**An Analysis of Merger and Acquisition in Indian Banking
Sector: A Case Study of ICICI Bank**

**Sovan Mishra\***

**ABSTRACT**

*Today’s global economy has shown an immense importance of merger and acquisition in path of growth and development, which contains various challenges and issues by overcoming which one attains a successful story. Its strategy have helped in achieving larger size and faster growth in market share and in becoming more competitive through economies of scale.*

*This research study aims to study the need of merger and acquisition in Indian banking sector with a case study of ICICI bank and its pre merger and post merger effects on financial performance. The data are collected mostly from secondary sources. Then with the help of various charts and diagrams the above study is analysed. Hypothesis is drawn and tested by using t test. Finally it concluded that there is high effect of merger and acquisition on financial performance of ICICI bank.*

***Key words:*** Merger and Acquisition, banking sector, Current Ratio, Quick Ratio, Net profit ratio, Return on Net Worth, Earnings per share, , Debt equity ratio.

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*Research Scholar, Ravenshaw University,Cuttack, Emai id:* *sovanmishra90@yahoo.com*

**INTRODUCTION**

Entry of new players and products with advanced technology, globalisation of financial markets, changing demographics of customer behaviour, consumer choice for wider choice and cheap service, shareholder wealth demands, shrinking margins have put a full pressure on the employees of banks around the world.

The present scenario has shown the strategy of merger and acquisition in strengthening and maintaining their position in market share. It has been considered relatively fast and efficient way to expand into new markets and incorporate new technologies.

Indian companies have started the acquisition of industries in the international market. Wipro and Infosys in the IT sector, L.N.Mittal took over Arcelor, Tata Steel took over Corus and Vodafone took over Hutch. The purpose of mergers and acquisitions are procurement of supplies, to safeguard sources raw materials, and to obtain economies of scale. Market expansion strategy works to eliminate competition and protect existing markets, diversify products, strategic control of patents and copyrights. Financial strength through improve liquidity allows direct access to cash resources, enhances gearing capacity, borrowing on better strength, greater asset backing and improved EPS. Various laws govern mergers and acquisitions in India. They are Companies Act, 1956; Industrial (Development and Regulation) Act, 1951; Monopolies and Restrictive Trade Practices Act, 1969; Competition Act, 2002; Foreign Exchange Management Act, 1999; Sick Industrial Companies (Special provisions) Act, 1961; Income Tax Act, 1961; Securities Contract (Regulation) Act, 1956; Securities and Exchange Board of India Act, 1992; SEBI (Substantial Acquisition of shares and Takeovers) Regulations, 1997.

Weston and Mansingka studied the pre and post-merger performance of conglomerate firms, and found that their earnings rates significantly underperformed those in the control sample group. According to Karim and Bansal, (2008) merger and acquisitions help the firm acquire valuable capabilities possessed by the acquired organizations. Basant (2000) suggests that economic reform in the Indian economy has significantly reduced micro-economic rigidities and enhanced competitive pressures. In response, firms have undertaken corporate restructuring activity in order to retain competitiveness and increase their value. Beena (2004) finds evidence of mergers within the same group with the motive of consolidation of control to protect against takeovers but does not find any role of efficiency-related parameters in determining merger activity in India.

The Indian economy has undergone a major transformation and structural change following the economic reforms introduced by the Government of India in 1991. Since then, the M&A movement in India have picked up momentum. In the liberalized economic and business environment , ‘magnitude and competence’ have become the focal points of every business enterprise in India , as companies have realized the need to grow and expand in business that they understand well to face the following competition. Indian corporate has under taken restructuring exercise to sell off non core business and to create stronger presence in their core areas of business interest. M& A emerged as one of the most effective methods of such corporate restructuring and have, therefore become an integral part of the long term business strategy of corporate in India.

**OBJECTIVE OF THE RESEARCH**

The above research has been carried out considering the following objectives:

* Need of merger and acquisition in Indian banking sector.
* To evaluate the financial performance of ICICI banks after merger.

**Merger &Aquisition IN INDIAN BANKING SECTOR**

In the banking sector, important mergers and acquisitions have occurred in India in recent years. Mergers and acquisitions in India are on the rise. India has emerged as one of the top countries with respect to merger and acquisition deals.

 The history of Indian banking can be divided into three main phases 1:

• Phase I (1786-1969)-Initial phase of banking in India when many small banks were set up

• Phase II (1969-1991)- Nationalization, regularization and growth

• Phase III (1991 onwards)-Liberalization and its aftermath

With the reforms in Phase III the Indian banking sector, as it stands today, is mature in supply, product range and reach, with banks having clean, strong and transparent balance sheets. The major growth drivers are increase in retail credit demand, proliferation of ATMs and debit-cards, decreasing NPAs due to Securitisation, improved macroeconomic conditions, diversification, interest rate spreads, and regulatory and policy changes (e.g. amendments to the Banking Regulation Act).

 Certain trends like growing competition, product innovation and branding, focus on strengthening risk management systems, emphasis on technology have emerged in the recent past.

**Table 1: List of few Merger and Acquisitions (M&As) in Indian Banking Industry since post Liberalization regime.**

|  |  |  |  |
| --- | --- | --- | --- |
| Serial No. | Name of the transferor bank | Name of the transferee bank | Date of merger/amalgamation |
| 1 | IDBI Bank Ltd. | IDBI Ltd. | April 2, 2005. |
| 2 | Bank of Punjab Ltd. | Centurion Bank Ltd. | October 1, 2005 |
| 3 | Ganesh Bank Of Kurundwad Ltd. | Federal Bank Ltd. | September 2, 2006 |
| 4 | United Western Bank Ltd. | IDBI Ltd. | October 3, 2006 |
| 5 | Bharat Overseas Bank Ltd. | Indian Overseas Bank | March 31, 2007 |
| 6 | Sangli Bank Ltd. | ICICI Bank Ltd. | April 19, 2007 |
| 7 | Lord Krishna Bank Ltd. | Centurion Bank of Punjab Ltd. | August 29, 2007 |
| 8 | Centurion Bank of Punjab Ltd. | HDFC Bank Ltd. | May 23, 2008 |
| 9 | The Bank of Rajasthan | ICICI Bank Ltd. | August 13, 2010 |

**Source:** Report on trend and progress, RBI, various issues, VIII competition and consolidation, 04 sep 2008

**REVIEW OF LITERATURE:**

Ivancevich, Schweiger and Power (1987) studied the merger stress process, stages of the merger process and the sources of stress created and choosing guidelines and interventions to encourage more effective management of merger stress. They suggested some measures to effectively manage merger stress, like prevention, to reduce the actual stress-inducing merger events; secondly, reappraisal of employee which refers to changing initial cognitive appraisal of a situation and at last effective stress management and professional help which supports those employees that are already stressed. Cartwright and Cooper (1990) studied current wave of merger activity and assessed the contribution of psychology to understand mergers and acquisitions in addressing the essence of the activity. They found the positive relationship in combination of people and the fusion of organizational cultures. Appelbaum, Gandell, Yortis, Proper, and Jobin (2000) examined the multiple organizational factors, which directly affect a merger as well as the merger process. They addressed the issue of communication and its importance throughout the merger and acquisition (M&A) process. Further, they analyzed the corporate culture and its effects on employees when two companies merge, organizational change and the reaction of employees (resistance) to these changes.George & Hegde (2004) reported a case for the delicate aspect of employees' attitudes, their satisfaction and motivation, which are posited as prerequisites for customer satisfaction, which is, again necessary for the competitive sustenance of the organization.Cartwright and Schoenberg (2006) assessed three primary streams of enquiry within the strategic and behavioural literature. They studied the issues of strategic fit, organizational fit, and the acquisition process itself. Coming down on the various motives for Merger and Acquisitions, Mehta Jay & Kakani Ram Kumar (2006) stated that there were multiple reasons for Merger and Acquisitions in the Indian Banking Sector and still contains to capture the interest of a research and it simply because of after the strict control regulations had led to a wave of merger and Acquisitions in the Banking industry and states many reason for merger in the Indian Banking sector. Murthy (2007) studied the case of five bank mergers in India viz. Punjab National Bank and New Bank of India, ICICI Bank and Bank of Madura, ICICI Ltd. and ICICI Bank, Global Trust Bank and Oriental Bank of Commerce and Centurion Bank with Bank of Punjab. It was concluded by the author that consolidation is necessary due to stronger financial and operational structure, higher resources, wider branch network, huge customer base, technological advantage, focus on priority sector, and penetration in rural market. Ellis, Reus and Lamont (2009) explored the independent and interactive effects of procedural justice and informational justice on post-deal value creation in large, related acquisitions. Weber and Fried (2011) discussed the role of human resources (HR) practices in managing the cultural integration process in a post-merger and acquisition (M&A) culture.Chen and Lin (2011) examined the possible benefits and effects of post-M&A integration on new product development (NPD) performance in terms of efficiency and effectiveness. Sinha Pankaj & Gupta Sushant (2011) studied a pre and post analysis of firms and concluded that it had positive effect as their profitability, in most of the cases deteriorated liquidity.

**NEED OF THE STUDY:**

It is seen that, most of the works have been done on trends, policies & their framework, human aspect which is needed to be investigated, whereas profitability and financial analysis of the mergers have not give due importance. The present study would go to investigate the detail of Merger and Acquisitions (M&As) with greater focus on the Indian banking sector. The study will also discuss the pre and the post merger performance of banks. An attempt is made to predict the future of the ongoing Merger and Acquisitions (M&As) on the basis of financial performance of Indian banking sector.

**HYPOTHESIS:**

Ha1: There is significant difference in pre and post merger effects on quick ratio of ICICI Bank.

H01: There is no significant difference in pre and post merger effects on debt equity ratio of ICICI Bank.

Ha2: There is significant difference in pre and post merger effects on return on net worth of ICICI Bank.

Ha3: There is significant difference in pre and post merger effects on earnings per share of ICICI Bank.

**RESEARCH METHODOLOGY:**

**A. DATA COLLECTION**

For the purpose of evaluation of investigation data is collected from Merger and Acquisition (M&As) of Indian Banking Industry. The financial and accounting data of banks is collected from banks annual reports to examine the impact of merger on financial performance of the banks. Different books, journals official statistics, reports, articles, publications and other documents, and electronic data were also used. The collected data were analyzed using different statistical tools. The data for this research has been collected both from primary and secondary sources.

**B. METHODOLOGY**

To test the prediction, methodology of comparing the pre and post performance of the banks after the merger has been adopted by using following financial parameters such as Current ratio, Quick ratio, Total Debt/Equity ratio, Net Profit margin, Return on Net Worth, EPS.

**ICICI’s Financial Performance Relating to Pre and Post Merger Period:**

**Exhibit: 1-Average Current Ratio, Quick Ratio and Debt Equity Ratio of Pre and Post Merger Period.**

Source: Annual Report of concern Bank.

**Exhibit: 2-Average EPS, Net Profit Margin and ROE Ratio of Pre and Post Merger Period.**

Source: Annual Report of concern Bank.

**Table:1- EPS, Net Profit Margin and ROE Ratio of Pre-Merger Period:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2008** | **2009** | **2010** | **Average** |
| Net Profit Margin(%) | 10.51 | 9.74 | 12.17 | 10.81 |
| Return on Net Worth(%) | 8.94 | 7.58 | 7.79 | 8.10 |
| EPS(%) | 37.37 | 33.76 | 36.10 | 35.74 |

Source: Annual Report of concern Bank.

**Table:2- EPS, Net Profit Margin and ROE Ratio of Post-Merger Period:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2011** | **2012** | **2013** | **Average** |
| Net Profit Margin(%) | 15.91 | 15.75 | 17.19 | 16.28 |
| Return on Net Worth(%) | 9.35 | 10.70 | 12.48 | 10.84 |
| EPS(%) | 44.73 | 56.09 | 72.17 | 57.66 |

Source: Annual Report of concern Bank.

**ANALYSIS of the Financial Results:**

* When we start comparing current ratio with pre and post merger period on an average, it is seen that the ratio has increased.
* The quick ratio on an average has increased when post merger period is compared with pre merger period.
* The debt equity ratio has declined
* Net Profit margin has shown a significant increase from 10.81% to 16.28% and has clearly stated that the bank has made profits after merger.
* Return on Net Worth has increased after merger.
* The Earnings Per Share has shown a way forward after merger.

**TESTING OF HYPOTHESIS:**

**Quick Ratio of ICICI Bank:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **N** | **Mean** | **SD** | **t** | **df** | **Result** |
| 3 | 2.9 | 46.51 | 2.51 | 2 | NS |

The difference in the pre merger and post merger was found to be non significant (t=2.51 < table value = 2.920 at 5% level of significance). Hence the hypothesis taken “There is significant difference in pre and post merger effects on Current Ratio of ICICI Bank” is accepted.

**Debt Equity Ratio of ICICI Bank:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **N** | **Mean** | **SD** | **t** | **df** | **Result** |
| 3 | 0.29 | 0.83 | 0.60 | 2 | NS |

The difference in the pre merger and post merger was found to be non significant (t=0.60 < table value = 2.920 at 5% level of significance). Hence the hypothesis taken “There is no significant difference in pre and post merger effects on Debt Equity ratio of ICICI Bank” is accepted.

**Return on Net Worth of ICICI Bank:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **N** | **Mean** | **SD** | **t** | **df** | **Result** |
| 3 | 2.74 | 2.16 | 2.19 | 2 | NS |

The difference in the pre merger and post merger was found to be non significant (t=2.19 < table value = 2.920 at 5% level of significance). Hence the hypothesis taken “There is significant difference in pre and post merger effects on Return on Net Worth of ICICI Bank” is accepted.

**Earnings per Share of ICICI Bank:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **N** | **Mean** | **SD** | **t** | **df** | **Result** |
| 3 | 21.92 | 14.36 | 2.64 | 2 | NS |

The difference in the pre merger and post merger was found to be non significant (t=2.64 < table value = 2.920 at 5% level of significance). Hence the hypothesis taken “There is significant difference in pre and post merger effects on Earnings Per Share of ICICI Bank” is accepted.

C**ONCLUSION:**

Thus it can be concluded from the above study that there is a significant difference in between pre and post merger effects on financial performance of ICICI Bank which conveys that merger and acquisition has proved fruitful for them. The ICICI Bank has proved that to attain a greater share in market the organization has to go for some strategic tools like merger and acquisition.

**LIMITATION OF THE STUDY:**

Though some attempts have been taken to encompass the pre and post merger performance of the selected sample merger case, yet it is difficult to narrate all incidents changes brought up due to mergers and acquisitions and therefore necessary inferences are given wherever required. The above study is completely based on secondary data which are taken from the financial statements of the case through internet only therefore can’t be denied for any ambiguity in data used for the analysis.

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