquisitions is one such trend that has had a direct effect on the banking system. In reality, M & A allows banks to pool their capital, lower intermediate costs, extend distribution channels and increase their chances of achieving economies of scale in their operations. These innovations are likely to have major consequences for the financial system's operational efficiency and profitability.

As a result, it is crucial to consider how the banking sector has reacted to new problems, as well as which banks have done better than others through this time of transformation, from both a managerial and policy viewpoint.

Motives for mergers

- Value creation-A merger of two corporations can be undertaken to maximize the equity of their owners.
- Diversification-Mergers are often performed for the purpose of diversification. An organization might use a merger to diversify its activities by entering new markets or providing new goods or services, for example. Additionally, it is common for a company's management to arrange a takeover agreement in order to diversify risks associated with the company's activities.
- Acquisition of assets-A merger may be driven by a need to procure assets that are not available by other means.

Enhancement of financial capability-Any business has the maximum financial potential for financing its activities, whether by debt or stock markets. If a company's financial potential is insufficient, it can combine with another. As a result, a combined company would have more financial resources to invest in potential market growth activities.

IMPORTANCE OF THE RESEARCH

The purpose of this research work is to evaluate the impact of Mergers & Acquisitions on the performance of public sector banks in India. The concept of Mergers & Acquisitions will be explored in an in-depth manner in order to enable the readers and future researchers to have a better comprehension of the research topic. When two independent organisations join together to form a single, combined entity, this is known as a merger. An acquisition, on the other hand, is the purchase of one company by another. In this context, the major reason behind developing this research is to provide in-depth information about the major impact of mergers and acquisitions on the performance of the public sector banks in India. In addition to this, this research will also include an analysis of various core financial metrics such as net profit margin, earnings per share, return on asset, capital adequacy ratio, return on equity and net interest margin. It also highlights the merits and demerits of bank mergers.

It has been observed that most of the work has been done on trends, policies and their framework, human aspects which needed to be anticipated, whereas profitability and financial aspects have not been given much importance. Also, there are limited studies available with respect to the research context and some existing studies are lacking in exhibiting detailed information about the context. In this relation, this research will focus on bridging the existing research gap by presenting more detailed, valid, and relevant information with a greater focus on the Indian banking sector in the post-liberalization regime. Moreover, this research will also make an important contribution in the managerial field, as different organizations will come to know about the importance of Mergers & Acquisitions for enriching organizational performance and for gaining a competitive advantage in the contemporary business environment.

Mergers and acquisitions are the most common tactic used by businesses to improve and retain their

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market share. This is thought to be a quick and effective way to enter new markets and introduce new technology. As a result, the banking sector has experienced substantial mergers and acquisitions in recent years in order to accomplish bank restructuring. That will also assist the institution in rapidly scaling up and gaining a vast number of new clients. An acquisition provides the bank with more money to deal with in terms of loans and acquisitions, as well as a larger global footprint in which to operate. This thesis serves to assist both scholars and professionals, as academic analysts will continue to use it to discover different aspects of mergers and acquisitions, and experts will use it to make the right decision in reviewing ongoing mergers and acquisitions transactions.

REVIEW OF LITERATURE

- Hans Schenk (2000) in his study, "The Performance of Banking Mergers Some Propositions and Policy Implications" analyses the ex-ante and ex-post methodologies to discuss the performance after mergers and acquisitions. The paper discusses various aspects through which mergers and acquisitions affect the economy and reviews implications for the economy at large and advocates the incorporation of a Full Efficiency Test in these policies. (Schenk, 2000)

- P.L Beena (2004) in the study, "Towards Understanding the Merger Wave in the Indian Corporate Sector: A Comparative Perspective" attempts to comprehend the motivations and consequences of the Merger-wave in the second half of the 1990s. The analysis was conducted from a comparative perspective by classifying the acquiring firms into two categories in terms of ownership, namely, Indian owned and foreign-owned. The study could not find any significant evidence of efficiency-related factors primarily influencing M & As that occurred in the Indian corporate sector during the second half of the nineties and this observation was consistent with the earlier findings related to the Merger-wave in the first half of the nineties. (Beena, 2004)

- Neha Duggal (2015) in her study, "Post Merger Performance of Acquiring Firms: A Case Study on Indian Pharmaceutical Industry" examines the effect of mergers on Indian pharmaceutical companies' operational and financial results by analysing different financial ratios of a sample of companies listed on the BSE from 2000 to 2006. The study concluded that there was a positive impact of mergers on the profitability of the acquiring firms, but this impact has not sustained post-merger in terms of selected profitability variables. (Duggal, 2015)

- Gopal Chandra Mondal, Mihir Kumar Pal, Sarbapriya Ray (2017) in their study, "Influence of Merger on Performance of Indian Banks: A Case Study" attempts to objectively analyse and measure the effect of Nedungadi Bank's and Punjab National Bank's merger on their operational success in terms of various financial parameters and The study's findings indicate that average financial ratios of sampled banks improved significantly in terms of liquidity, performance, and stakeholder capital after the merger. (Gopal Chandra Mondal, 2017)

- "An analytical study of the impact of merger & acquisition on the financial performance of the corporate sector in India" (2018) by Md Alam Ansari, M. Mustafa studies the impact of mergers and acquisition on the financial performance of the corporate sector in India by analysing the data of six companies between the period 2012-2017 by using ratio and statistical analysis and concluded that there has been no significant effect on the business of the firms after the merger. The operating performance of

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companies was better prior to merger and acquisition. (Md Alam Ansari, 2018)

- **Tapas Kumar Sethy** in his paper, **Impact of Mergers on Financial Performance of Banks: A Case Study of State Bank,** tries to determine the technical efficiency score of all banks of state bank group while measuring the impact of mergers on the financial performance of State Bank of India. He also tested the significant difference among the banks of the state bank group. The study concluded with the results that, mergers have a positive impact on the financial performance of bidder banks which might pave the way for the further merger of State Bank of India with other associate banks, and also found that there are no significant differences among the banks. (Sethy)

- The impact of mergers on corporate performance was studied by **Pawaskar V (2001**). Pre- and Post-merger operating performance of the corporations involved in the merger as compared to identify their financial characteristics. A sample of 36 cases of mergers between 1992 and 1995 was taken. It was seen that there are no significant differences in the financial characteristics of two firms involved in a merger. Financial synergies and one-time growth seem to be the results of the mergers. (V, 2001)

- **Afza and Yusuf (2012)** investigated the cost and profit efficiency impact of mergers in the banking sector of Pakistan during 1986-2006. They documented that there is an improvement in the cost efficiency of banks after the merger; however, they did not find any significant evidence for profit efficiency. (Yusuf, 2012)

- **Dr. Anurag Pahuja and Dr. Shalini Aggarwal** in their paper, **Impact of Mergers and acquisitions on Financial Performance: Evidence from Indian Banking Industry** set out to examine the announcement effects of mergers using event study. The results indicated no significant impact of M&As on the financial profitability of the firms in the banking sector particularly. Even the average raw returns of security do not show any evidence of any improvement post-merger. (Aggarwal)

- There was an investigation on the paradox of bank mergers by **Delong G (2001).** Cross-sectional analysis was used to analyse 56 bank mergers between 1991 and 1995. The study found that upon announcement, the market rewards the mergers of partners that focus their activities and geography Long-term performance, on the other hand, is improved where a comparatively inefficient acquirer is involved and payment is not rendered entirely in currency. (G, 2001)

Research Methodology

This section of the paper would discuss the entire research process adopted towards the aim and objectives. Use of specific tools has been put to use, have been justified. This chapter would clearly showcase the approach used to complete the research activity.

Scope and Objectives of the research

Many research studies examine the benefits of mergers in banking and these studies adopt one of two approaches, one based on accounting information or market prices. The first phase research calculates the impact of the merger on the financial performance of the merger of commercial banks in India by analysing accounting-based data. The second phase of the research examines the post-merger capabilities of selected commercial banks using the Non-Parametric Data Development Approach (DEA).

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It has been observed in the literature that much of the work on mergers and acquisitions is based on the topic of financial and accountability, such as the performance of banking institutions. Mergers and acquisitions in the form of value creation, efficiency improvements as explanations for synergies, and testimony of the manufacturing company suggest that increased profits from resource allocation are better than reducing tax payments by increasing the market power of the additive company.

This is why we need mergers and acquisitions.

1) Increasing the number of users
2) Competing in the global market
3) Putting resources together and achieving more
4) Maintaining the number of industries in the market

The banking sector in India has emphasized on mergers and acquisitions to achieve synergy benefits such as economy of scale and scope due to increasing competition and rapid technological advancement from domestic and foreign players.

The main objective of this paper is:

1. To look at mergers and acquisitions in the financial sector of the region. This paper would discuss various types of mergers. Many banks have been through this in the last decade, and this paper will cover it.
2. To analyse the impact on company's financials post-merger and acquisition
3. The main goal of this paper is to learn about the advantages and disadvantages of this method, as well as to determine whether it is good or not.

Problem formulation

This paper seeks:

1. To study the causes and effect of bank mergers in the Indian economy.
2. To explain why bank mergers are necessary.

Hypothesis

The following hypothesis have been taken for the study-

1) Mergers and acquisitions don't improve the operating performance of banks.
2) The financial ratios of the banks don't increase significantly after mergers and acquisitions.

Research methodology

The segment will show the whole analysis method that will be used to arrive at the goals and objectives of the research.

Limitations

Nevertheless, every study has its own limitations.

To begin with, the sample size is limited, with just three mergers. This sample size may not be enough for complete evaluation and interpretation of Bank's performance.

Second, the report attempted to provide pre- and post-merger performance of selected banks, but it is impossible to assess all of the events and improvements that occurred as a result of the bank merger.

Furthermore, since the analysis is focused solely on secondary data obtained from financial statements through the internet, there is a degree of difficulty in collecting accurate results.

Lastly, the scope of this study is limited to the geographic area of India as well as the Banking Industry. Due to this limitation, the results should be understood as reflecting the specific geographic and industry area.

Sample design

As we have taken into consideration the mergers and acquisition of three banks (both, private and public) i.e., State Bank of India with State bank of Indore, ICICI bank with Sangli Bank, and HDFC Bank with Centurian Bank of Punjab for the purpose of the research, purposive sampling method (non-probability sampling technique) will be used in which the sample is chosen based on availability by the researcher. The main advantage of choosing purposive sampling is that researchers can select different mergers and acquisitions based on their

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requirements. The research design is explanatory which is conducted to identify the extent and nature of cause-and-effect relationships.

Setting of research

As the paper studies the impact of mergers and acquisitions on the Indian Banking Industry, the setting of the research is confined to India only.

Duration of the study

The duration of the study is **2002-2015.** (We have taken 5 years pre-merger and 5 years post-merger data for comparison).

Sample size

The total sample size which would be involved in the study would be 6 (3 banks which are acquirers and 3 banks that got merged). The sample size is purely chosen based on convenience. The banks that have been selected for the research purpose are-

Name of Acquirer Banks	Name of the Banks got merged	Year of merger and acquisition
ICICI Bank	Sangli Bank	2007
HDFC Bank	Centurian Bank of Punjab	2008
State Bank of India	State Bank of Indore	2010

Data analysis

The data has been collected from the banks' annual reports. For analyzing the impact of mergers on the financial performance of banks, appropriate statistical tools have been used.

The methods such as arithmetic mean are used to analyse the effect. For visualisation purposes, MS Excel and graphs can be used. A variety of financial ratios can be measured as well. The financial ratios that we will be using are

- Net profit margin
- EPS
- Return on assets
- Capital adequacy ratio
- Return on equity
- Net interest margin

- Net profit margin- The net profit margin, or simply net margin, is a ratio of sales that determines how much net income or profit is earned. That is the ratio of a company's or market segment's net income to sales.

It can be calculated as: - Net profit margin = Revenue-Cost / Revenue

- Earnings per Share- The net profit of a company is calculated by the amount of common shares it has remaining to calculate earnings per share (EPS). EPS is a commonly used metric to measure business valuation because it shows how much money a corporation makes for each share of its shares.

EPS = Net income – preferred dividends / weighted average shares outstanding

- Return on assets- The return on assets (ROA) is a metric that compares a company's performance to its overall assets. A manager, borrower, or analyst may use the return on assets (ROA) to determine how effectively a company's management is managing its assets to maximise earnings.

  ROA = net income / total assets

- Capital adequacy ratio (CAR)- The capital adequacy ratio (CAR) is a calculation that compares a bank's available capital to its risk-weighted credit exposures.

CAR = (Tier 1 Capital + Tier 2 Capital) / Risk-Weighted Assets

- Return on equity- Return on equity (ROE) is a financial ratio that measures how well a firm manages the money it has received from its owners.

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ROE = Net income / shareholder's equity

- Net interest margin- The disparity between the interest income earned by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits) in relation to the amount of their (interest-earning) reserves is known as the net interest margin.

NIM= (**Net** return on investment – **Interest** paid) / Average Assets

By analyzing the results from these findings, it will be possible to establish the relationship of financial performance of the concerned banks between pre-and post-merger and acquisition in order to arrive at a rational conclusion.

Data collection

Secondary documents may be used to gather data for the analysis. For the study, secondary data would be included. Secondary data is information that has already been gathered and is being used by others, especially scholars, in their study.

The secondary data will be collected from the annual reports of the banks, Securities Exchange Board of India (SEBI), search engines, etc for the period ranging from 2002 to 2015.

THE MERGER OF HDFC BANK AND CENTURIAN BANK

HDFC Bank Limited, based in Mumbai, Maharashtra, is owned by Housing Development Finance Corporation. HDFC Bank is India's largest private sector bank by deposits.

The merger of Centurion Bank of Punjab and HDFC Bank was formally approved by the Reserve Bank of India on May 23, 2008, completing the statutory and regulatory approval process for one of the largest domestic banking mergers. Shareholders of Centurion Bank of Punjab received one HDFC Bank share for every 29 CBoP shares. The merger provided HDFC Bank with a larger branch network, regional presence, and customer base, as well as a larger pool of trained manpower. (Sai and Sultana, 2013).

The merger between HDFC Bank and Centurian Bank of Punjab took place in the year 2008. Hence below analysis has been done five years prior to the merger i.e. from 03-04 to 07-08 and five years after the merger i.e. from 08-09 to 12-13.

TABLE 1.1
Pre-merger financial parameters

	03-04	04-05	05-06	06-07	07-08
Net profit margin	**16.8**	**17.8**	**17.9**	**10.7**	**12.8**
EPS	**3.6**	**4.6**	**5.6**	**7.3**	**9.2**
Return on Assets	**1.45**	**1.47**	**1.18**	**1.25**	**1.19**
Capital Adequacy Ratio	**11.66**	**12.16**	**11.4**	**13.1**	**13.6**
Return on Equity	**1.78**	**2.15**	**2.78**	**3.57**	**4.48**
Net Interest Margin	**3.8**	**3.94**	**4.04**	**4.32**	**4.4**
No. of Branches	**312**	**467**	**535**	**684**	**761**

Source- Moneycontrol

In before merger periods, Net Profit Margin shows a mixed trend. From 16.8 in 2003-04 to 17.9 in 2005-06 but after that there has been a significant decrease in NPM to 10.7 in 2006-07. The Return on Equity has been consistently increasing showing the company is earning more per year on its outstanding shares. EPS has also been growing from 3.6 in 2003-04 to 9.2 in 2007-08. Net interest margin exhibits an increasing trend. But, the capital adequacy ratio, return on assets also show a mixed trend. The no. of branches has been increasing in pre-merger periods.

Table 1.2 consists of the financial parameters after the merger has happened between HDFC Bank and Centurian Bank.

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TABLE 1.2
Post-merger financial parameters

	08-09	09-10	10-11	11-12	12-13
Net profit margin	11.4	14.7	16.2	18.9	19.18
EPS	10.6	13.5	17	22.1	28.5
Return on Assets	1.22	1.32	1.41	1.52	1.68
Capital Adequacy Ratio	15.1	17.44	16.22	16.5	16.8
Return on Equity	5.27	6.44	8.43	17.26	18.57
Net Interest Margin	4.2	4.3	4.3	4.2	4.5
No. of Branches	1412	1725	1986	2544	3062

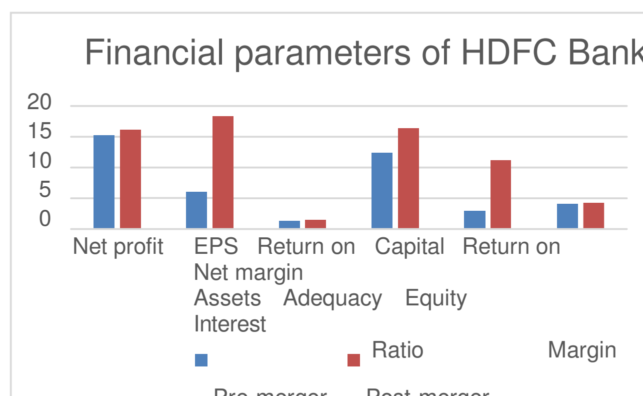
Source- Moneycontrol

After merger periods, Net Profit Margin has increased significantly over years from 11.4 to 19.18 in 2012-13, Return on Equity has also increased from 5.27 in 2008-09 to 18.57 in 2012-13. Return on assets has not increased significantly from 2008-09 to 2012-13. EPS has been rising throughout the years indicating that the company is making good profits, CAR also shows an increasing trend, but net interest margin shows a mixed trend.

In order to examine the difference in financial ratios before and after the merger of the banks, the mean is calculated and the results are presented in Table-1.3.

TABLE 1.3
Arithmetic Mean of HDFC BANK (pre-merger and post-merger)

Financial parameters	Pre-merger	Post-merger
Net profit margin	15.2	16.076
EPS	6.06	18.34
Return on Assets	1.308	1.43
Capital Adequacy Ratio	12.384	16.412
Return on Equity	2.952	11.194
Net Interest Margin	4.1	4.3
No. of Branches	552	2146



With a high capital adequacy ratio and positive year-over-year results, HDFC Bank is one of the strongest banks in the Indian banking sector. The results show that in the post-merger era, the mean values of net profit margin, EPS, CAR, and return on equity are higher than in the pre-merger period. Since the merger, there isn't much of a difference between return on assets and net interest margin. The graph clearly shows that the net profit margin, return on investment, and net interest margin have

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not dramatically changed. Earnings per share, capital adequacy ratio, and return on equity, on the other hand, have all increased dramatically. This indicates that the financial performance of HDFC Bank after the merger with Centurian Bank has improved in terms of these ratios. The EPS has risen sharply thanks to a robust profit made by the company and a good integration process. The no. of branches has also been increased significantly over time.

The merger of the State bank of India and State Bank of Indore

The State Bank of India (SBI) is a public sector banking and financial services statutory body headquartered in Mumbai, Maharashtra, India. It is India's largest public sector bank, with a 23 percent asset market share and a 25 percent share of the overall loan and deposit market.

At the time of the merger, the State Bank of Indore had over 470 branches, mainly in Madhya Pradesh and Chhattisgarh, with a company revenue of over Rs.500 billion and a net profit of Rs.279 crore.

The Indian government gave its in-principle consent to a merger between the State Bank of India and the State Bank of Indore in October 2009. The merger was approved by the Cabinet on July 15, 2010. The State Bank of Indore and the State Bank of India combined on August 26, 2010.

The State Bank of India was founded in 1955 and has continued to rescue local banks ever since. It is the Indian economy's pacesetter, with the President of India owning 59.41% of the stock and a slew of subsidiaries. State Bank of Indore was one of State Bank of India's affiliate banks, which was acquired in 2010, giving SBI a 98.3 percent stake in the bank. SBI's branch network grew by 480 branches and more than 21,000 ATMs as a result of the purchase.

Table 2.1 consists of financial parameters of SBI bank before the merger has happened i.e., from 2005-06 to 2009-10.

TABLE 2.1
PRE-MERGER PERFORMANCE OF SBI

	05-06	06-07	07-08	08-09	09-10
Net profit margin	0.98	1.04	1.68	1.8	2.04
EPS	83.73	86.29	126.62	143.77	144.37
Return on Assets	0.99	0.89	0.84	1.01	1.04
Capital Adequacy Ratio	12.45	11.88	12.34	13.54	14.25
Return on Equity	18.10	15.47	14.24	17.82	15.07
Net Interest Margin	3.39	3.4	3.31	3.07	2.93
No. of Branches	9143	9270	10183	11472	12437

Source- Moneycontrol

The net profit margin has been increasing from 0.98 in 2005-06 to 2.04 in 2009-10 indicating the profit per rupee of sale has been increasing over the years. The EPS has shown a significant increase over the pre-merger period. Return on assets has been increasing but the change is not that significant. Capital adequacy ratio shows a mixed trend by increasing and decreasing but if we compare 2005-06 to 2009-10, it went from 12.45 to 14.25. Return on equity is one of the parameters in the pre-merger period that is decreasing over the year, it is showing mixed trends. From 18.1 in 2005-06 to 15.07 in 2009-10, the decrease indicates that the company’s earnings per share outstanding have been declining over the years. The interest margin is also showing a negative trend. The no. of branches has increased from 9143 to 12437 in 2009-10.

Table 2.2
POST-MERGER PERFORMANCE OF SBI

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	10-11	11-12	12-13	13-14	14-15
Net profit margin	9.05	10.99	11.78	7.98	8.59
EPS	130.16	184.31	210.06	156.76	17.55
Return on Assets	0.88	0.71	0.82	0.88	0.63
Capital Adequacy Ratio	13.39	11.98	13.86	12.92	12.79
Return on Equity	14.84	12.84	17.32	17.27	10.20
Net Interest Margin	2.66	3.32	4.17	3.66	2.68
No.of Branches	13284	14902	15564	16059	16333

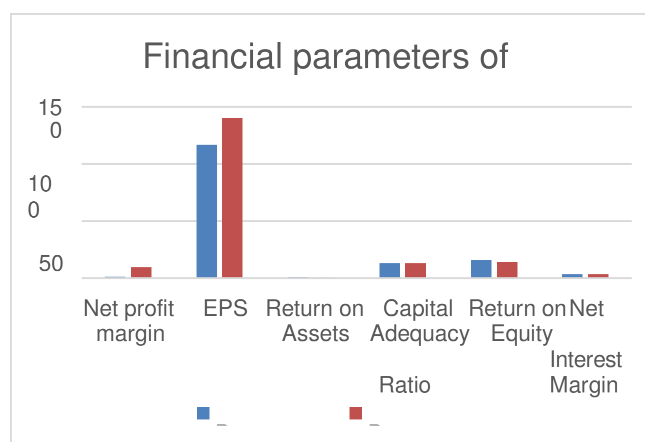
Source- Moneycontrol

After the merger of the State bank of India with the State bank of Indore in 2010, the net profit margin has increased till 2012-13 but after that, it has been decreasing. It went from 9.05 in 2010-11 to 8.59 in 2014-15. The EPS has also been growing from 2010-11 but till only 2013-14, after that in 2014-15, there is a sharp decline of EPS to 17.55 giving a poor indication about the health of the company and it also shows that the shareholders are getting lower returns. Return on assets has to give mixed signals. But if we compare the ROA of 2010-11 to ROA of 2014-15 it went from 0.88 to 0.63. The capital adequacy ratio is also giving mixed signals. Return on equity has declined to 12.84 in 2011-12 but then it increased to 17.32 in 12-13, but after that, the decline has been significant. Net interest margin is also giving mixed signals. The no. of branches has also been increasing.

In order to examine the difference in financial ratios before and after the merger of the banks, the mean is calculated and the results are presented in Table-2.3.

Table 2.3
Mean of State bank of India (pre-merger and post-merger)

Financial parameters	Pre-merger	Post-merger
Net profit margin	**1.508**	**9.678**
EPS	**116.96**	**139.768**
Return on Assets	**0.954**	**0.784**
Capital Adequacy Ratio	**12.892**	**12.988**
Return on Equity	**16.14**	**14.494**
Net Interest Margin	**3.22**	**3.3**
No. of Branches	**10501**	**15228**



The current research looked at the financial results of the State Bank of Indore's merger with the State Bank of India. The associate bank's merger with its pan-Indian counterpart resulted from a need to increase asset quality. As seen in the graph, two of the six ratios have improved significantly. The bank's efficiency is deteriorating or has not changed at all, according to the other ratios. And since the merger, the number of branches has been growing.

As we can see in the charts too, that return on assets, return on equity and net interest margin have decreased after the merger took place. It also shows that the CAR has improved but not much. Net profit margin and earnings per share have increased post-merger.

During the post-merger phase, certain financial parameters improved significantly, but the majority of the parameters did not. According to the findings of this report, the acquisition did not result in substantial financial gains for SBI.

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ICICI BANK AND SANGLI BANK MERGER

ICICI Bank Limited, headquartered in Vadodara, Gujarat, and Mumbai, Maharashtra, is a privately owned Indian construction finance institution. The bank has 5,275 branches and 15,589 ATMs throughout India and is present in 17 countries. One of India's Big Four banks is ICICI Bank.

Sangli Bank Ltd., headquartered in Sangli, Maharashtra, India, was an unlisted private sector bank. Sangli Bank had deposits of Rs. 20.04 billion, advances of Rs. 8.88 billion, a net nonperforming assets ratio of 2.3 percent, and capital adequacy of

percent as of March 31, 2006. In the fiscal year that ended on March 31, 2006, it lost Rs. 29 crores. Sangli Bank had a total of 198 branches and extension counters, with 158 in Maharashtra and 31 in Karnataka. Rural and semi-urban regions accounted for around half of the total branches, while metropolitan and urban areas accounted for the other half.

The boards of directors of ICICI Bank and Sangli Bank have agreed to combine the two banks in an all-stock transaction.

One share of ICICI Bank was exchanged for 9.25 shares of Sangli Bank, a privately held, non-listed company. The proposed acquisition resulted in the issuing of 3.45 million new ICICI Bank shares, or around 0.4 percent of the bank's current outstanding stock share capital.

Table 3.1 shows the financial performance of ICICI bank before the merger for five years i.e from 2002-03 to 2006-07.

TABLE 3.1
PRE-MERGER FINANCIAL PERFORMANCE OF ICICI BANK

Ratios	2002-03	2003-04	2004-05	2005-06	2006-07
Return on Assets	**1.2**	**1.4**	**1.59**	**1.13**	**1.08**
Capital Adequacy Ratio	**12.32**	**10.36**	**11.78**	**14.53**	**11.69**
Net Interest Margin Ratio	**1.4**	**1.9**	**2**	**1.93**	**0.15**
EPS	**19.7**	**26.7**	**32.49**	**30.92**	**34.59**
Net Profit Margin	**2.08**	**1.5**	**7.35**	**9.36**	**11.32**
Return on Equity	**18.3**	**21.8**	**15.6**	**21.09**	**14.29**

Source- Moneycontrol

The return on assets has been declining from 1.2 in 2002-03 to 1.08 in 2006-07. The capital adequacy ratio also shows a negative trend as it went from 12.32 in 2002-03 to 11.69 in 2006-07. The net interest margin ratio has also been declining. EPS is showing a positive trend and has consistently grown over the years. The net profit margin is also showing a positive trend. The return on equity is showing mixed trend from increasing to 21.8 in 2003-04 to 14.29 in 2006-07.

TABLE 3.2
POST-MERGER FINANCIAL PERFORMANCE OF ICICI BANK

Ratios	07-08	08-09	09-10	10-11	11-12
Return on Assets	**1.17**	**0.95**	**1.51**	**1.26**	**1.36**
Capital Adequacy Ratio	**13.97**	**15.53**	**19.41**	**19.54**	**18.52**
Net Interest Margin Ratio	**2.2**	**2.4**	**2.5**	**2.21**	**2.26**
EPS	**37.37**	**33.76**	**36.1**	**45.27**	**56.11**
Net Profit Margin	**11.81**	**11.45**	**13.64**	**17.52**	**17.45**
Return on Equity	**10.5**	**9.98**	**8.03**	**12.92**	**14.61**

Source- Moneycontrol

Table 3.2 shows the performance of ICICI Bank five years after the merger has happened i.e. from 2007-08 to 2011-12.

The return on assets has increased from 2007-08 to 2011-12 but the increase is not that significant.

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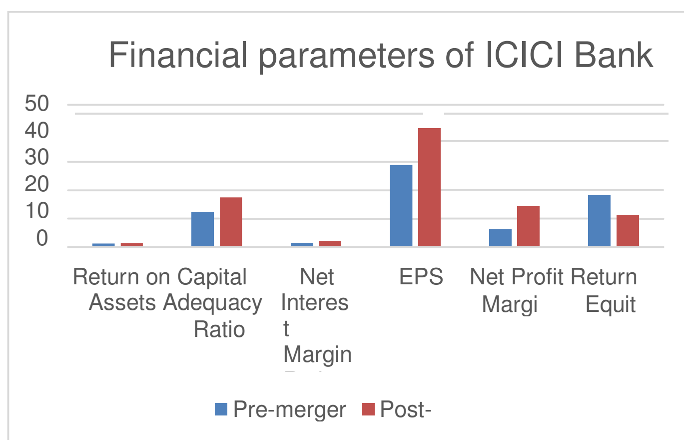
The capital adequacy ratio shows a positive trend after the merger and has been consistently growing throughout the years. The net profit margin doesn't show much of a change over five years. The earning per share has increased from 37.37 to 56.11 in 2011-12. Following the acquisition, the net profit margin reflects a promising pattern. The return on equity, however, shows mixed results as it has decreased from 10.5 to 8.03 in 2009-10 but after that, it has been increasing.

To examine the difference in financial ratios before and after the merger of the banks, the mean is calculated and the results are presented in Table-3.3.

TABLE 3.3
Mean of ICICI BANK (PRE AND POST)

Ratios	Pre-merger	Post-merger
Return on Assets	1.28	1.25
Capital Adequacy Ratio	12.136	17.394
Net Interest Margin Ratio	1.476	2.314
EPS	28.88	41.722
Net Profit Margin	6.322	14.374
Return on Equity	18.216	11.208



The planned merger was intended to be favourable to both organisations' owners. In the rollout of its rural and small business banking operations, ICICI Bank will aim to exploit Sangli Bank's network of over 190 branches and existing customer and employee base through urban and rural centres, which were main focus areas for the Bank. The merger will also help ICICI Bank expand its urban delivery network. Sangli Bank shareholders will be able to invest in the development of ICICI Bank's large domestic and foreign franchise as a result of the merger.

The results however showed that the return on assets has decreased after the merger has happened. It went from 1.28 to 1.25. Capital adequacy ratio, net interest margin, earning per share and net profit margin have increased significantly after the merger indicating that the performance of the bank has improved in some of the aspects. On the other hand, the return on equity gives a negative signal about the company's performance after the merger has happened. It also decreased from 18.216 to 11.208.

The chart makes it evident that the ROA and return on equity have decreased post-merger and there's not much improvement in net interest margin. However, the CAR, EPS, and net profit margin have improved post-merger.

FINDINGS AND CONCLUSION

The following are the major findings of the study:

- In the case of merger of Centurion Bank of Punjab with HDFC Bank, there was significant increase in the mean value of Earning per share, CAR and Return on Equity after merger from 6.06, 12.384, 2.952 to 18.34, 16.412, and 11.194 respectively. Number of branches also increased from 552 to 2146 over time. However, there was no significant increase in return on assets and net interest margin.

- Further, in the context of merger of State Bank of Indore with State Bank of India, only 2 ratios i.e. Net profit margin and Earning per share showed improvement. The other ratios reflect that either the performance of the bank is declining or has not improved at all. Also, the number of branches increased from 10,500 to 15,228.

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- The post merger performance in the merger of Sangli Bank with ICICI Bank indicates that CAR, net interest margin, earning per share and net profit margin showed a significant increase from 12.136, 1.476, 28.88, 6.322 to 17.394, 2.314, 41.722, 14.374 respectively. However, there was not much improvement in net interest margin. Further, ROA and Return on equity have increased post-merger.

It is found that mergers and acquisitions have a great impact on transforming the organization's competitive advantage. However, there are huge percentage that organizations fail to sustain their competitive advantage through mergers and acquisitions.

The merger of state Bank of Indore with State Bank of India arose out of the need to improve the quality of assets such as to improve the synergic strengths of staff and overall branch network. The results however showed that the merger did not yield significant financial improvement.

For HDFC Bank, the merger provided an opportunity to add scale, geography and management bandwidth. A comparison between pre- and post-merger performance shows improvement in some of the financial ratios.

The merger of the Sangli Bank with ICICI Bank also showed mixed results in terms of financial ratios.

As the motive behind conducting the research is to study the impact of mergers on the performance of the firms, and we found out that the financial ratios didn't improve significantly, therefore we accept our hypothesis.

The success of Mergers and Acquisitions also highly depends on post-merger integration process, timely action and to keep check on the costs of integration process. There is also a need to note that merger is just a facilitator, but no guarantee for improved profitability on a sustained basis. Therefore, the focus should be on improving risk management capabilities and strategic business planning.

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