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MERGERS AND ACQUISITIONS: ANALYSIS OF FINANCIAL PERFORMANCE IN INDIAN BANKING

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ABSTRACT

In the whole world, it is India who has the fastest rate in terms of economy. In our country, a crucial role has been played by the Banking area. Also, in restructuring the financial service industry, there has been a significant contribution from the mergers and acquisitions. With the increase in technological developments, and foreign & domestic players giving a lot of competition, there was a need for economic reforms. With the demand of economic reforms, there was an evolution of mergers and acquisition. Merging entities' performance will be improved with the initiative of merger. For the growth and development of the economy, a significant tool has been used which is called 'mergers and acquisition'. The current research highlights the financial conduct of merging commercial bank in India after it has been merged, efficiencies of the bank which are commercial in nature post merger, and also factors that affect the Indian banking section's quality.

Key words: Mergers, Acquisition, Banking.

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INTRODUCTION

- The Current Scenario of banks after merger

Merger of banks was found to be an essential step during the starting phases of financial sector reforms. After the Narasimham Committee[1] had forwarded the design of the banking sector, the concept of merger flourished. There has been a rise of merger and acquisition in the banking sector both at national and international level. In the present time, merger and acquisition has removed the hindrances between the bank and financial intermediaries, reduces the operation's cost and financial risk, improves the professional standard, manages the banking capital and helps to face the competition and increase the market share.

- Financial Sector of Indian Banking industry

For the modern economy, the banking sector plays an important role. Banking makes a provision to finance various areas such as industry, trade and agriculture. When there is a development of the banking sector, then it is automatically the development of a nation. Various sectors of the economy have been developed due to the mobilization of deposits and disbursement of credit initiated by the banking sector. After the independence, there has been socio-economic progress of the country because of the role played by the banking sector. It is very essential that the banking sector exercises their duties in an efficient manner.

- Origin and growth of Indian banking sector in India

In the last decade of the 18th century, there was an origin of banking in India. For the easy exchange services, empires wanted to have a method to pay for the foreign goods, and with that there was the emergence of banking. There has been division of the Indian banking system comprising commercial banks, regional rural banks, cooperative banks etc.

The Indian Banking is divided into 3 parts:

1. Pre-Independence Phase i.e. before 1947
2. Second Phase from 1947 to 1991
3. Third Phase 1991 and beyond

1. Pre- Independence Phase i.e. before 1947

- During this phase there were more than 600 banks that were present.
- In 1770, there was a foundation of bank called the Bank of Hindustan[2] which terminated in the year 1832.

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[1] "The Nariman Committee was appointed with the mandate of giving recommendations on how the banking facilities could be spread across India in an adequate manner."

[2] "It is the first bank of India, established in 1770 at Calcutta under European management."

- Some banks were failed, while still there are some like Allahabad Bank, Bank of Baroda, and Punjab National Bank etc who are leading now also.

2. Second Phase of Banking from 1947 to 1991

- In the second phase, there was a nationalization of bank.
- As moneylenders used to exploit the poor masses, so there was need of nationalization of banks
- Reserve bank of India was nationalized on 1st January, 1949.
- Various banks were nationalized, some of them were- Punjab National Bank, Canara Bank, United Bank etc

3. Third Phase of Banking 1991 and Beyond

- There was a development of banks in this period.
- Also, there was a recommendation made by the Narasimham Committee in 1991.
- There were various private entities which got license from the RBI, some of the private entities include HDFC Bank, IndusInd Bank, Axis Bank, ICICI and with the passage of time, Kotak Mahindra Bank & Yes Bank also got license.
- There were also appearances of Payment Banks and Small Banks which were proposed by the RBI at that period of time.
- Current status of banking industry in India

India's banking sector is sufficiently capitalized and well-regulated, according to the RBI. As compared to any other country, India's conditions in terms of financial and economic have been higher. With the growth, there have been new initiatives by banks like digital payment systems. With the introduction of such a system, it has eased the usage of banking facilities. There was a launch of 'RBI Retail Direct Scheme'[3] recently which was introduced by the RBI for retail investors to increase retail participation in government securities.

- Merger and Acquisition

Merger: When there is a combination of two separate entities which creates the new firm, it is called a merger. In Merger, the company's individual power is diluted. With the merger, operational costs are reduced, new markets are expanded, and revenue and profits are also boosted. There is a voluntary nature in the process of merger. Usually, the same size and scope merge together.

[3] "It is formulated to facilitate investment in Government Securities by individual investors."

Acquisition: When there is a takeover of one organization by another, it is called Acquisition. They have more negative attributes as compared to the merger. The main purpose of acquisition is for the higher growth, to make market power stronger, diversification[4].

- Merger and Acquisition in the financial sector

There have been numerous eminent achievements of the banking system in India. The Indian Banking sector has witnessed various reforms which also includes mergers and acquisitions. In order to build up & maintain the banking position in the marketplace, Banks have used the strategy which is called merger and acquisition. With the aim to expand into new markets and inclusion of new technologies, both mergers and acquisitions are observed as a fast and structured way. For eg: New Bank of India was acquired by the Punjab National bank in the year 1993.

- Merger and Acquisition in the Indian Banking sector during the financial crisis.

During the financial crisis in the Indian banking sector, merger and acquisition has played a great role. Merger and Acquisition has helped in improving the technology, increased profit and lifted the standard of living. With respect to scaling up the commercial enterprise, merger and acquisition has given assistance to the banks. The Government of India had even announced the merging of banks due to the sudden decrease of economic growth.

LITERATURE REVIEW

In the existing study, the research problem is that with the Indian banking sector extension, there has been a forthcoming of both Mergers and Acquisitions. But it has been seen that after the mergers and acquisitions, satisfaction level of the work has been reduced. It is required that weak public sector banks in India should be restructured in a proper manner. Thus, it has been said that despite the number of studies, the Mergers and Acquisition area remains ambiguous. It was found that to achieve the goals that were intended, Mergers and Acquisitions have failed 50 to 75 %, according to the study by Papadakis.

- **Review of existing literature on "Mergers and Acquisitions in Indian Banking Sector"**

According to "**Bansal and Kumar" (2008)**, company's management senses in different ways the financial and operational strategy when moving towards the direction of "mergers and acquisitions". The study emphasizes on whether targets have been achieved after the Merger and Acquisition activity.

"Jalandhar, **et al." (2011)**, in terms of growth in profitability, revenues, investment, deposits and total assets, examined the performance of Indian Banking[5]. Merging two balance sheets doesn't mean bank merger. It is a very challenging task to manage the employees and customer relationships after the merger for the Bank Industry.

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[4] "Diversification across loan sectors helps a bank's return most when loans have moderate exposure to sector downturns."

[5] "'Bank performance' may be defined as the reflection of the way in which the resources of a bank are used in a form which enables it to achieve its objectives."

Also, we cannot ignore the positive aspect, that there has been development of technology, economic capital has been maintained etc which have actually benefited the banking domain.

"Khan A. A.(2011)", "examined the execution of banks before and after merger of two banks and concluded that efficiency and performance of banks have increased after the merger". For analyzing the pre-post merger performance, independent t-test has been used.

"Khan A. A." (2012), concluded that for the Indian Banking sector's progress and advancement, "Mergers and Acquisition" has been a useful tool. "Global Trust Bank and OBC" & "South Gujarat Local Area Bank Ltd and Bank of Baroda" are the two cases that have been laid hold by the researcher.

"Bhardwaz M." (2014), states that after the merger, there has been significant rise in the execution of banks. There has been the development in the field of merger and acquisition.

"Raja Abhay" (2016), examined the productiveness of "mergers and acquisitions" in the Indian banking sector. Various factors such as liquidity, profitability and solvency ratio have been taken into account for examining the soundness of the merger.

"Krishnamurthy" (2010), concluded that after the merger, high interest have been generated by the bank on the income activities and after performance of the bank has been improved. For analysis purpose, rating model named as CRAMEL[6] has been used.

"Murthy" (2007), selected five banks to evaluate the Mergers and Acquisition. Those five banks include "Punjab National Bank & New Bank of India", "ICICI Bank & Bank of Madura", "ICICI Ltd & ICICI Bank", and "Global Trust Bank & Oriental Bank of Commerce "and " Centurion Bank & Bank of Punjab" which were evaluated. Researcher has pointed out that "Mergers and Acquisitions" are important as there is formation of financial and operational structures; higher resources for firms. Moreover, after merger the priority sectors have got more attention.

"Goyal et al." (2012), analyzed that for corporate structuring, mergers and acquisition plays an important role. ICICI Bank Ltd, which is the largest private bank of the country, has been taken by the researcher to discuss. This private bank had walked on the path of prosperity after acquiring the nine financial companies. Through mergers, acquisitions and amalgamation, there has been the growth of the ICICI Bank Ltd.

"Gosh and Dutta" (2015), examined the influence of "mergers and acquisitions" in the banking zone. Researcher's study is focused on "pre and post merger" differentiation of both financial framework and HR.

"Nidhi T." (2017), scrutinize the financial conduct of "Mergers and Acquisition" on the financial and operating execution of Indian banks during post liberalization that have been integrated using Camel model[7].

[6] "The 'CRAMEL' model comprises Capital adequacy Resource-raising ability Asset quality Management and systems evaluation Earnings potential Liquidity/asset liability management."

[7] "The CAMEL model is commonly used by scholars to authorize specific elements of a bank (Dang, 2011). CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings and Liquidity."

- Review of existing literature in "financial performance in Indian Banking sector"

"Deverajjappa" (2012), examines in the Indian Banking area, the diverse rationale for merger. "Net profit margin, operating profit margin, gross profit margin, return on equity, debt equity ratio, return on capital employed" are the financial parameters which are analyzed. It has been gathered that subsequent to merger, there has been expansion in the financial performance.

"Kumar & Kumar" (2016), from 2011 to 2015 studied and differentiated the production of four public sector banks. Variety of financial ratios has been utilized for comparing SBI with further public banks and the result was SBI is higher.

"Chintala& Kumar" (2016), examined the public and private bank's financial discharge. From the year 2011 to 2016, total income, interest income, service income of SBI, BoB, PNB, CBI, IDBI, HDFC, ICICI, Kotak and IndusInd bank were analyzed. It was witnessed that the private bank was the most beneficial and experienced bank in terms of growth.

RESEARCH METHODOLOGY

This research paper covers the data of 15 years of period Rises from the year 2005 to 2020 to determine the impact of mergers and acquisitions on the presentation of chosen banks. The data for this study is secondary in nature. The data is collected from the official websites of the related banks. We take 3 years pre and 3 years post of merger and acquisitions of selected banks. The essential information and data accumulated from various published sources like, reports of RBI[8], magazines, E-Journals, articles, Manuals and the financial annual reports available online on the site of banks, Reserve bank of India and other sites to examine the impact of mergers and acquisitions on the financial performance of Indian banks.

There are a total of 15 banks merged during the time period of 2005 to 2020. With the goal of investigation 1 public sector bank and 3 private sector banks have been taken. Post-merger financial highlights of selected banks are evaluated and analyzed. The data is analyzed for trends and patterns in terms of financial performance for a certain period of time. Analysis on the various highlights for post-merger period of six years' time interval is using descriptive statistics (measure of central tendency) and paired t-test.

Acquire Bank	**Acquired bank**	**Acquisition Year**
State Bank of India	Bhartiya Mahila Bank (BMB)	2017
	State Bank of Bikaner and Jaipur (SBBJ)	
	State Bank of Hyderabad (SBH)	
	State Bank of Mysore (SBM)	
	State Bank of Patiala (SBP)	
	State Bank of Travancore	
Kotak Mahindra bank	ING Vysvya Bank	2014
ICICI Bank	Bank of Rajasthan	2010
HDFC Bank	Centurion Bank of Punjab	2008

[8] "The Reserve Bank maintains an active website (URL: http://www.rbi.org.in)."

DATA ANALYSIS

1. NET INTEREST INCOME

Net Interest income is a financial performance measure that represents the difference between the interest income a bank earns from its lending activities and the expenses it pays to depositors.

Net Interest income = Interest earned – Interest paid.

The pre and post-merger values of Net Interest Income are shown in table-1. From the below table it is clear that significant increase has been observed in the mean values of Net Interest Income in three banks except ICICI bank in pre and post-merger period.

Contingent upon SBI bank mean value of Net Interest Income pre-merger is 58023.33 crore while the mean value of Net interest Income post-merger is 99048 crore, after the merger Net interest income of SBI bank is increased by approximately 41025 crore. In case of HDFC bank the mean value of Net interest income before merging is 267778 lakh after merging the mean value of Net interest income is 878357 lakh, after the merger Net interest income of HDFC bank is increased by 8515579 lakh. In the case of Kotak Mahindra bank the pre-merge mean value of Net interest income is 2129.67 thousand on the other side the post-merge mean value of Net interest income is 6416.67 thousand, it indicates the Net interest income has increased by 4287 thousand. In case of ICICI bank the mean value of Net income interest pre-merge is 148.83 billion while the post merge mean value of net interest income is 112.06 billion after the merger Net interest income of ICICI bank is decreased by approximately 36.77 billion.

Overall, difference in Net income interest has been found between pre and post-acquisition periods of the banks except in case of ICICI bank. For these banks of Net income interest is increased in post-acquisition period except ICICI bank.

Table-1: Net Interest Income

Bank	Pre-merger Mean	Post-merger Mean	Increase/Decrease
State Bank of India (Crore)	58023.33	99048	Increase
HDFC (Lakh)	267778	878357	Increase
Kotak Mahindra Bank (Thousand)	2129.67	6416.67	Increase
ICICI (Billion)	148.83	112.06	**Decrease**

2. PROFIT BEFORE TAX

Profit before tax is a financial measure of a bank's profitability that looks at the profit made before the bank has to pay corporate income tax. It includes all the expenses, operating and interest expenses, against its revenues but excludes the payment of income tax.

Profit before Tax = Revenue – Expenses (Exclusive tax expense)

Table-2 shows the profit before tax of selected banks before and after the merger. The average profit before tax for SBI before merging is 15981 crore after merging the mean value of profit before tax is 11179 crore. After the merger profit before tax of SBI decreased by 4802 crore.

The profit before tax has been raised for all private banks except one public sector bank SBI. It is additionally increased for all selected private sector banks curiously pre-merger. On the fluke that we differentiate the mean of chore value for selected banks only SBI is shrined and rest of the private banks are enlarged.

Table-2: Profit before tax			
Bank	Pre-merger	Post-merger	Increase/Decrease
	Mean	Mean	
State Bank of India (Crore)	15981	11179	**Decrease**
HDFC (Lakh)	103441	446901	Increase
Kotak Mahindra Bank (Thousand)	13235937	37015799.33	Increase
ICICI (Billion)	46.07	89.87	Increase

3. PROFIT AFTER TAX

Profit after tax is a dominant financial measure of the bank or company, because it shows the cost and cash earnings of the bank, which determines the operational efficiency and performance of the banks. Often analysts calculate the profit after tax against other banks to compare the financial performance. It is also used in other ratios such as profit-after-tax margin, it is significant in showing the competency of business in being able to turn its revenue into profits.

Profit after Tax = Profit before Tax – Tax Rate.

The pre and post-merger values of profit after tax are shown in the table-3. Higher profit after tax reflects the increasing nature of advances. SBI bank mean value of profit after tax pre-merger is 11179 crore while the mean value of profit after tax post-merger is 8584 crore, after the merger profit after tax of SBI bank is decreased by approximately 2595 crore.

According to data Table-3 for all the banks like HDFC bank, Kotak Mahindra bank, and ICICI bank PAT ratio has increased significantly, except in case of SBI bank. Overall significant difference has been found between pre and post-acquisition of the selected banks when it compared with profit after tax.

Table-3: Profit after tax			
Bank	Pre-merger	Post-merger	Increase/Decrease
	Mean	Mean	
State Bank of India (Crore)	11179	8584	**Decrease**
HDFC (Lakh)	162274	304001	Increase
Kotak Mahindra Bank (Thousand)	9133350	24557518	Increase
ICICI (Billion)	36.75	66.47	Increase

4. EARNINGS PER SHARE

Earnings per share is one of the preeminent financial measures to ascertain a bank’s share prices. A high EPS indicates that the company is more profitable and has more profits to distribute to shareholders. EPS is a figure expressing a bank’s profit per outstanding share of stock, calculated on a quarterly or annual basis. EPS indicates how much money a bank makes for each share of its stock and is a widely used metric for estimating corporate value.

A higher EPS demonstrates significant value because investors will pay more for a bank's share if they think the company has higher profits relative to its share price. Table

$$\textbf{\textit{Earnings per share}} = \frac{TotalEanings}{Outstandingshares}$$

Table-4 shows the earnings per share of chosen private and public sector banks. In the case of public sector bank State bank of India, The earnings per share is reduced by 1.29 rupees. While in private sector banks, the earnings per share is increased for all chosen private banks. The earning per share of HDFC bank expanded by 9.59 rupees. Contingent upon Kotak Mahindra bank mean value of earnings per share is increased by 6.68 rupee. In case of ICICI bank the mean value of EPS is also increased by 21.86.

Table-4: Earnings per share (Rupees)

Bank	Pre-merger	Post-merger	Increase/Decrease
	Mean	Mean	
State Bank of India	14.65	13.36	**Decrease**
HDFC	5.81	15.4	Increase
Kotak Mahindra Bank	11.38	18.06	Increase
ICICI	36	57.86	Increase

TESTING OF HYPOTHESIS

Hypothesis 1

H0: There is no significant difference in pre and post-merger Net Interest Income.

Hypothesis 2

H0: There is no significant difference in pre and post-merger Profit before tax.

Hypothesis 3

H0: There is no significant difference in pre and post-merger Profit after tax.

Hypothesis 4

H0: There is no significant difference in pre and post-merger Earning per share.

The table below indicates the paired-t test analyses of four financial ratios for each selected bank. The table displays a brief representation of which financial ratio shows significant increase, or decrease. According to the analyses, there is an overall significant growth in the Net interest income, profit before tax and earnings per share in all banks, while profit after tax is not growing in all banks.

Null Hypothesis **There is no significant difference between pre and post-merger financial performance**	**Test-statistics**	**p-value**	**Accept/Reject Null Hypothesis**
Net Interest Income	-3.099	0.002	Reject
Profit before tax	-3.019	0.003	Reject
Profit after tax	1.396	0.171	Accept
Earnings per share	-2.012	0.006	Reject

FINDINGS AND CONCLUSION

Analysis has been done during pre- to post-merger of selected banks, specifically SBI, HDFC, KMB, and ICICI and found that the financial performance of all the sample merged banks in respect to the growth in terms of profitability, stability, and economy has been significantly changed in positive direction.

Overall, difference in Net income interest has been found between pre and post-acquisition periods of the banks except in case of ICICI bank. For these banks of Net income interest is increased in post-acquisition period except ICICI bank.

The profit before tax and profit after tax has been raised for all private banks except one public sector bank SBI. It is additionally increased for all selected private sector banks curiously pre-merger. On the fluke that we differentiate the mean of chore value for selected banks only SBI is reduced and rest of the private banks are enlarged.

Furthermore, it is also found that the earnings per share have increased significantly for all the banks except State bank of India. The findings of the study show a little split, which means in some cases it shows mergers are better for the private sector banks while in other it shows mergers are better in case of public sector banks. Some of the measures show a positive refinement in post-merger period while others show a deterioration.

Merger and acquisitions can lead to an excessive change in the economy; therefore, the M&A play a vital role in economic as well as acculturation of the country.

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