Merger and Acquisitions in Indian Banking Sector in Post Liberalization Period : A Study of Selected Banks

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Abstract

The banking industry is one of the rapidly growing industries in India. It has transformed itself from a sluggish business entity to a dynamic industry. The growth rate in this sector is remarkable and it has become the most preferred banking destinations for international investors. A relatively new dimension in the Indian banking industry has accelerated through mergers and acquisitions. The present paper evaluates the performance of selected merged banks before and after the merger covering the period from 2006 -2010 with the help of Camel Parameters. It has been found that banks performed differently regarding different parameters of Camel Model. Further, it is revealed that banks have been positively affected by the event of merger.

Keywords: Merger and Acquisitions, Camel Parameters, Banking Industry.

INTRODUCTION

The banking industry is one of the rapidly growing industries in India. The growth rate in this sector is remarkable and it has become the most preferred banking destinations for international investors also. In the last two decades, there have been paradigm shift in Indian banking industries. A relatively new dimension in the Indian banking industry has accelerated through mergers and acquisitions. Merger is a useful tool for growth and expansion in Indian banking sector and helpful in survival of weak banks.

The Indian banking sector can be divided into pre and post liberalization era. In the pre liberalization era Government of India nationalized 14 banks on 19 July 1965 and later on 6 more commercial Banks on 15 April 1980. In the post liberalization regime, government had initiated the policy of liberalization and licenses were issued to the private banks which lead to the growth of Indian banking sector. The Indian banking industry showed a sign of improvement in performance and efficiently after the global crises in 2008-2009. The Indian banking industry was least affected by the global crisis in 2008-09. It was due to strong financial position and fundamentals of banking industry in India. Government has taken various initiatives to strengthen the financial system and banking industry. The economic

recovery gained strength on the bank of a variety of monetary policy initiatives taken by the RBI.

The impact of globalization on Indian Banking has caused many changes in terms of regulations and structural. With the changing environment, many different strategies have been adopted by this sector to remain efficient and competitive to surge at the forefront in the global arena. One such strategy is in the course of consolidation is merger and acquisition. This study aims to analyse the performance of selected Indian Banks after merger in the post liberalization period.

2. REVIEW OF LITERATURE

Mishra et al. (2005) examined the contribution of the acquired banks in non-conglomerate types of mergers and found overwhelmingly statistically significant evidence that non-conglomerate types of mergers definitely reduced the total as well as the unsystematic risk while having no statistically significant effect on systematic risk.

Gutenko et al. (2007) found that stocks of investment banks had performed well in 2006 due to the diversity of their financial products and the increasingly international nature of their advisory services. Further, it was found that investment opportunities and risks associated with investing

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in one of the leading investment banking franchises –JP Morgan and Co.JP Morgan represented a unique combination of three storied and here to independent banking franchises: Chase Manhattan, J.P.Morgan and Bank One .The short –term investment prospects for investors in J.P.Morgan and Co. were largely neutral, while the long – term investment prospects were stated to be more robust.

Alexander et al. (2008) assessed the impact of cross border merger and acquisitions and analyzed the role of trade cost using industry data of 23 countries over a period of 1990 - 2001. It was found that aggregate trade cost affects cross border merger activity negatively and its impact differs importantly across horizontal and non-horizontal mergers. It was found that there were less negative effects on horizontal merger.

WU SU (2008) examined the efficiency consequences of bank mergers and acquisitions of four major banks in Australian. The empirical results demonstrated that for the time being mergers among the four major banks resulted in much poor efficiency performance in the merging banks and the banking sector.

Azhagaiah and Kumar (2011) analysed short-run profitability of acquirer firms taking sample of 10 acquiring firms from chemical industry in India. It was concluded that there has been an increase in all the ratios after merger and there was a significant positive impact of mergers and acquisitions on the profitability of the acquirer firms of the chemical industry.

Antony (2011) in his study post-merger profitability of selected banks in India examined the impact of the banks merged in India from 1999 to 2011 taking sample of 18 mergers and acquisitions. It was found that there was a significant difference in the profitability ratios of the banks in the post-merger scenario. Hence, merger has resulted in improved performance of the banks,

Goyal and Joshi (2011) highlighted that mergers and acquisitions is a strategic tools for expanding their horizon and companies like the ICICI Bank has used merger as their expansion strategy in rural market to improve customers base and market share. Further, it has also been stated that media play an important role in Merger and Acquisitions.

Loomba (2013) examined the impact of mergers and acquisitions in Indian Banking Sector (2005-2010) on scrip price returns by taking the sample of four merger banks (merger of ICICI Bank with Bank of Rajasthan, HDFC Bank with Central Bank of Patiala, Indian Overseas Bank

with Bharat Overseas Bank and the merger of ICICI Bank with Sangali Bank).It was found that the impact of merger on scrip return have not shown any substantial difference in return during post merger period. The mergers seemed to have a positive impact on profitability of the selected banks and a minute reduction was observed in some cases, but that has not hampered the post merger performance of the various banks.

Meena and Kumar (2014) analysed the pre and post merger financial performance of three leading merged banks (i.e. ICICI Bank, SBI Bank and HDFC Bank) of India during the period 2000 to 2013. It was found that to some extent Mergers and Acquisitions has resulted in positive impact on the performance of merged banks. Further it was suggested that Government should not promote merger between strong and distressed banks as a way to promote the interest of the depositors of distressed banks, as it will have adverse effect upon the asset quality of the stronger banks.

Prabhu and Honnappa (2015) examined the Impact of Merger and Acquisitions on the performance of three banks viz. IDBI Bank, Indian Overseas Bank and HDFC Bank. The pre and post merger performance of merged banks has been analysed in terms of profitability and their respective compound annual growth rate. It was found that the financial performance of acquiring banks has improved after the merger.

3. OBJECTIVES OF THE STUDY

1. To examine the overall performance of merged banks during pre-merger and post-merger period.
2. To analyse the impact of merger on the financial performance of merged bank.

4. HYPOTHESIS

Ho: (There is no significant difference between the overall performance of merged banks during pre and post merger period)

H1: (There is significant difference between the overall performance of merged banks during pre and post merger period)

Ho: (There is no significant difference between the financial performance of merged banks during pre and post merger period)

H2: (There is significant difference between the financial performance of merged banks during pre and post merger period)

5. RESEARCH METHODOLOGY

It covers the Data collection, sample design, period of study,

statistical tools. For the present study the following research methodology has been used:

Sources of Data: The study is descriptive and analytical in nature based on secondary data which has been collected from various sources such as annual reports of the respective banks, CMIE Prowess database, Ace Analyzer, Capitaline database, RBI Annual Reports, RBI Reports on Trend and Progress on Banking in India, journals, magazines and relevant websites related to the study.

Statistical Tools: The descriptive statistics i.e. mean, standard deviation and Camel model parameters have been used and to test the significance of the observed results, the parametric t-test have also been used to study the performance of merged banks in Indian banking sector.

Period of the Study: The financial performance of Mergers and Acquisitions in Indian Banking has been analysed for a period of five years i.e. from 2006-2010. To analyse the impact of mergers and acquisitions on financial performance of select merged banks a period of five years before the merger and after the merger period has been taken upto 2014 for analysis.

Sample Design: For understanding the impact of mergers and acquisitions on the financial performance of the merged banks four banks have been taken for the study. The sample banks representing different categories of mergers in Indian banking sector and are presented in the following table-I:

TABLE - 1

SELECTED MERGED BANKS:

S.No.	Merging Banks	Merged Banks	Year of Merger
1.	Ganesh Bank of Kurandward	Federal Bank	2006
2.	Bharat Overseas Bank	Indian Overseas Bank	2007
3.	Centurion Bank of Punjab	HDFC Bank	2008
4.	Bank of Rajasthan	ICICI Bank	2010

Source: Compiled from Report on Trend and Progress, RBI, Various Issues

RESULTS AND DISCUSSIONS:

CASE I: FEDERAL BANK ACQUIRED GANESH BANK OF KURANDWARD (2006)

Federal Bank which is well established in Kerala and also has branches across other states had been looking to grow inorganically by expanding out of Kerala and expanding its delivery channels. The main purpose of acquiring was to get access to locations where they do not have a presence and also since they focus on giving advances to SME's and agricultural enterprises this would create potential growth centres, thus improving their overall synergies. In order to study the effect of merger on the performance of Federal Bank, the analysis is presented in the following table:

Table - 2

Camel Parameters	Ratios	Pre/Post	N	Mean	Std. Deviation	t	df	Sig. (2-tailed)
CAPITAL ADEQUACY	Loans and Advances To Assets Ratio	Pre	6	1.3217	.18777			
		Post	8	.8750	.27959	3.368*	12	.006
	Capital Adequacy Ratio	Pre	6	11.9650	1.29407			
		Post	8	16.4150	3.32512	-3.082*	12	.010
	Debt Equity Ratio	Pre	6	.8217	.21479			
		Post	8	.5525	.24627	2.133*	12	.045
ASSET QUALITY	Net NPA To Net Advances Ratio	Pre	6	3.3400	3.02857			
		Post	8	.5363	.23682	2.644*	12	.021
	Net NPA To Total Assets Ratio	Pre	6	2.6050	1.97519			
		Post	8	.2150	.20536	3.445*	12	.005
	Total Investment To Total Assets Ratio	Pre	6	33.8900	3.89874			
		Post	8	29.8963	1.35349	2.718*	12	.019
MANAGERIAL EFFICIENCY	Business Per Employee	Pre	6	36.1733	12.50017			
		Post	8	88.1150	14.20777	-7.112*	12	.000
	Profit Per Employee	Pre	6	.2413	.12799			
		Post	8	.7365	.13577	-6.915*	12	.000
	Total Advances To Total Deposits Ratio	Pre	6	1.5050	.22985			
		Post	8	1.0866	.36136	2.472*	12	.029

EARNING QUALITY	Interest Income To Total Income Ratio	Pre	6	73.2600	17.49913			
		Post	8	88.6138	2.20405	-2.489*	12	.028
	Return On Assets Ratio	Pre	6	.9750	.29297			
		Post	8	1.3350	.11019	-3.220*	12	.007
	Return On Net Worth Ratio	Pre	6	20.4333	3.74575			
		Post	8	12.9188	1.41556	5.253*	12	.000
LIQUIDITY	Quick Ratio	Pre	6	7.1383	3.40938			
		Post	8	4.0088	1.08791	2.463*	12	.030
	Liquid Assets To Total Assets Ratio	Pre	6	13.6883	4.12878			
		Post	8	7.9388	1.15590	3.792*	12	.003
	Liquid Assets To Total Deposits Ratio	Pre	6	15.5200	4.42694			
		Post	8	9.7713	1.41437	3.484*	12	.005

Note: *Significant at 5 percent

The performance analysis of Federal Bank presented in table-II regarding Loans and Advances to Assets Ratio showed the significant difference in mean score (1.3217 v/s 0.8750, t-value 3.368) at 5 percent level of significance. It may be concluded that profitability of bank has decreased in post merger period as there is decrease in the mean value after merger. Similarly, Debt Equity Ratio showed significant difference in mean score (.8217 v/s .5525, t-value 2.133) at 5 percent which resulted into less protection to depositors and creditors after the bank merger. However, Capital Adequacy Ratio improved after merger as there has been significant difference in mean score (11.9650 v/s 16.4150, t-value 2.133) at 5 percent level of significance which revealed that bank was providing more protection to the investors after merger.

In respect of Asset Quality, it is illustrated that, difference in mean scores of Net NPA to Net Advances Ratio (3.3400

v/s .5363, t-value 2.644) and Net NPA to Total Assets Ratio (2.6050 v/s .2150, t-value 3.445) is significant at 5 percent which revealed that efficiency of bank in assessing the credit risk and to an extent, recovering the debts has enhanced after merger. Thus, it may be concluded that bank was successful in managing its NPAs after merger. Similarly, in Total Investments to Total Assets Ratio significant difference has also been found in mean score (33.8900 v/s 29.8963, t-value 2.718) which resulted into less deployment of assets in investment as against advances.

Managerial Efficiency measured through Business per Employee and Profit per Employee shows that mean values (36.1733 v/s 88.1150, t-value -7.112) and (.2413 v/s .7365, t-value -6.915) are significant at 5 percent level as there was difference in mean scores before and after merger. It may be concluded that after merger of bank efficiency of employees enhanced. However, Total Advances to Total Deposits Ratio exhibited the significant difference in mean score (1.5050

v/s 1.0866, t-value 2.472) which designated that after merger bank's earning capacity dwindled.

The Earnings Quality analysis showed that, after merger the income of the bank from lending operations has increased as there was significant difference in mean score (73.2600 v/s 88.6138, t-value -2.489), regarding Interest Income to Total Income Ratio. Similarly, Return on Assets Ratio also exhibited the significant difference in mean score (.9750 v/s 1.3350, t-value -3.220), at 5 percent level which indicated that after merger bank were using its assets efficiently to generate net income. However, there was significant difference in the mean score (20.433 v/s 12.9188, t-value 5.253) regarding Return on Net Worth Ratio which meant that profitability has declined as there was reduction in mean value after merger.

The Liquidity analysis through Quick Ratio showed the significant difference in mean values (7.1383 v/s 4.0088, t-value 2.463), at 5 percent which meant that after merger banks ability to meet its current obligations immediately has not improved as there is reduction in mean value. On the other hand, Liquid Assets to Total Assets Ratio (13.6883 v/s 7.9388, t-value 3.792) and Liquid Assets to Total Deposits Ratio (15.5200 v/s 9.7713, t-value .3484) revealed the significant difference in mean scores which meant that after merger banks ability to meet any eventuality in case of

depositors demand for cash/liquid assets has decreased and overall Liquidity position of the bank has deteriorated.

From the above analysis it may be concluded that all the ratios are significant at 5 percent level of significance, meaning thereby that there is difference in performance of the bank in pre and post merger period, hence null hypothesis is rejected.

CASE II: INDIAN OVERSEAS BANK ACQUIRED BHARAT OVERSEAS BANK (2007)

The merger of Bharat Overseas Bank with Indian Overseas Bank could be the first one after (the then Finance Minister) P Chidambaram's appealed the bankers to grow in terms of size. The merger was also inevitable due to RBI's guidelines that debar any single entity from holding more than 5% in a bank. Bharat Overseas Bank was owned by seven banks, including Indian Overseas Bank (30%). In 2007, Indian Overseas Bank bought over other shareholders to become the sole owner of Bharat Overseas Bank. In consequence, the Bangkok branch was reborn as Indian Overseas Bank from April 2007. At the end of March 2007 the total number of branches of Indian Overseas Bank in India stood at 1,781 and six full fledged branches in overseas. In order to study the effect of merger on the performance of Indian Overseas Bank, the analysis is presented in the following

Table-3

CAMEL PARAMETERS	Ratios	Pre/Post	N	Mean	Std. Deviation	t	df	Sig. (2-tailed)
CAPITAL ADEQUACY	Loans and Advances To Assets Ratio	Pre	6	.3815	.30684			
		Post	7	.6906	.07639	-2.591*	11	.025
	Capital Adequacy Ratio	Pre	6	12.7050	1.02833			
		Post	7	12.0643	1.40672	.922	11	.376
	Debt Equity Ratio	Pre	6	.9750	.21612			
		Post	7	1.9443	.32572	-6.195*	11	.000

ASSET QUALITY	Net NPA To Net Advances Ratio	Pre	6	1.7917	1.83264			
		Post	7	2.0843	.78403	-.385	11	.707
	Net NPA To Total Assets Ratio	Pre	6	1.2433	1.00687			
		Post	7	.7129	.81555	1.051	11	.316
	Total Investment To Total Assets Ratio	Pre	6	35.7050	7.19099			
		Post	7	26.1029	1.36165	3.486*	11	.005
MANAGERIAL EFFICIENCY	Business Per Employee	Pre	6	36.3950	14.27605			
		Post	7	106.9514	27.73338	-5.604*	11	.000
	Profit Per Employee	Pre	6	.3135	.12212			
		Post	7	.3129	.12868	.009	11	.993
	Total Advances To Total Deposits Ratio	Pre	6	.4235	.33437			
		Post	7	.8403	.09538	-3.172*	11	.009
	Interest Income	Pre	6	85.4200	2.15818			
EARNING QUALITY	To Total Income Ratio	Post	7	89.7171	2.29824	-3.455*	11	.005
	Return On Assets Ratio	Pre	6	11.3800	5.44040			
		Post	7	7.7429	5.22486	1.228	11	.245
	Return On Net Worth Ratio	Pre	6	32.6583	6.42833			
		Post	7	11.1114	7.25798	5.618*	11	.000
	Quick Ratio	Pre	6	2.4817	.60737			
		Post	7	4.0100	.31113	-5.850*	11	.000

LIQUIDITY	Liquid Assets To Total Assets Ratio	Pre	6	11.4067	1.71295			
		Post	7	9.0131	1.50439	2.685*	11	.021
	Liquid Assets To Total Deposits Ratio	Pre	6	13.2867	1.98926			
		Post	7	10.5414	1.05335	3.183*	11	.009

Note: *Significant at 5 percent

The Capital Adequacy analysis of Indian Overseas Bank (table-III) showed that Loans and Advances to Assets Ratio had the significant difference in mean score(.3815 v/s .6906, t-value -2.591) at 5 percent level of significance, which meant that the profitability of bank increased in post merger period as there is increase in the mean value. Similarly, Debt Equity Ratio indicated the significant difference in mean score (.9750 v/s 1.9443, t-value -6.195) which resulted into less protection to depositors and creditors after the bank merger.

Regarding Asset Quality, it is illustrated that, difference in mean score of Total Investment to Total Assets Ratio (35.7050 v/s 26.1029, t-value 3.486) is significant at 5 percent which resulted into less deployment of assets in investment as against advances. However, Net NPA to Net Advances Ratio and Net NPA to Total Assets Ratio indicated no significant difference before and after the bank merger.

So far as the Managerial Efficiency is concerned, the results revealed that Business Per Employee enhanced after merger as there was difference in mean score (36.3950 v/s 106.9514, t-value -5.604). Similarly, Total Advances to Total Deposits Ratio also demonstrated significant difference in mean score (.4235 v/s .8403, t-value -3.172) at 5 percent thereby concluding that after merger the bank's earning capacity has enhanced.

The Earnings Quality analysis highlighted that, Interest Income to Total Income Ratio had the significant difference at 5 percent in mean score(85.4200 v/s 89.7171, t-value -3.455) which exhibited that income from lending operations after merger was established to be on higher side. Similarly, Return on Net Worth Ratio also indicated that there was the significant difference in mean score (32.6583 v/s 11.1114, t-value 5.618) which reflected that after merger of bank, profitability has declined.

Regarding Liquidity, the Quick Ratio shows the significant difference (at 5 percent level) in mean score (2.4817 v/s 4.0100, t-value -5.850), which meant that after merger banks ability to meet its current obligations immediately has improved as there is increase in mean value. On the other hand Liquid Assets to Total Assets Ratio (11.4067 v/s 9.0131, t-value 2.685) and Liquid Assets to Total Deposits Ratio (13.2867 v/s 10.5414, t-value 3.183) had confirmed the significant difference in mean scores at 5 percent. From the analysis, it may be concluded that after merger banks ability to meet any eventuality in case of depositors demand for cash/liquid assets has deteriorated and overall Liquidity position of the bank did not improved.

From the above analysis it may be concluded that (Capital Adequacy Ratio, Net NPA To Net Advances Ratio, Net NPA To Total Assets Ratio, Profit Per Employee And Return On Assets Ratio) no significant difference has been found, meaning thereby that there is insignificant difference in the performance of the bank in pre and post merger period, hence null hypothesis is accepted.

CASE III: HDFC BANK ACQUIRED CENTURION BANK OF PUNJAB (2008)

The main purpose of the acquisition was to grow and keep pace with the fast growing economy by increasing their scale and geographical reach. To achieve this objective HDFC Bank acquired Centurion Bank of Punjab as they have the similar beliefs with respect to the 'terms of culture, strategic intent and approach to business' and 'also desperately need experienced staff to expand their services'. After the merger, HDFC Bank came be the third-largest bank by assets in the country, trailing State Bank of India and ICICI Bank. The results are presented in the following table-IV:

Table - 4

CAMEL PARAMETERS	Ratios	Pre/Post	N	Mean	Std. Deviation	t	df	Sig. (2- tailed)
CAPITAL ADEQUACY	Loans and Advances To Assets Ratio	Pre	6	16.2483	37.60531			
		Post	6	.8150	.24337	1.005	10	.338
	Capital Adequacy Ratio	Pre	6	12.1717	.98115			
		Post	6	15.7633	.49991	-7.989*	10	.000
	Debt Equity Ratio	Pre	6	.9550	.16909			
		Post	6	.7333	.15908	2.339*	10	.041
ASSET QUALITY	Net NPA To Net Advances Ratio	Pre	6	.3950	.16932			
		Post	6	.2367	.05354	2.184*	10	.054
	Net NPA To Total Assets Ratio	Pre	6	.5233	.87431			
		Post	6	1.2617	1.18906	-1.225	10	.249
	Total Investment To Total Assets Ratio	Pre	6	37.0683	5.16180			
		Post	6	26.3133	1.74672	4.834*	10	.001
MANAGERIAL EFFICIENCY	Business Per Employee	Pre	6	59.5705	15.54518			
		Post	6	75.7467	15.66287	-1.796	10	.103
	Profit Per Employee	Pre	6	.5993	.18706			
		Post	6	.9110	.27313	-2.306*	10	.044
	Total Advances To Total Deposits Ratio	Pre	6	1.1983	.75441			
		Post	6	1.0967	.32959	.302	10	.768
	Interest Income To	Pre	6	79.6267	1.29983			

EARNING QUALITY	Total Income Ratio	Post	6	81.3783	1.98797	-1.806	10	.101
	Return On Assets Ratio	Pre	6	1.3717	.07574			
		Post	6	1.7967	.20598	-4.744*	10	.001
	Return On Net Worth	Pre	6	18.4283	1.31896			
		Post	6	19.0750	2.26610	-.604	10	.559
LIQUIDITY	Quick Ratio	Pre	6	.9867	.34051			
		Post	6	1.5167	.29615	-2.877*	10	.016
	Liquid Assets To Total Assets Ratio	Pre	6	11.8533	1.35468			
		Post	6	10.8867	3.14989	.691	10	.506
	Liquid Assets To Total Deposits Ratio	Pre	6	15.9150	1.52473			
		Post	6	14.9617	3.89974	.558	10	.589

Note: *Significant at 5 percent

The results of HDFC Bank as represented in table-IV shows that there is significant difference in mean score (12.1717 v/s 15.7633, t-value -7.989) of Capital Adequacy Ratio, which indicated stronger position of the bank and more protection to the investors after the merger. Similarly, Debt Equity Ratio also revealed the significant difference at 5 percent level in mean score (.9550 v/s .7333, t-value 2.339) which resulted into less protection to depositors and creditors after the bank merger.

In terms of Asset Quality, it was found that, difference in mean scores of Net NPA to Net Advances Ratio (.3950 v/s .2367, t-value 2.184) is significant at 5 percent, concluding thereby that efficiency of bank in assessing the credit risk and to some extent and recovering the debts enhanced after merger and furthermore, bank was successful in managing its NPAs. Similarly, Total Investment to Total Assets Ratio also indicated the significant difference in mean score (37.0683 v/s 26.3133, t-value 4.834) which resulted into less deployment of assets in investment as against advances.

The results of Managerial Efficiency highlighted that Profit

Per Employee has enhanced after merger as there is significant difference in the mean score (.5993 v/s .9110, t-value -2.306) before and after merger. However, Business per Employee and Total Advances to Total Deposits exhibited no significant difference before and after the merger meaning thereby that Business per Employee had not increased significantly after merger.

The Earnings Quality reflected that, Return on Assets Ratio had the difference in mean score (1.3717 v/s 1.7967, t-value -4.744) is significant at 5 percent level which exhibited that after merger of bank, the assets were used efficiently to generate net income. However, Interest Income to Total Income Ratio and Return on Net Worth Ratio indicated no significant difference in mean scores. Hence there has not been much improvement in these aspects after merger.

In the parameters of Liquidity, Quick Ratio depicts the significant difference at 5 percent in mean score (.9867 v/s 1.5167, t-value 6.687) which meant that after merger banks ability to pay current obligations immediately has improved. On the other hand, Liquid Assets to Total Assets Ratio and

Liquid Assets to Total Deposits Ratio showed no significant difference in mean scores. Thus, performance before and after remained the same

From the above analysis it may be concluded that (Capital Adequacy Ratio, Debt Equity Ratio, Net NPA To Net Advances Ratio, Total Investment To Total Assets Ratio, Profit Per Employee, Return On Assets Ratio And Quick Ratio) are significant at 5 percent level of significance, meaning thereby that there is difference in the performance of bank in pre and post merger period regarding these aspects, hence, null hypothesis is rejected

CASE IV: ICICI BANK ACQUIRED BANK OF RAJASTHAN (2010)

The ICICI Bank had a 'new-found-branch-strategy' and thus one of the prime motives for ICICI Bank taking over Bank of Rajasthan is to expand to new markets as Bank of Rajasthan's branches are mostly concentrated in Northern & Western India thus ensuring deeper access to these markets. Bank of Rajasthan promoters (who had a 55% stake) agreed to this takeover because there was mounting pressure from SEBI to do so, thus creating a win- win situation for both banks. (Anon, 2010) In order to study the effect of merger on the performance of ICICI Bank, the analysis is presented in the following table:

Table-5

CAMEL PARAMETERS	Ratios	Pre/Post	N	Mean	Std. Deviation	t	df	Sig. (2- tailed)
CAPITAL ADEQUACY	Loans and Advances To Assets Ratio	Pre	6	1.6933	.35449			
		Post	4	.8575	.04272	4.600*	8	.002
	Capital Adequacy Ratio	Pre	6	15.4417	2.73560			
		Post	4	16.9400	.58969	-1.059	8	.321
	Debt Equity Ratio	Pre	6	2.1200	.42124			
		Post	4	2.1975	.08808	-.356	8	.731
ASSET QUALITY	Net NPA To Net Advances Ratio	Pre	6	1.5250	.56437			
		Post	4	.8950	.17767	2.125	8	.066
	Net NPA To Total Assets Ratio	Pre	6	.6767	.39510			
		Post	4	.2543	.26997	1.852	8	.101
	Total Investment To Total Assets Ratio	Pre	6	29.3433	3.03219			
		Post	4	31.5000	1.29357	-1.323	8	.222

MANAGERIAL EFFICIENCY	Business Per Employee	Pre	6	118.4367	9.24853			
		Post	4	73.1250	1.65000	9.510*	8	.000
	Profit Per Employee	Pre	6	1.0570	.09260			
		Post	4	1.2250	.20616	-1.783	8	.112
	Total Advances To Total Deposits Ratio	Pre	6	2.9933	.70281			
		Post	4	1.5313	.25355	3.926*	8	.004
EARNING QUALITY	Interest Income To Total Income Ratio	Pre	6	76.9983	1.77997			
		Post	4	81.3150	.79303	-4.492*	8	.002
	Return On Assets Ratio	Pre	6	1.1617	.13819			
		Post	4	1.6700	.11944	-5.990*	8	.000
	Return On Net Worth Ratio	Pre	6	10.8867	2.87004			
		Post	4	12.8550	1.18551	-1.280	8	.236
LIQUIDITY	Quick Ratio	Pre	6	2.2683	.54183			
		Post	4	2.0825	.07411	.668	8	.523
	Liquid Assets To Total Assets Ratio	Pre	6	10.8233	2.38195			
		Post	4	12.0100	.72162	-.950	8	.370
	Liquid Assets To Total Deposits Ratio	Pre	6	19.8467	3.21306			
		Post	4	21.0125	3.82871	-.522	8	.615

Note: *Significant at 5 percent

The analysis of ICICI Bank in table-V regarding Loans and Advances to Assets Ratio showed the difference in mean score (1.6933 v/s .8575, t-value 4.600) is significant at 5 percent level of significance, which meant that the

profitability of bank decreased in post merger period because of reduction in the mean value. However, Capital Adequacy Ratio and Debt Equity Ratio indicated no significant difference in mean score.

In respect of Asset Quality, it is illustrated that, there was no significant difference in mean scores of Net NPA to Net Advances Ratio, Net NPA to Net total advances Ratio and Total Investment to Total Assets Ratio after the merger. So the performance of bank remained more or less same regarding these aspects in pre and post merger period.

The analysis of Managerial Efficiency revealed that Business Per Employee exemplified the significant difference at 5 percent in mean score (118.4367 v/s 73.1250, t-value 9.510) which indicated that after merger of bank, efficiency of employees deteriorated. Similarly, Total Advances to Total Deposits Ratio also exhibited significant difference in mean score (2.9933 v/s 1.5313, t-value 3.926) at 5 percent which designated that after merger bank's earning capacity dwindled.

The Earnings Quality showed that, Interest Income to Total Income Ratio had the significant difference at 5 percent in mean score (76.9983 v/s 81.3150, t-value -4.492) which exhibited that income from lending operations after merger was established to be on higher side. Similarly, Return on Assets also indicated that there was significant difference in mean score (1.1617 v/s 1.6700, t-value -5.990) which meant that after merger of bank, the assets were used efficiently to generate net income.

The Liquidity parameter points out that Quick Ratio, Liquid Assets to Total Assets Ratio and Liquid Assets to Total Deposits Ratio had no significant difference in mean scores after merger. So it may be concluded that liquidity position of the ICICI Bank remained more or less same during pre and post merger period.

From the above analysis it may be concluded that (Loans and Advances to Assets Ratio, Business per Employee, Total Advances to Total Deposits Ratio, Interest Income to Total Income Ratio and Return on Assets Ratio) are significant at 5 percent level of significance, hence null hypothesis is rejected

7. CONCLUSION:

Merger is a useful tool for growth and expansion in Indian banking sector. It is helpful for survival of weak banks by merging into larger banks. The study was conducted with the aim of evaluating the performance of selected banks using Camel Parameters during pre and post merger period. The results revealed that, the performance of Federal Bank has improved regarding Capital Adequacy, Asset Quality, Managerial Efficiency and Earnings Quality after merger. However, the bank's performance did not improved

regarding Liquidity after merger. In case of Indian Overseas Bank, the Capital Adequacy and Managerial Efficiency improved after merger as there has been increase in the mean value. However, the bank's performance did not improve regarding Asset Quality, Earnings Quality and Liquidity. Regarding HDFC Bank, the performance has improved in respect of Capital Adequacy, Managerial Efficiency, Earnings Quality and Liquidity after merger. However, regarding Asset Quality the bank's performance did not improve after merger. Similarly in case of ICICI Bank, the performance of Bank enhanced after merger regarding Capital Adequacy, Asset Quality, Earnings Quality and Liquidity. But, the bank's performance did not showed any improvement regarding Managerial Efficiency after merger. It may be concluded that after merger the performance of the merged banks did not remain uniform throughout the period of the study. The performance of all selected merged banks has been dissimilar across different parameters i.e. Capital Adequacy, Asset Quality, Managerial Efficiency, Earnings Quality and Liquidity over the period of study. On the basis of above analysis it can be revealed that there is significant difference in the financial performance of merged banks during merger period hence null hypothesis is rejected.

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DATABASE:

CMIE Prowess Database

Ace Analyzer

Capitaline Database

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