International Journal of scientific research and management (IJSRM)
||Volume||3||Issue||2||Pages|| 2143-2148||2015||
Website: www.ijsrm.in ISSN (e): 2321-3418

An Analytical Study -Mergers and Acquisition of Banks in India

Rahul Kushwah
Research Scholar, Jiwaji University, Gwalior
E-mail: rahulkushwah007@gmail.com

Abstract

Mergers and acquisitions become the key force at intervals the changing surroundings. The policy of relaxation, liberalize and globalization of the economy has exposed the corporate sector to domestic and world competition. It's true that there is little or no scope for firms to be told from their past experience. Therefore, to figure out the success of a merger, it's to be discovered if there is gain from mergers. it is vital to visualize the liquidity performance of those banks to visualize whether or not or not those banks have adequate assets to satisfy its current obligations. This study is restricted to a sample of banks that underwent merger. it's projected to visualize the liquidity performance of the seven sample acquirer and target corporations before and once the quantity of mergers The study found that the banks augmented their performance once the merger event.
Key words: *Merger; Acquisition; Banks; Financial performance*

Introduction

Merger and Acquisitions acts as a very necessary instrument for the enlargement and development of the economy. It helps the companies in getting the benefits of larger market share and worth efficiency. Corporation's unit of measurement confronted with the facts that the only large players can survive, as there is a cutthroat competition among the market and so the success of the merger depends on but well the two companies integrate themselves in effecting regular operations. Merger creates activity and economies of scale. Banking sector unit of measurement continuously victimization this strategy for achieving larger size, quicker growth, increased market share and activity for turning into extra competitive through economies of scale.

One all told the distinguished motives behind Mergers and Acquisitions among the banking sector is to reap the great issue regarding economies of scales. With the help of mergers and acquisitions among the banking sector, the banks will do necessary growth in their operations and minimize their expenses to a considerable extent say for example installation expenses for fitting new branches area unit aiming to be saved. This trend gave rise to conglomerates that deed disparate businesses was a specific growth strategy. Within the past to boot, several companies have used this mechanism to grow and presently Indian company enterprises area unit focalization on the lines of core ability, market share, world aggressiveness and consolidation. This methodology of focalization has been any hastened by the arrival of foreign competitors.

Literature Review

Several studies have been conducted to examine the an analytical study -mergers and acquisition of banks in India. Some of the important researches are as follows:

Kazushi Kan and Tara Ohno (2012) have studied the merger of banks victimization EVA. They researched the individual banks and therefore the industry in Japan. They finished that "the banking sector has not earned the maximum amount profit for sure by their shareholders up to the current purpose. Also, though several major banks enforced mergers round the year 2000, not all the mergers have achieved result to this point from the views of EVA improvement. based mostly conjointly on the results of empirical analysis, one in all the vital factors that contributed to the positive impact of merger is increase in loan market share, and it absolutely was evidenced that the upper loan market share the bank has non heritable when the merger, the upper EVA it's achieved.

Sinha Pankaj & Gupta Sushant (2011) studied a pre and post analysis of corporations and over that it had positive impact as their gain, in most of the cases deteriorated liquidity. When the amount of few years of Merger and Acquisitions .it came to the purpose that firms could are able to leverage the synergies arising out of the merger and Acquisition that haven't been able to manage their liquidity. That Study analysis the comparison of pre and post analysis of the corporations. It additionally indicated the positive effects supported some monetary parameter like Earnings before Interest and Tax (EBIT), come on investor funds, ratio, Interest Coverage, Current magnitude relation and value potency etc.

Kannan R. (2008) in this study "The impact of mergers and acquisition on personal sector banks on international economy" has studied that Mergers and Acquisition are a really necessary market entry strategy moreover as growth strategy. This gift era is thought as competition, goes for merger, and enjoys generally monopoly. relief and technological advances area unit more and more pushing the banking sector towards larger globalization to enhance the operational flexibility of banks, that is crucial within the competitive atmosphere that banks operate in. the government conjointly proposes to recapitalize weak banks. The recapitalization of weak banks has not yielded the expected ends up in the past and therefore ought to be joined to a viable and time sure restructuring arrange. The method of merger and acquisition is taken in several banks in Asian nation like- Times bank united with HDFC Bank, Bank of Madura with ICICI bank, etc. The investigator has created a trial to live the changes within the profit and money position of the higher than banks and has calculated many ratios and tested them within the lightweight of 'T-Test', to understand the acceptance and rejection of the developed hypothesis. The investigator has found that overall the merger and acquisition doesn't result the money position of banks except once weaker and non-viable banks area unit united with a financially sound and profit creating bank in such case the profit of the later bank are going to be affected.

Merger of Banks in India

Mergers and acquisitions in Indian banking sector have initiated through the recommendations of that Narsimhan Committee on Banking Sector Reform was found out in December, 1997. This Committee's terms of reference include; review of progress in reforms within the banking sector, to make banking system sturdy and internationally competitive reforms ought to be changed in keeping with situations, framing careful recommendation concerning banking policy for every dimension like institution, technology and legislative.

The Committee submitted its report on twenty three Apr, 1998 with the subsequent suggestions:

1) Use of mergers to make the dimensions and strength of operations for every bank.

2) Counselled merger of larger Indian banks to form them sturdy enough to face in international trade.

3) Speed up automation in PSB.

4) Strengthen legal framework for credit recovery

5) There ought to be two to three banks with international orientation, eight to ten national

banks and an oversized pool of local banks so system will cowl remote areas too.

Objectives of the study

1. To study the mergers and acquisitions of banks in India.
2. To find whether the mergers and acquisitions are profitable or not.

Data Collection

This empirical study analyses for the aim of research investigation info is collected from analytical study - mergers and acquisition of banks in India. The money and data of banks is collected from company's annual reports.

Methodology

To test the prediction, methodology of comparing the pre and post performance of the banks after the merger has been adopted by using minimum of 3 years monetary information is needed. Therefore, 2003, 2004 and 2005 are thought-about because the event years to spot the Merger and acquisition deal in Bharat and to match the monetary performance of the cases pre merger and post merger throughout 2000-2008. The pre merger years taken for comparison are from first April, 2000 to thirty first March, 2003 and years first April, 2005 to thirty first March, 2008 are taken as post merger years. The info is collected from different sources; RBI web site, newspapers, magazines and journals.

Research has taken The sample under study includes 5 banks case of merger as IDBI bank, Oriental Bank of Commerce, Punjab National Bank, Union bank of India and Vijaya Bank. The financial data for these 5 banks is collected time period for six years data. for three years pre merger and three years' post merger period. Overall profitability parameters from Return to Equity Shareholders point of view return on net worth and earnings per share are calculated. Liquidity parameters- current ratio is measured. Solvency parameters - debt to equity is calculated. Overall efficiency parameters- profit before tax and profit before tax to total income are calculated to find the efficiency of the banks after merger.

Analysis and Interpretation

1. ***Return on Net worth (RONW) -*** RONW measures the rate of return on the shareholders equity of the owners. It measures the company's efficiency of using the capital (shareholders funds) entrusted to it and generating profits. The average amount of net worth of financial sector companies after merger was higher than that of pre merger period.

S. No	Bank	X	Y	Change in RONW
1	IDBI	-4.45	-3.51	D
2	Oriental Bank of Commerce	19.44	8.23	D
3	Punjab National Bank	19.09	15.36	D
4	Union bank of India	15.85	19.57	I
5	Vijaya Bank	19.99	12.10	D

I = Increase, D = Decrease

Out of 5 merger cases of banking sector, 1 merging firms showed a positive sign, i.e. increase in RONW and 4 merging firms showed decline in net worth.

2. ***Earnings Per Share (EPS)-*** In order to get true idea of return on investment owner should evaluate his investment returns not on the basis of the dividend received, but on the basis of the EPS i.e. earnings per share. The more the EPS better are the performance and prospects of the company

S. No	Bank	X	Y	Change in EPS
1	IDBI	13.67	8.84	D
2	Oriental Bank of Commerce	16.97	32.30	I

3	Punjab National Bank	24.92	53.15	I
4	Union bank of India	8.63	19.19	I
5	Vijaya Bank	3.93	5.66	I

. I = Increase, D = Decrease

The EPS of merged banks during pre and post merger periods given in Table can be interrelated as: It is interesting to note that among the sample of 5 merging cases, 4 merging banks indicate increase in EPS and only 1 merging bank showed decrease in average of three year of EPS during post merger period when comparing with pre merger performance of same cases.

3. ***Liquidity parameters-*** Liquidity ratios measure the short term solvency. the firm's capability to pay off current dues. In the present study current ratio is used to check the liquidity of the firm.

Current Ratio- In a sound business, a current ratio of 2:1 is considered an ideal one. A very high ratio will result in idleness of funds and therefore, is not a good sign. On the contrary, a low ratio would mean

S. No	Bank	X	Y	Change in current ratio
1	IDBI	1.1	2.16	I
2	Oriental Bank of Commerce	5.17	3.58	D
3	Punjab National Bank	2.6	3.6	I
4	Union bank of India	3.9	2.6	D
5	Vijaya Bank	3.8	4.5	I

I = Increase, D = Decrease

Among the 5 merging cases, 3 merging banks showed increase in current ratio and 2 merging banks showed decrease in current ratio.

4. ***Solvency parameters-*** Solvency parameters indicate the ability of an enterprise to meet its long term indebtedness (obligations). In this study debt-equity ratio is used to measure the solvency position.

Debt-Equity ratio- The debt to equity ratio is worked out to ascertain soundness of the long term financial policies of the firm. A higher ratio indicates a risky financial position while a lower ratio indicates safer financial position. The debt to equity ratio of sample merged companies during pre and post merger period of financial sector is exhibited in Table

S. No	Bank	X	Y	Change in Debt Equity Ratio
1	IDBI	7.35	7.42	I
2	Oriental Bank of Commerce	0.41	0.45	I
3	Punjab National Bank	0.69	0.86	I
4	Union bank of India	0.78	1.59	I
5	Vijaya Bank	0.89	0.97	I

I = Increase, D = Decrease

Out of 5 merging banks, there was increase in debt to equity ratio of 5, which means that debt (leverage) in the firm increased.

5. ***Overall efficiency parameters-*** The main objective of business is to earn profit. Therefore, efficiency in business is measured by profitability. Thus, a Measure of profitability is the overall measure of efficiency. To check the overall efficiency of the merging cases, profit before tax, profit after tax and profit before tax to total income are calculated.

Profit before tax (PBT) - Profit before tax, or PBT, measures the profits of the companies before paying corporate taxes. Table

S. No	Bank	X	Y	Change in PBT
1	IDBI	-285.87	711.22	I
2	Oriental Bank of Commerce	528.81	766.73	I
3	Punjab National	840.03	2499.95	I

	Bank			
4	Union bank of India	506.19	1378.47	I
5	Vijaya Bank	135.65	292.53	I

I = Increase, D = Decrease

All 5 merging cases taken under study have shown increase in the profit before taxes. Among these 5 merging cases, all bank had positive profits before taxes during pre merger period but it is observed that during post merger period the average of three years profit before taxes was positive. It can be interred predated as good sign for the banks going for merger.

Profit before tax to Total income- Profit before tax (PBT) to total income is the relationship between profit before tax and total income incurred by the business. The results of PBT to total income of sample merging firms before and after merger of financial sector companies have been presented in Table

S.No	Bank	X	Y	Change in PBT to total income
1	IDBI	-4.11	8.12	I
2	Oriental Bank of Commerce	14.71	12.91	D
3	Punjab National Bank	10.57	18.14	I
4	Union bank of India	10.66	15.35	I
5	Vijaya Bank	7.47	8.48	I

I = Increase, D = Decrease

It was observed that out of 5 merging cases in financial sector, 4 banks showed increase in PBT to total income and 1 bank showed decline in ratio.

Conclusion

Merger becomes the helpful tools for growth and enlargement in Indian banking system. The success of any merger depends on the natural process gained once the merger. Merger acquisition going down in monetary sector in Asian nation over 1/2 the merging banks taken for the study showed improved monetary performance within the post merger period of time fundamental measure as compared to the pre merger period. This study shows that analytical study - Mergers and acquisition of banks in India. For this a comparison between pre and post merger performance examined in terms of Return on Net worth, Earning Per Share (EPS)-, Profit before tax (PBT) ,Profit before tax to Total income.

The study created many findings. Earnings offered to shareholders and debt to equity magnitude relation showed a big modification in pre and post merger monetary position of the businesses. Overall, the results of the study indicate that in most of the Merger and acquisition cases, within the long-term the getting banks were able to generate price creation in one or the opposite type, that's higher money flows, cut and bigger market power, but in spite of improved monetary performance sixty four per cent of cases showed hyperbolic debt to equity magnitude relation. it's additionally important to notice that profit before tax altogether the merging cases has shown a positive trend for each monetary sector firms.

References

1. Kazushi Kan and Taro Ohno (2012). “Merger of Major Banks from the EVA Standpoint, Public Policy Review”, Japan, 8(5), pp 737-774.
2. Goyal K.A & Joshi Vijay (2012). “Merger & Acquisition in Banking Industry: A case of ICICI Bank Ltd”, Asian Journal of

Business and Management Sciences, Vol. 1 No. 2, pp 157-165

3. Vanitha. S. (2006). Mergers and acquisitions in the manufacturing sector: An evaluation study. PhD dissertation (Unpublished), Bharathidasan University, Tiruchirappalli.
4. Vardhana Pawaskar. (2001). “Effect of mergers on corporate performance in India”. Vikalpa, 26(1), pp 19-32.
5. B. K. (2000). Mergers and acquisitions: An Indian experience. Reserve Bank of India Occasional Papers, 21(1), pp 133-166.