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Research Paper 10

The Effect of Mergers and Acquisitions on the Banking Sector's Competitiveness and Profitability in India

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ABSTRACT

The financial sector is improving the implementation by the Indian government in the early 1990s and the mainparameters such as globalization and the post liberalization of the world economy; Indian banking has started to change itself. In this paper researcher has interpret the pre- and post-merger financial performance of the banking sector, their activities being consolidated by the stronger financial institutions. This paper analyzes the effects of consolidation in the Indian banking sector of Merger and Acquisitions competitiveness and profitability.The current paper examined the sample's performance, strengthens, and weakness of two banks, i.e. one Public bank and one Private sector bank, based on financial ratios from the pre- and post-merger grounds perspective.The study concluded that when distinguished between pre-mergers and post-mergers, the banks had positive effects.

Keywords: Merger and Acquisitions, Profitability, Financial Ratios

Introduction:

Mergers and acquisitions have been India's main tools of corporate transformation after economic reforms have been introduced since 1991.Due to globalization, liberalization, technological changes and other factors, business concerns will face increased competition not only from the banking industry within the region but also from international business giants.M&As aims at optimizing wealth in terms of leverage, competitive imperatives, capital market aspirations, economies of scale, diversification, decreased volatility of earnings, increased domestic market awareness, and consumer awareness.One of the most profitable strategies appears to be the consolidation measure of scheduled commercial banks.

Indian Banking Sector Consolidation:

Business restructuring is a worldwide phenomenon by mergers and acquisitions.Private sector banks are subject to the provisions of the Banking Regulation Act of 1949, public sector banks are regulated by their respective founding laws and by the specific provisions of the Banking Regulation Act that have been made applicable to them.On the other hand, urban cooperative banks are regulated by the laws of the respective State's Cooperative Societies Act or the Multi-State Cooperative Societies Act, as well as explicitly applicable provisions of the Banking Regulation Act.

Review of Literature:

Atma (1996):

Covered India's commercial banking growth and development.It was concluded that the banking progress in India was impressive and that the current structure was the result of the expansion, reorganization and consolidation processes.

Kumar and Kishore (2003):

Concluded that the application of stricter prudential standards should not in any way cause depositors anxiety about the safety of their deposits. There was no limit to improving productivity and profitability rates. After implementing various recommendations in the banking and financial sector made by the Narasimham Committee from 1991 onwards in the form of first-phase reforms and second-generation reforms (1998).

Chanda (2005):

Concluded that public sector banks 'profitability was not impacted by India's deregulation. It could increase monopolistic pricing incentives. As a result, in a more concentrated banking market, the customer would earn a lower interest rate on deposit. Even then, in the age of globalization, on the basis of their giant size and diversified banking activities, foreign banks gained entry to India's borderless economy.

Azeem Ahmed Khan (2011):

The report investigated different reasons for mergers and acquisitions in the Indian banking sector. The study showed that banks were positively affected by mergers and acquisitions.

Need of the Study:

The study's need to compare the selected banks ' pre- and post-merger output after the 1990s and collect data and information from RBI i.e. Report on Newsletter Banking

India's patterns & growth. In the earlier bank consolidation, the effect on efficiency & profitability is to determine their success in pre and postfusions under the banking sector reforms regime. The effect of fusions is increasing in productivity, i.e.

Scope of the Study:

The research will cover the whole scene of Indian and Universal Banking. Although consolidation through the merger route is one choice, the scaling up of operations by branch expansion, scale and development becomes both organic and inorganic all essential. After 2004-05 to 2014-15, the merger banks are to be active in the observations field.

Objectives of the Study:

1. To study the impact on the profitability and productivity of the selected banks.
2. Examining the strength and weakness of the combined banks in India and figuring out how the beneficiaries are growing.

Hypothesis:

H0= There is no significance difference between the pre-merger and post- merger performance of
ICICI Bank and State Bank of India.

H1= There is significance difference between the pre-merger and post- merger performance of ICICI
Bank and State Bank of India.

Research Design and Methodology:

Sample, Data Sources and Period of the Study:

The present study selects one sample from the Public Sector and one from the Private Sector Bank to assess the impact on the financial performance of selected banks of mergers and acquisitions.

Study Analysis:

For data analysis, statistical methods and techniques such as ratios and percentages are used to analyze data. In the sample banks results, t-test, standard deviation, and mean are evaluated to test the hypothesis. The banks ' success has been measured before and after the mergers and acquisitions.

Research Methodology:

This research is an attempt to examine the success of banking sector mergers and acquisitions in India. There is an effort by the researcher to test the methods used for this analysis. This research is an effort to examine the performance of combined organizations using private and public banks in terms of productivity and profitability.

Data Analysis:

Two selection cases are provided for review in this report. First, the ICICI Bank (Transferee) and Bank of Rajasthan (Transferor) merger as of August 13, 2010 and the State Bank of India (Transferee) and Saurashtra State Bank (Transferor) merger as of July 31, 2008.ICICI Bank is taken form Private sector bank and State Bank of India is taken from Public sector Bank.

Table 1. Financial Ratio Analysis of ICICI Bank before and After Merger

Productivity and Profitability Ratios	Before Merger					After Merger			
	As on March 31 2007	As on March 31 2008	As on March 31 2009	As on March 31 2010	As on March 31 2011	As on March 31 2012	As on March 31 2013	As on March 31 2014	As on March 31 2015
Gross Profit Margin	92.270	92.744	92.590	91.428	89.201	90.249	91.180	91.196	100.000
Net Profit Margin	10.810	10.510	9.740	12.170	15.790	15.750	17.190	17.960	18.240
Operating Profit Margin	53.783	57.486	57.871	51.664	63.725	66.845	68.690	67.861	100.000

Source: Compiled for the Financial Statements retrieved from Banks, CMIE PROWESS Data, http://www.moneycontrol.com/stocksmarketsindia

Table 2. Financial Ratio Analysis of ICICI Bank before and After Merger

Productivity and Profitability Ratios	Before Merger					After Merger			
	As on March 31 2007	As on March 31 2008	As on March 31 2009	As on March 31 2010	As on March 31 2011	As on March 31 2012	As on March 31 2013	As on March 31 2014	As on March 31 2015
Return on Capital Employed	.902	1.040	.991	1.108	1.268	1.322	1.551	1.650	1.730
Return on Net Worth	13.170	8.940	7.580	7.790	9.350	10.700	12.480	13.400	14.450
Dept-Equity Ratio	11.425	6.623	5.727	5.740	6.084	6.550	6.565	6.647	6.639
Interests Coverage Ratio	13.471	12.803	12.696	13.482	13.973	14.961	15.272	16.198	.
Return on Equity	11.950	9.880	7.800	7.960	9.650	11.200	13.100	15.210	.
Current Ratio	.090	.110	.130	.140	.070	.120	.090	.090	.060
Quick Ratio	6.040	6.420	5.940	14.700	15.860	9.370	10.530	11.310	13.810
Earnings Per Share	34.590	37.370	33.760	36.100	44.730	56.090	72.170	84.950	19.280
Deposit per Employee	6.918	6.008	6.311	7.215	3.960	4.384	4.715	4.595	4.389
Credit per Employee	5.878	5.543	6.310	6.472	3.798	4.354	4.677	4.689	4.704
Business per Branch	564.736	372.462	307.723	191.611	174.760	185.039	188.020	178.688	184.959

Source: Compiled for the Financial Statements retrieved from Banks, CMIE PROWESS Data http://www.moneycontrol.com/stocksmarketsindia

Table 3. Financial Ratio Analysis of State Bank of India Before and After Merger

Productivity and Profitability Ratios	Before Merger					After Merger				
	As on March 31 2005	As on March 31 2006	As on March 31 2007	As on March 31 2008	As on March 31 2009	As on March 31 2010	As on March 31 2011	As on March 31 2012	As on March 31 2013	As on March 31 2014
Gross Profit Margin	81.887	81.169	83.391	86.597	87.148	85.114	83.882	87.064	87.429	86.310
Net Profit Margin	11.560	11.210	10.120	11.650	12.030	10.540	7.580	9.680	10.390	7.030
Operating Profit Margin	47.108	47.999	49.835	56.751	58.736	49.983	55.606	62.591	62.956	60.109
Return On Capital Employed			.902	1.040	.991	1.108	1.268	1.322	1.551	1.650
Return on Net Worth	19.430	15.940	14.500	13.720	15.740	13.890	11.340	13.940	14.260	9.200
Dept-Equity Ratio	16.045	14.856	15.184	12.015	13.733	13.755	16.211	13.944	13.874	13.337
Interests Coverage Ratio	16.371	16.127	14.167	14.566	14.353	14.277	15.395	15.336	14.422	14.003
Return on Equity	18.100	15.470	14.240	17.820	17.050	14.800	12.840	15.720	15.430	10.490
Current Ratio	.040	.050	.050	.070	.040	.040	.040	.050	.040	.030

Source: Compiled for the Financial Statements retrieved from Banks, CMIEPROWESS Data, http://www.moneycontrol.com/stocksmarketsindia

Table 4. Financial Ratio Analysis of State Bank of India Before and After Merger

Productivity and Profitability Ratios	Before Merger					After Merger				
	As on March 31 2005	As on March 31 2006	As on March 31 2007	As on March 31 2008	As on March 31 2009	As on March 31 2010	As on March 31 2011	As on March 31 2012	As on March 31 2013	As on March 31 2014
Quick Ratio	4.790	5.500	6.520	6.150	5.740	9.070	8.500	12.050	12.150	13.880
Earnings Per Share	81.790	83.730	86.290	106.560	143.670	144.370	116.070	174.460	206.200	145.880
Deposit per Employee	1.790	1.910	2.350	3.000	3.600	4.010	4.190	4.840	5.270	6.280
Credit per Employee	.980	1.320	1.820	2.330	2.630	3.150	3.390	4.030	4.580	5.450
Business per Branch	62.191	69.394	82.978	92.909	111.315	113.628	123.423	133.933	149.870	162.167

Source: Compiled for the Financial Statements retrieved from Banks, CMIEPROWESS Data, http://www.moneycontrol.com/stocksmarketsindia

Testing the Significance Difference between Pre and Post-Merger Financial Ratios of ICICI Bank:

From the above tables reveals that average values of mean of pre and post-merger of Gross Profit Margin (91.64659 per cent and 93.15626percent), mean value of Net Profit Margin (11.80400percentand 17.28500 per cent), mean value of Operating Profit Margin (56.90580 per cent and 75.84905 per cent),mean value of Return on Capital Employed (1.06177percentand 1.56308percent), mean value of Return on Net Worth(9.36600 and

12.75750), mean value of Interest Coverage Ratio (13.28504and 15.47728), mean value of Return on Equity (9.44800percent and 13.17000percent)respectively. This performs that the financial parameters increased in the post- merger period.

Testing the Significance Difference between Pre and Post-Merger Financial Ratios of State Bank of India:

From the above tables it reveals that average values of mean of pre and post-merger of Gross Profit Margin(84.03835 per cent and 85.95999 per cent), and mean value of Operating Profit Margin (52.08567 percent and 52.08567 percent) found that there is increased in the post-merger. Meanwhile, mean value of Net Profit Margin (11.31400percent and9.04400 per cent), mean value of Return on Capital Employed (.90164percent and.77145 per cent), mean value of Return on Net Worth (15.86600 and 12.52600), mean value of Debt-Equity Ratio (14.36650 and 14.22435), mean value of Interest Coverage Ratio (15.11675 and 14.68668), mean value of Return on Equity ratio (16.53600 per cent and 13.85600 per cent) is declined in the post-merger period respectively.

Findings:

The results of this study are projected to have a significant impact on profitability. Thus, greater emphasis can be placed on those factors that are positively associated with profitability, and an effort can be made to limit the factors that affect profitability in banks ' financial performance before and after mergers in a positive or negative way.Other factors such as taxation vision, accounting analysis and market risk assessment, human resources and legal and strategic considerations etc. are to be avoided with respect to mergers and acquisitions.

Conclusion:

The banking industry is one of an economy's leading health indicators. Consolidation in the banking sector is very important for the rising Indian banking industry in terms of mergers and acquisitions. This can be done by rising costs and increasing sales.To conclude, banking sector mergers and acquisitions have a vital role and global phenomenon throughout the world. The effect of fusions on productivity changesi.e. Return on Capital Employed, Return on Net Worth, Operating Profit Margin and other financial ratio was measured using pre-merger and post-merger performance due to the study's need to evaluate bank consolidation.The importance of this research came from the void found in the analysis of literature. The purpose behind such deals was to capitalize on the possible leverage in the period following such a case. The study examined efficiency and profitability over fourteen ratios that compare selected public and private sector banks ' pre-and post-merger relationships.

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