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Research Paper | MANAGEMENT

Merger and Acquisitions in the Indian Banking Sector

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ABSTRACT

The International Banking scenario has shown major changes in the past few years in terms of the Mergers and Acquisitions. Mergers and Acquisition is a useful tool for the growth and expansion in any Industry and the Indian Banking Sector is no exception. It is helpful for the survival of the weak banks by merging into the larger bank. Due to the financial system deregulation, entry of new players and products with advanced technology, globalization of the financial markets, changing customer behaviour, wider services at cheaper rates, shareholder wealth demands etc., have been on rise.

This study shows the impact of Mergers and Acquisitions in the Indian Banking sector. For this purpose, a comparison between pre and post merger performance in terms of Operating Profit Margin, Net Profit Margin, Return on Assets, Return on Equity, Earning per Share, Debt Equity Ratio, Dividend Payout Ratio and Market Share Price has been made. In the initial stage, after merging, there may not be a significant improvement due to teething problems but later they may improve upon.

KEYWORDS : Mergers. Acquisitions, Financial Performance, Ratio, Profitability

Introduction:
Mergers and Acquisitions is one of the widely used strategies by the banks to strengthen and maintain their position in the market. Companies are confronted with the facts that the only big players can survive as there is a cut throat competition in the market and the success of the merger depends on how well the two companies integrate themselves in carrying out day to day operations. Banks will get the benefits of economies of scale through mergers and acquisition. For expanding the operations and cutting costs, Business Entrepreneur and Banking Sector is using mergers and acquisitions world wide as a strategy for achieving larger size, increased market share, faster growth, and synergy for becoming more competitive through economies of scale.

A Merger is a combination of two or more companies into one company or it may be in the form of one or more companies being merged into the existing companies. On the other hand, when one company takes over another company and clearly well known itself as the new owner, this is called as Acquisition. The banks must follow the legal procedure of mergers and acquisitions which is given by the Reserve Bank of India, SEBI, Indian Companies Act and Banking Regulation Act 1949. Mergers and acquisitions is not a short term process, it takes time to take decisions after examining all the aspects. Indian Corporate Sector had stringent control before liberalization but, the Government has initiated the Reform after 1991 which resulted in the adaptation of the different growth and expansion strategies by the Companies.

Landmarks in Indian Banking Sector:
- The Banking System of India was started in 1770 and the first Bank was the Indian Bank known as the Bank of Hindustan.
- 1840: Bank of Bombay
- 1843: The Bank of Madras
- 1840: Bank of Calcutta
- 1921: All the above banks were merged and formed a new bank known as Imperial Bank of India.
- 1955: Imperial Bank was partially nationalized and was named as State Bank of India
- 1969: 14 banks were nationalized
- 1980: 6 more banks were nationalized
- 1993: the New Bank of India was merged with The Punjab National Bank

Indian Banking can be divided into three main phases:
Phase I (1786 – 1969): Initial phase of Banking in India where many small banks were set up

Phase II (1969 – 1991): Nationalization, Regularization and Growth marked this period

Phase III (1991 onwards): Liberalization and its aftermath

In post liberalization regime, Government had initiated the policy of liberalization and licenses were issued to the private banks which led to the growth of the Indian Banking Sector. In the recent times, Indian Banking Industry showed a tremendous growth because of an increase in the retail credit demand, proliferation of ATMs and debit cards, decreasing NPAs, improved macro economic conditions, diversification, interest rate spreads and regulatory and policy changes.

Literature Review
Aharon David Y et al., (2010), analyzed the stock market bubble effect on Merger and Acquisitions and followed by the reduction of pre bubble and subsequent, the bursting of bubble seems to have led to further consciousness by the investors and provide evidence which suggests that during the euphoric bubble period investor take more risk. Merger of banks through consolidation is the significant force of change took place in the Indian Banking sector.

Kuriakose Sony et al., (2009), focused on the valuation practices and adequacy of swap ratio fixed in voluntary amalgamation in the Indian Banking Sector and used swap ratio for valuation of banks, but in most of the cases the final swap ratio is not justified to their financials.

Mantravadi Pramod & Reddy A Vidyadhar (2007) evaluated that the impact of merger on the operating performance of acquiring firms in different industries by using pre and post financial ratio to examine the effect of merger on firms. They selected all mergers involved in public limited and traded companies in India between 1991 and 2003, result suggested that there were little variation in terms of impact as operating performance after mergers. In different industries in India particularly banking and finance industry had a slightly positive impact of profitability on pharmaceutical, textiles and electrical equipments sector and showed the marginal negative impact on operative performance. Some of the industries had a significant decline both in terms of profitability and return on investment and assets after merger.

Objectives of the Study
The objectives of the paper are:
1. To study the Mergers and Acquisitions of Banks from 1969 to till date
2. To evaluate the banks performance in terms of Operating and Net Profitability
3. To analyse the performance of the Banks after merger in terms of return on Assets
4. To find out the impact of merger on company's debt equity ratio
5. To examine the effects of merger on equity shareholders through EPS and Market Share Price.

Methodology

Sources of Data: The study is based on secondary data. The financial and accounting data of banks is collected from the Annual report of the select Banks to examine the impact of Mergers and Acquisitions on the performance of the sample banks. Data are also collected from the Bombay Stock Exchange, National Stock Exchange, Securities and Exchange Board of India and Money Control for the study.

Period of the Study: To compare the performance of Banks, three years pre merger and three years' post merger financial ratios are being computed and compared. The year of merger was considered as a base year.

Financial Parameters: The performance of the Banks is made in respect of the financial parameters such as Net Profit Margin, Operating Profit Margin, Return on Assets, Return on Equity. Debt Equity Ratio, Earning Per Share and Market Share Price.

Hypothesis:

1. H0 (Null Hypothesis) – There is no significant difference between the pre and post merger Operating Profit Margin

H1 (Alternative Hypothesis) - There is a significant difference between the pre and post merger Operating Profit Margin

2. H0 (Null Hypothesis) – There is no significant difference between the pre and post merger Net Profit Margin

H1 (Alternative Hypothesis) - There is a significant difference between the pre and post merger Net Profit Margin

3. H0 (Null Hypothesis) – There is no significant difference between the pre and post merger Return on Capital Employed

H1 (Alternative Hypothesis) - There is a significant difference between the pre and post merger Return on Capital Employed

4. H0 (Null Hypothesis) – There is no significant difference between the pre and post merger Return on Equity

H1 (Alternative Hypothesis) - There is a significant difference between the pre and post merger Return on Equity

5. H0 (Null Hypothesis) – There is no significant difference between the pre and post merger Earning Per Share

H1 (Alternative Hypothesis) - There is a significant difference between the pre and post merger Earning Per Share

6. H0 (Null Hypothesis) – There is no significance difference between the pre and post merger Debt Equity Ratio

H1 (Alternative Hypothesis) - There is a significant difference between the pre and post merger Debt Equity Ratio

7. H0 (Null Hypothesis) – There is no significant difference between the pre and post merger Dividend Payout Ratio

H1 (Alternative Hypothesis) - There is a significant difference between the pre and post merger Dividend Payout Ratio

8. H0 (Null Hypothesis) – There is no significant difference between the pre and post merger Market share Price

H1 (Alternative Hypothesis) - There is a significant difference between the pre and post merger market Share Price

Tools for Analysis: Ratios and percentages are used for the analysis of data and for better understanding, Bar Diagrams are used for the presentation of the data. To test the hypothesis, `t' test is employed. The performance of the banks before and after the mergers and acquisitions has been compared.

Table 1: List of Merger and Acquisitions (M&As) in Indian Banking Industry since Nationalization of Banks

Sl. No.	Name of the Transferor Bank	Name of the Transferee Bank	Date of Merger **/Amalgamation**
1	Bank of Bihar Ltd.	State Bank of India	November 8, 1969
2	National Bank of Lahore Ltd.	State Bank of India	February 20, 1970
3	Miraj State Bank Ltd	Union Bank of India	July 29, 1985
4	Lakshmi Commercial Bank Ltd	Canara bank	August 24, 1985
5	Bank of Cochin Ltd.	State Bank of India	August 26, 1985
6	Hindustan Commercial Bank Ltd	Punjab National bank	December 19, 1986
7	Traders Bank Ltd	Bank of Baroda	May 13, 1988
8	United Industrial Bank Ltd	Allahabad bank	October 31, 1989
9	Bank of Tamilnadu Ltd	Indian Overseas bank	February 20, 1990
10	Bank of Thanjavur Ltd.	Indian Bank	February 20, 1990
11	Parur Central Bank Ltd	Bank of India	February 20, 1990
12	Purbanchal Bank Ltd.	Central Bank of India	August 29, 1990
13	New Bank of India	Punjab National Bank	September 4, 1993
14	Bank of karad Ltd	Bank of India	1993-1994
15	Kashi Nath Seth Bank Ltd.	State Bank of India	January 1, 1996
16	Bari Doab Bank Ltd	Oriental Bank of Commerce	April 8, 1997
17	Punjab Co-operative Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
18	Bareilly Corporation Bank Ltd	Bank of Baroda	June 3, 1999
19	Sikkim Bank Ltd	Union Bank of India	December 22, 1999
20	Times Bank Ltd.	HDFC Bank Ltd	February 26, 2000
21	Bank of Madura Ltd.	ICICI Bank Ltd	March 10, 2001
22	ICICI Ltd	ICICI Bank Ltd	May 3, 2002
23	Benares State Bank Ltd	Bank of Baroda	June 20, 2002
24	Nedungadi Bank Ltd.	Punjab National Bank	February 1, 2003
25	South Gujarat Local Area Bank Ltd.	Bank of Baroda	June 25, 2004
26	Global Trust Bank Ltd.	Oriental Bank of Commerce	August 14, 2004
27	IDBI Bank Ltd.	IDBI Ltd	April 2, 2005
28	Bank of Punjab Ltd.	Centurion Bank Ltd	October 1, 2005
29	Ganesh Bank of Kurundwad Ltd	Federal Bank Ltd	September 2, 2006
30	United Western Bank Ltd.	IDBI Ltd.	October 3, 2006
31	Bharat Overseas Bank Ltd.	Indian Overseas Bank	March 31, 2007
32	Sangli Bank Ltd.	ICICI Bank Ltd	April 19, 2007
33	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	August 29, 2007
34	Centurion Bank of Punjab Ltd	HDFC Bank Ltd.	May 23, 2008
35	The Bank of Rajasthan	ICICI Bank Ltd	August 13, 2010
36	State Bank of Indore	State bank of India	August 26, 2010
37	ING Vysya Bank	Kotak Mahindra Bank	2014

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

Ratios

Operating Profit Margin = Operating Profit/Sales × 100

Net Profit Margin = Net Profit/Sales × 100

Return on Assets =Net Profit/Total Assets × 100

Return on Equity (ROE) =Net Profit/Equity Share Holder's Funds × 100

Debt Equity Ratio (Pure Ratio) = Total Debt/ Share Holder Equity
Dividend Payout Ratio = Dividend / Net Income X 100

Conclusion

Mergers and Acquisition is a useful tool for the growth and expansion in any Industry and the Indian Banking Sector is no exception. It is helpful for the survival of the weak banks by merging into the larger bank. This study shows the impact of Mergers and Acquisitions in the

Indian Banking sector and two cases have been taken for the study as sample to examine the as to whether the merger has led to a profitable situation or not. For this purpose, a comparison between pre and post merger performance in terms of Operating Profit Margin,

Net Profit Margin, Return on Assets, Return on Equity, Earning per Share, Debt Equity

Ratio, Dividend Payout Ratio and Market Share Price has been made. In the initial stage, after merging, there may not be a significant improvement due to teething problems but later they may improve upon.

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