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ORIGINAL RESEARCH PAPER

Management

PRE AND POST MERGER PERFORMANCE OF BANKS IN INDIA

KEY WORDS: Mergers and acquisitions,commercial banks

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ABSTRACT

Banks play a major role in the development of the economy a country.Mergers and Acquisitions (M&A) are considered to be on the fast track for increasing the size, expanding branch network, and enlarging business operations .Mergers and Acquisitions encourage banks to gain global reach and better synergy and allow banks to acquire the stressed assets of weaker banks. A complete combination of two separate corporations involving in a business is referred as business merger. Through Mergers and Acquisitions banks not only get established brand names, new geographies, complementary product offerings but also opportunities to cross sell to new accounts acquired. Merger is a useful strategy, through this Banks can expand their operations, serve larger customer base, increases profitability, liquidity and efficiency but the overall growth and financial illness of the bank can't be solved from mergers. For this purpose 6 Indian commercial banks merged during the period 2006 to 2014 were selected out of which, three are merger of public sector banks and three are merger of private banks.

INTRODUCTION

Banks in general terminology is referred to as a financial institute or a corporation which is authorized by the state or central government to deal with money by accepting deposits, giving out loan and investing in securities. The main role of banks is to improve the economy by providing funds for investment. In recent times banking sector has been undergoing a lot of changes in terms of regulations and effects of globalization. These Changes have affected this sector both structurally and strategically. With the changing Environment, many different strategies have been adopted by this sector in order to remain efficient and to surge ahead in the global arena. One such profitable strategy is the process of consolidation of the banks and the most preferred one is merger.Merger can be performed in any of the way it may be the merging of two weaker banks or one strong bank is going to merge with the weaker or small bank to expand their usage and availability in the market. Merging is done to improve their business and profitability of the banks and also to satisfy the customer with their faster and secured services.The main motive behind the merger and acquisition in the banking industry is to achieve economies of scale and scope. Mergers also help in the diversification of the products, which help to reduce risk. To a large extent, this M&A strategy is based on a belief that gains can accrue through expense reduction, increased market power, reduced earnings volatility, and scale and scope economies. If consolidation does, in fact, lead to value gains, then shareholder wealth can be increased. On the other hand, if consolidating entities does not lead to the promised positive effects, then mergers may lead to a less profitable and valuable banking industry. Many researchers worldwide have empirically found that shareholders' wealth of the acquiring banks has decreased while it has been vice versa in the case of acquired firms.

REVIEW OF LITERATURE

Khan Azeem Ahmad (2011) evaluated the performance of banks after merger and he came to know that the efficiency and performance of banks has improved after merger.

Ramon, A.A., Onaolapo and Ajala, O. Ayorinde (2012) examined the effects of merger and acquisition on the performance of selected commercial banks in Nigeria.. The study recommended that the banks should be more aggressive in marketing financial products and also manpower training and re-training, investment in Information Technology should be emphasized.

Gupta Himani (2013) examined the impact of mergers and acquisition on financial efficiency of banks in India by comparing the gross earnings, profits after tax and net assets of the selected banks were taken as indices for comparison. Three mergers of Indian Banks were taken as sample for the study.
Calipha, Tarba & Brock (2011) has analysed mergers motives and success factors in their article such as entering a new market, gaining new scarce resources, achieving synergies and other managerial and organizational factors.

OBJECTIVES OF THE STUDY:

1) To study the pre and post Merger Performance of Public and Private Merged Banks.
2) To analyze the impact of Mergers on Financial Performance of Public and Private Merged Banks.

RESEARCH METHODOLOGY:

a. Sample Descriptions:

The data for this study have been selected based on the convenience sampling method, among the banks list with RBI Report. In the list of commercial banks only six scheduled commercial banks merged during the period 2006 to 2014 were selected. During the course of study two major categories of mergers were identified and accordingly six banks are divided into three Private and Public and the same is presented in Table.

Table-1: The list of Selected Merged Banks

S. No	Acquiring Bank	Target Bank	Category	Date of Merger
1	IDBI	United Western Bank	P-Pr	13/09/2006
2	Indian Overseas Bank	Bharat Overseas Bank	P-Pr	31/03/2007
3	SBI	State Bank Of Indore	P-P	26/08/2010
4	HDFC Bank	Centurion Bank of Punjab	Pr-Pr	23/05/2008
5	ICICI Bank	Bank Of Rajasthan	Pr-Pr	13/082010
6	Kotak Mahindra Bank	ING Vysya Bank	Pr-Pr	1/04/2014

6Kotak Mahindra BankING Vysya BankPr-Pr1/04/2014

Note: P=Public sector, Pr=Private Sectors

In order to evaluate financial performance of the merging banks, six years financial data is considered i.e., three years pre merger period and three years post merger period. Only domestic mergers taking place were selected. Cross-border mergers, i.e., in which either bidder or the target was based outside India were dropped. This was done to ensure homogeneity of the economic and industrial environment so that generalizability of the results could be achieved for Indian Mergers.

b. Data Collection:

- Financial statements of banks: For the purpose of analyzing the impact of mergers on physical performance and financial performance of selected commercial banks in India, the various financial variables and accounting ratios have been used. For this purpose the data have been obtained from yahoo finance database, money control.com, RBI reports and Bank's annual reports.

- Share price performance in short term: Another important objective of the research is, to examine the impact of merger on short term performance of share price by calculating abnormal return (AR) and Cumulative Abnormal return (CAR). AR and CAR have been determined as per Event Study methodology. For this purpose the required data is collected from yahoofinance.com

c. Data Analysis Method:

The statistical tool like- Mean and Standard deviation are used to study the trends & progress of M&A, Physical and financial performance and share price performance of the selected merged banks before and after merger. The year of merger was considered as a base year and denoted as 0 and it is not considered for analysis.

DATA ANALYSIS AND INTERPRETATION

Comparative Analysis Of Performance Of Public And Private Sectors Merged Bank:

Table-2: Mean and standard deviation of selected public and private sector bank

Bank	Pre merger Year	profit	Mean	SD	post merger year	profit	Mean	SD
SBI	2009	9121	6797	2290.757	2016	9950	11314	1617.528
	2008	6729			2015	13101		
	2007	4541			2014	10891		
Indian overseas Bank	2007	1008	814	180.5076	2016	-2897	-916.33	1794.732
	2006	783			2015	-454		
	2005	651			2014	602		
IDBI	2005	416	486.6667	77.77746	2016	-3665	-557	2694.462
	2004	570			2015	873		
	2003	474			2014	1121		
Kotak Mahindra Bank	2014	1502	1315.667	212.0055	2016	2090	1977.5	159.099
	2013	1360			2015	1865		
	2012	1085						
ICICI	2009	3758	3675.333	528.868	2016	9726	10237	813.4169
	2008	4158			2015	11175		
	2007	3110			2014	9810		
HDFC	2007	1382	1117	264.0057	2016	12296	10329.67	1911.581
	2006	1115			2015	10215		
	2005	854			2014	8478		

Source: Money control.com

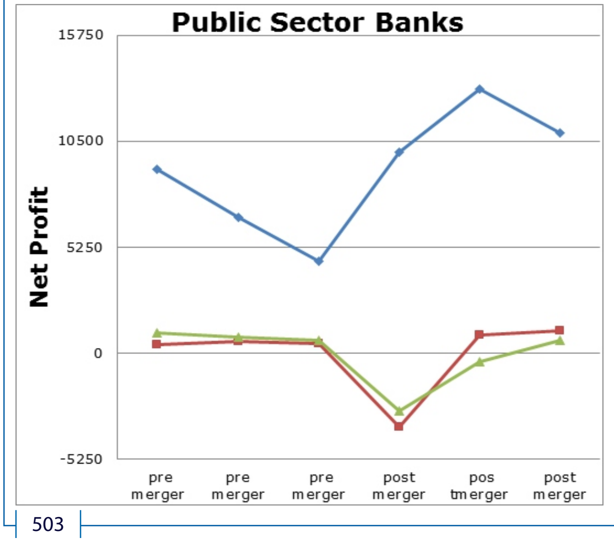

Fig-1: Shows the relationship between net profit of pre and post merger of public sector banks

The above chart depicts that, the public sector banks net profit have increased after the merger, though the profits for the immediate year after merger were decreased, but then after the profits have increased which is higher than pre merger profit. IDBI have performed well after the merger.

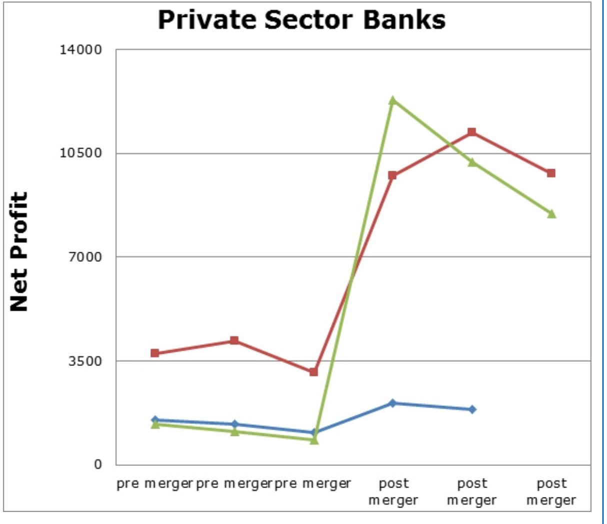

Fig-2: Shows the relationship between net profit of pre and post merger of private sector banks

The above chart shows that the net profits of private sector banks have increased after the merger, and it is clear that the private sector banks have performed well after the merger.

FINDINGS:

PUBLIC SECTOR BANKS

The public sector banks net profit have increased after the merger, though the profits for the immediate year after merger were decreased, but then after the profits have increased which is higher than pre merger profit. IDBI have performed well after the merger.

PRIVATE SECTOR BANKS

The net profits of private sector banks have increased after the merger, and it is clear that the private sector banks have performed well after the merger.It is cleared that, market has anticipated and welcomed the merger activity of Private sector Banks in turn resulting in increasing the wealth to the shareholders.

CONCLUSION:

The banking industry is one of the rapidly growing industries in India. The growth rate of this sector is remarkable and it has become the most preferred banking destinations for International Investors. After economic reforms, 1991, there have been paradigm shift in Indian banking sectors. A relatively Merger could be considered as a useful strategy in order to achieve financial performance of commercial banks by achieving economies of scale, competitiveness, and increased efficiency and Market share. The banking industry has been undergoing major consolidation in recent years, with a number of global players emerging through successive mergers and acquisitions. This creates a great deal of uncertainty for all stakeholders concerned. This study examines the short run share price performance of selected banks engaged mergers activity. The study finds that, in case of all banks, market negatively reacted for merger activity except HDFC, Market has anticipated and positively reacted to the merger activity. Therefore it can be concluded that, in a banking environment marked by frequent merger, such transaction directly or indirectly affect the shareholders sentiments and increase the market shares i.e merger enhance the performance and wealth for both businesses and shareholders.

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