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Original Research Paper

Management

IMPACT OF MERGER & ACQUISITIONS ON FINANCIAL PERFORMANCE OF INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI)

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ABSTRACT The present paper is an attempt to examine the impact of Merger & Acquisitions (M&As) on financial performance of industrial Credit and Investment Corporation of India (ICICI). The Bank of Rajasthan was merged with ICICI on August 13, 2010. The analysis was done with the help of various descriptive and inferential statistical techniques by taking a period of three years before and three years after merger using CAMEL model. The results revealed that there is no significant impact of merger of Bank of Rajasthan on capital adequacy, assets quality, management efficiency and liquidity of ICICI. However, a significant positive impact on return on assets and net profits to average assets was noticed after M&As.

KEYWORDS : Mergers, Acquisitions, Impact, ICICI, CAMEL, Performance

INTRODUCTION

Indian banking system has played a significant role in the growth of the economy. Many changes were introduced in the banking system over a period of time, which led to new era of competitiveness and technological sophistication. Every bank is relentless in their efforts to become financially strong, and operationally efficient and effective (*Gautam and Singh, 2021*). After the implementation of economic reforms, the philosophy, perception and functioning of commercial banks have been changed and they are expected to manage the large inflows and outflows of financial resources *(Kumar, 2013)***.** M&As is one of the strategy of corporate restructuring for expansion as well as growth for the organization (*Singh and Gautam, 2019)***.** Merger refers to the activity where two or more entity engaged into one single entity. On the other side, acquisition refers to the process where acquirer entity acquiring more than 50 percent ownership in the target company (*Ishwarya, 2019)*. Basically, there are three types of mergers namely horizontal merger, vertical merger and conglomerate merger. Mostly horizontal mergers were taken place in Indian banking industry. The Bank of Rajasthan was merged with ICICI Bank on August 13, 2010, which enhanced the network of ICICI Bank significantly and is the third acquisition by ICICI Bank. Before this merger, Bank of Madura and The Sangli Bank Ltd. were merged with ICICI in 2001 and 2007 respectively (*Chavan and Upadhyay, 2014)***.**

LITERATURE REVIEW

Kemal (2011) analyzed the profitability, leverage, cash flows and liquidity of Royal Bank of Scotland during post-merger period. The results revealed that pre-merger performance of bank was satisfactory, but no significant improvement was noticed in post-merger period. *Devarajappa (2012)* examined the financial performance of the selected banks after merger and found significant positive results on return on equity, debt-equity ratio and gross profits. *Sai and Sultana (2013)* analyzed the performance of two banks merger and found that there is no significant difference in gross profits margin of Indian overseas bank, however a significance change noticed in HDFC bank after merger. *Fatima and Shehzad (2014)* found that return on equity and other ratios did not improve after merger activity. Chavan and *Upadhyaya (2014)* identified that target bank has gained 77 percent hike in price after merger deal and perceived it a strategic tool for achieving the objectives. *Duggal (2015)* analyzed the return to assets, earning per share, return to equity, net profit and return on capital employed during post-merger, which improved during post-merger period. *Bassi and Gupta (2015)* found that finacial position was positively buffeted by wind of merger as earnings, net worth and return on capital employed improved during the period. *Abdulazeez et al. (2016)* examined the performance of banks using two variables namely return on assets and return on equity, and found a positive performance in post-merger period. *Jallow et al. (2017)* found a positive significant impact on return on assets, return on equity and earnings per share after merger. *Abdulwahab and Ganguli (2017)* used CAMEL model for analyzing the financial performance of banks at Bahrain and found no significant improvement in the financial performance of most of the banks except Bahraini Saudi Bank which showed a significant improvement after merger. *Sethy (2017)* analyzed the financial performance of State Bank group and found a significant impact of merger. However, the study did not show a significant difference in the financial performance of the selected banks. *Patel (2018)* found no significant improvement in advances and investments, whereas the ratio of business per employee and profits per employee improved in other banks.

Ravichandran et al. (2020) analyzed the CRAMEL using regression and factor analysis, and found a positive relationship of advances to total assets with return on shareholders' funds. In factor analysis, advances to total assets and profit margin were two variables that were affected after merger. *AL-Hroot et al. (2020)* found that the improvement in cash flow ratios, profitability ratios and liquidity was not significant after merger except leverage ratios. *Gautam and Singh (2021)* found a significant improvement in total advances to total deposits and business per employee after M&As. The foregoing review of literature highlighted that lots of studies have been conducted to examine the financial performance of banks in India and presented mixed results. The present study is carried out to examine the impact of merger of Bank of Rajasthan on the financial performance of ICICI.

RESEARCH OBJECTIVE

The main objective of the present study is to examine the impact of merger of Bank of Rajasthan on the capital adequacy, asset quality, managerial efficiency, earnings capacity and liquidity of ICICI.

RESEARCH HYPOTHESES

The following research hypotheses have been formulated to validate the results of the study:

H01: There is no significant impact of M&As on capital adequacy of ICICI in post-merger period.

H02: There is no significant impact of M&As on asset quality of ICICI in post-merger period.

H03: There is no significant impact of M&As on managerial efficiency of ICICI in post merger period.

H04: There is no significant impact of M&As on earnings capacity of ICICI in post-merger period.

H05: There is no significant impact of M&As on liquidity of ICICI in post-merger period.

Data Collection And Analysis

The present study used secondary data collected from journals, magazines, websites, newspapers and annual reports of the selected banks, RBI and IBA. The collected data were analyzed with the help of various descriptive statistical techniques like percentage, mean, standard deviation, *etc.* The pre-merger and post-merger financial ratios have been computed for three years before and three years after the year of completion of merger. The paired sample t-test was used to validate the results of the study.

RESULTS AND DISCUSSION

Capital Adequacy

Table-1 and Figure-1 indicates the capital adequacy of ICICI in pre and post merger period. An improvement in CRAR and total advances to total assets was noticed with 2.63 percent and 1.55 percent respectively after merger. On the other side, debt-equity ratio and government securities to total assets were decreased with 0.09 and 9.58 percent during this period. Statistically, the results of dependent sample t-test show that there is no significant impact of M&As on capital adequacy of selected bank in post merger period; hence the null hypothesis (H01) is accepted.

Table-1: Capital Adequacy Of ICICI

Sr. No.	Particulars	Pre		Post		Percent change	t-statistics	
		X̄	σ	X̄	σ		t	Sig.
1	Capital Risk Adequacy Ratio	16.30	2.81	18.93	0.54	2.63	1.45	0.28
2	Debt-Equity Ratio	6.75	0.75	6.84	0.41	(0.09)	0.14	0.90
3	Total Advances to Total Assets Ratio	54.62	4.16	53.07	1.11	1.55	0.52	0.65
4	Govt. Securities to Total Investments	62.02	5.54	52.44	3.62	(9.58)	1.87	0.20

Source: RBI Reports, * Significant at 5 percent level of significance

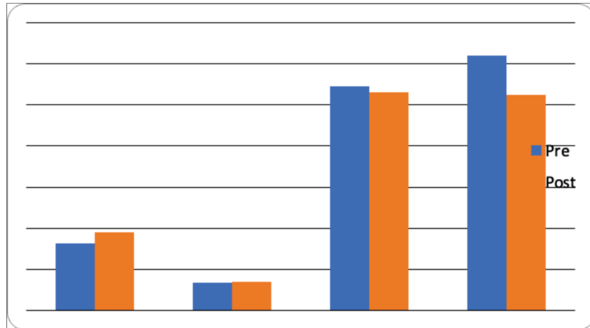

Figure-1: Capital Adequacy of ICICI

Assets Quality

Table-2 and Figure-2 indicates the assets quality of ICICI in pre and post merger period. A positive impact was noticed in gross NPAs to total loans, net NPAs to total loans and net NPAs to total assets with 0.45 percent, 1.05 percent and 0.58 percent respectively. On the other side; total investments to total assets decreased by 3.13 percent after merger. Statistically, the results show that there is no significant impact of M&As on assets quality of selected bank in post merger period; hence the null hypothesis (H02) is accepted.

Table-2: Assets Quality Of ICICI

Sr. No.	Particulars	Pre		Post		Percent change	t-statistics	
		X̄	ó	X̄	ó		t	Sig.
1	Gross NPAs to Total Loans	4.34	0.94	3.89	0.68	0.45	0.48	0.68
2	Net NPAs to Total Loans	1.92	0.32	0.87	0.21	1.05	3.44	0.08
3	Total Investments to Total Assets	29.44	3.34	32.57	0.61	(3.13)	1.40	0.30
4	Net NPAs to Total Assets	1.04	0.17	0.46	0.11	0.58	3.65	0.07

Source: RBI Reports, * Significant at 5 percent level of significance

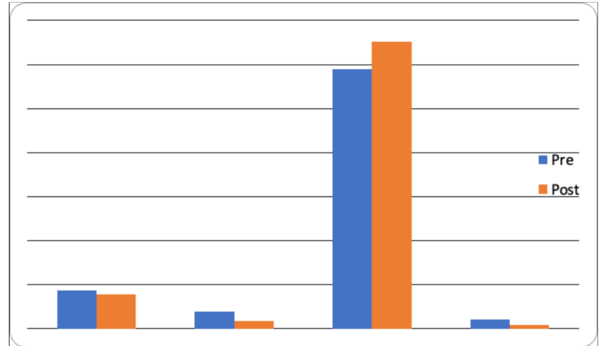

Figure-2: Assets Quality Of ICICI

Management Efficency

Table-3 and Figure-3 exhibits the management efficiency of ICICI in pre and post merger period. The ratios of total advances to total deposits and profits per employee were registered an improvement with 4.15 percent and 1.67 percent respectively. On the other side, a decline was seen in business per employee with 249.67 (in Lakhs) after merger. Statistically, the results of dependent sample t-test show that there is no significant impact of M&As of selected bank in post merger period; hence the null hypothesis (H03) is accepted.

Table-3: Management Efficiency Of ICICI

Sr. No.	Particulars	Pre		Post		Change (percent)	t-statistics	
		X̄	ó	X̄	ó		T	Sig.
1	Total Advances to Total Deposits	93.99	5.35	98.14	1.93	4.15	1.41	0.30
2	Business Per Employee (in Lakhs)	975.67	196.51	726.00	15.59	(249.67)	2.07	0.17
3	Profits Per Employee (in Lakhs)	10.00	1.00	11.67	2.08	1.67	1.00	0.42

Source: RBI Reports, * Significant at 5 percent level of significance

Figure-3: Management Efficiency of ICICI

Earnings Capacity

Table-4 and Figure-4 reveals the earnings capacity of ICICI in pre and post merger period. An improvement was noticed in the ratios of return on assets, net profits to average assets and interest income to total income by 0.44 percent, 0.26 percent and 2.85 percent respectively. On the other side; a decline in the ratio of other income to total income was seen by 2.85 percent. Statistically, the results show that there is a significant positive impact on return on assets and net profits to average assets of M&As of the selected bank in post merger period; hence the null hypothesis (H04) is rejected.

Table-4: Earnings Capacity Of ICICI

Sr. No.	Particulars	Pre		Post		Change (percent)	t-statistics	
		X̄	ό	X̄	ό		t	Sig.
1	Return on Assets	1.08	0.08	1.52	0.18	0.44	4.15	0.05*
2	Net Profits to Average Assets	0.70	0.05	0.96	0.10	0.26	4.58	0.05*
3	Interest Income to Total Income	78.52	1.59	81.37	1.60	2.85	2.31	0.15
4	Other Income to Total Income	21.48	1.59	18.63	1.60	(2.85)	2.31	0.15

Source: RBI Reports, * Significant at 5 percent level of significance.

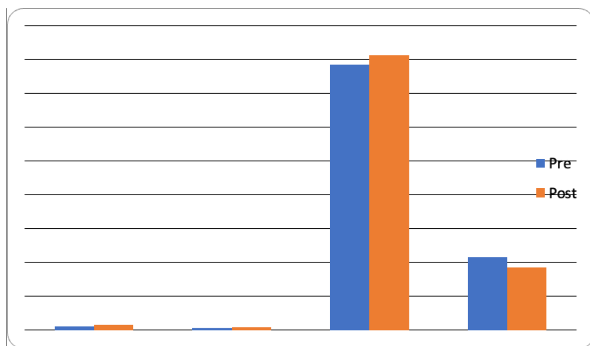

Figure-4: Earnings Capacity Of ICICI

LIQUIDITY

Table-5 and Figure-5 highlights the liquidity of ICICI in pre and post merger period. The liquid assets to total assets, government securities to total assets, liquid assets to demand deposits and liquid assets to total deposits were declined during post-merger period by 1.53 percent, 1.09 percent, 34.75 percent and 1.69 percent respectively. Statistically, the results show that there is no significant impact of M&As on liquidity of the selected bank in post-merger period; hence the null hypothesis (H05) is accepted.

Table-5: Liquidity Of ICICI

Sr. No.	Particulars	Pre		Post		Change (percent)	t-statistics	
		X̄	ό	X̄	ό		t	Sig.
1	Liquid Assets to Total Assets	9.37	1.41	7.84	0.50	(1.53)	2.05	0.18
2	Government Securities to Total Assets	18.16	1.24	17.07	0.96	(1.09)	0.93	0.45
3	Liquid Assets to Demand Deposits	139.34	14.35	104.59	7.13	(34.75)	2.81	0.11
4	Liquid Assets to Total Deposits	16.17	2.81	14.48	0.55	(1.69)	0.99	0.43

Source: RBI Reports, * Significant at 5 percent level of significance

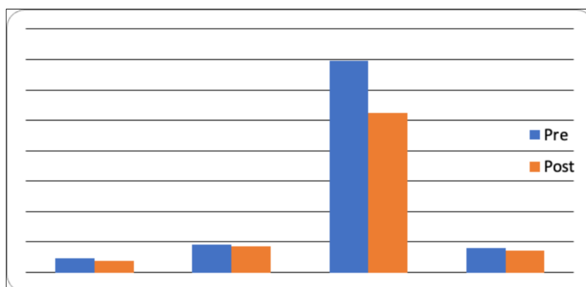

Figure-5: Liquidity Of ICICI

CONCLUSION

From the above analysis, it is concluded that there is a significant positive impact on return on assets and net profits to average assets in earnings ratios of ICICI after M&As. The results are similar to the findings of *Duggal, 2015,* who also concluded that the financial performance and the mean values of all the ratios were increased after merger. At the same time, the results are consistent with the study conducted by *Bassi and Gupta, 2015; Shety, 2017,* who found that there is no significant relationship between ratios of banks before and after merger.

Implications Of The Study

The findings of the study can be used by the policy makers, regulators and managers for framing policies relating to M&As in banking sector and also to identify the areas of improvement for better performance of the banks. The study would be helpful to the investors in analyzing the financial performance of the banking sector. Researchers may also use the findings of the study as reference for conducting research in future in the field of M&As.

Directions For Future Research

The banks should be more proactive in driving for profits by improving their lending and managing the assets properly for improving their financial performance and to reap the benefits of M&As. It is also suggested to use other financial ratios, wider time span and large sample size to portray a clearer picture of the impact of M&As. Further, the comparison between the financial performance of public and private sector banks can also give better results regarding M&As.

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