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IMPACT OF MERGER ON FINANCIAL PERFORMANCE OF SELECTED INDIAN BANKS

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ABSTRACT

Merger and Acquisition (M&A) is a dynamic process and recently, M & As in banking sector is rising not only globally but also in India. The major reasons for M & A in Indian banking sector are continuous deregulation, intensive competition increased integration with the world economy, focuses on efficiency, productivity and cost reduction, strengthening service quality, supervisor risk management practices etc. Therefore, the mergers have been considered as a possible avenue for improving the structure and efficiency of the banking industry. The present paper attempts to effectively analyse the financial performance of the selected banks using ratios under eight parameters viz. profitability, efficiency, asset quality, liquidity, leverage, productivity and tax consideration and risk reduction. The results of the study clearly reveal that merger has positively affected the Federal bank, PNB, ICICI and IOB in achieving the motives of profitability, efficiency, asset quality, liquidity, leverage, productivity, tax advantages and risk reduction.

KEY WORDS: *Merger and Acquisitions, Profitability, Efficiency, Productivity, Asset quality and Liquidity.*

INTRODUCTION

In India, the concept of Mergers and Acquisitions (M & A) is very much popular in the current scenario. Moreover it becomes significantly a popular concept after 1990s when India entered into the Liberalisation, Privatisation and Globalisation (LPG) era. M & A are as mean for inorganic growth by the way to achieve large size and faster growth in market share to become more competitive through economies of scale and scope. The important reasons for M & A in Indian banking sector are – continuous deregulation of the banking sector, greater and intensive competition, increased integration with world economy, international developments, increased pressure of foreign banks in Indian economy, focus on efficiency, productivity and cost reduction, superior risk management system and practices, strengthening service quality, product innovation becoming an integral part of the retail banking revolution, for upgradation of technology infrastructure, opportunity to increase the size and scale to gain dominant in the local market and to penetrate in the global market.

OBJECTIVE OF THE STUDY

The study tries to evaluate the pre and post merger financial performance of select merged banks under eight dimensions viz profitability, efficiency, asset quality and liquidity, leverage, productivity.

HYPOTHESIS

H0 = There is no significant difference between pre and post merger financial performance of the acquirer bank in terms of profitability, efficiency, asset quality and liquidity, leverage, productivity.

METHODOLOGY

The present study purely depends on the secondary data. The financial and accounting data of selected merged banks are collected from CMIE prowess database and other related information is collected from books, journals, and official websites of sample banks. The study period covers ten years, as five years before and five years after the merger. The year of merger is considered as a base year and hence, it is excluded from the evaluation in order to have consistency in evaluation of pre and post merger performance of the acquirer banks. Moreover, the year of merger differs in all the merger deals. The financial ratios are computed for pre and post merger period and compared to assess the performance in eight major areas of the selected banks. To test the significant difference in the bank's performance before and after merger the paired sample t test is used.

SAMPLE DESIGN

Merger in India has assumed great significance with the advent of the policy of deregulation initiated in the year of 1991 and in the selection of sample, banks on mergers and acquisition occurred in post-reform period i.e. after1991 have been considered. Out of 26 mergers happened in the post reform period (from 1993 to 2010) 11 banks have gone through the merger more than once. However, the Centurion Bank of Punjab (CBoP) has merged with HDFC in 2008. In order to assess the true effectiveness of merger, excluding CBoP, 10 banks were considered. However, the sample was restricted to eight banks only as the required financial data for two banks namely Bank of India and IDBI were not consistently available for the study period. The sample banks for the study are viz, Punjab National Bank (PNB), Bank of Baroda (BOB), Oriental Bank of Commerce (OBC), Federal Bank, ICICI Bank, Indian Overseas Bank (IOB), State Bank of India (SBI) and HDFC Bank.

RESULTS AND DISCUSSION

Impact on Profitability of Selected Merged Banks:-

It is observed from the Table 1 that the Interest earned ratio of selected merged banks has marginally reduced during the post merger period except in ICICI, HDFC and Federal Bank. However, the t-values of the ratio are statistically significant only for PNB, BOB, OBC and SBI. Interest paid ratio reveals that the selected merged banks have drastically reduced their interest payments during post merger except in HDFC and ICICI but it is statistically significant only for PNB, BOB and OBC. The non-interest income has decreased almost by half in the post merger period of selected banks except IOB, HDFC and t value implies that none of the bank is statistically significant except SBI. Among selected merged banks, HDFC and ICICI banks show an increase in non-interest expenses and rest of the banks have witnessed marginal reduction, whereas the t-values are statistically significant for OBC, Federal Bank, IOB and SBI.

Spread is the surplus of interest earned over interest paid, among the selected banks ICICI, HDFC, Federal bank, PNB and BOB have raised their spread in the post merger period and it is also statistically significant for SBI, IOB, and ICICI bank. Burden is the difference between non-interest expenses and income and the results show that all the banks increased their burden in the post merger period except IOB and SBI and it is statistically significant in all selected merged banks. The overall profitability of the selected merged banks has marginally reduced in the post-merger period except in case of Federal bank, ICICI and PNB and the ratio is not statistically significant in all cases except Federal bank.

Impact on Efficiency or Operational Parameters of Selected Merged Banks

Based on the Table 2 the results of Return on assets describe that all the selected merged banks have marginally raised their value in the post merger period except OBC and it is not statistically significant for all except Federal bank. Except HDFC and ICICI bank, the profit margin of selected banks has increased but statistically significant only for PNB, BOB and Federal bank. Among selected banks, HDFC and ICICI banks have gained their efficiency in terms of utilisation of assets in the post merger period whereas t value is statistically significant for all banks except ICICI, Federal bank, and SBI. Interest income to assets of all selected banks has declined marginally in the post merger period except HDFC, ICICI, and Federal bank. The changes are not statistically significant for all merged banks except HDFC and IOB. All the banks have significantly reduced their non-interest income to assets in the post merger except HDFC and ICICI bank. The t-values indicate that none of the banks are statistically significant. All the selected banks have reduced their operating expenses to total income in the post merger period except HDFC and SBI but the changes in the ratio are statistically significant for PNB, BOB, and Federal bank.

Impact on Asset Quality of Selected Merged Banks:-

In Table 3, the net Non-Performing Assets to net advances ratio indicates the degree of riskiness in the credit portfolio of the bank. It is significant to note that, except HDFC all the merged banks have drastically reduced their non-performing assets in the post merger period but the changes in the ratio are statistically significant for all banks except HDFC, ICICI, and IOB. The credit deposit ratio of all the selected banks has increased during the post merger period except ICICI bank and it also statistically significant for all except PNB and ICICI bank. The results of liquid assets to total assets are marginally reduced in post merger period; it might be due to the fact that the banks have raised their investment in long term assets whereas it is not statistically significant for all except IOB. Liquid assets to total deposit ratio indicates that all merged banks have reduced their value in the post merger period except OBC. The t results show that none of the banks liquid assets to total deposit is significantly different.

Debt-equity ratio of all the banks except Federal and OBC in the post merger period, have maintained their debt equity mix nearer to one, indicating that merger has helped to manage their debt and equity efficiently. The t-values of selected banks are statistically significant for Federal bank, SBI and HDFC bank. The CAR of the selected acquirer bank is more than 9% in post merger period and especially Federal bank shows highest CAR followed by ICICI and HDFC bank. The t-values indicate that the changes in ratio are statistically significant for Federal bank, HDFC and ICICI bank.

Impact on Productivity of Selected Merged Banks

Table 4 indicates that productivity in terms of business with its employees viz. deposits per employee, advances per employee and business per employee of selected banks have improved during the post merger period however it is statistically significant for all banks except HDFC. The analysis of productivity in terms of business with its branch viz. DPB, APB and BPB shows tremendous improvement particularly all the banks have raised their mean value two times in the post period except HDFC bank. The t results indicate that changes in DPB, APB and BPB of selected banks are statistically significant for all except ICICI and HDFC bank. The profit per employee shows positive effect of merger for all banks except in HDFC bank and the changes are also statistically significant.

CONCLUSION

With the government and regulatory authorities support, the Indian corporate including banks have recognised the need for consolidation by adopting various strategies like merger, acquisition, takeovers etc. The results of the analysis have clearly highlighted that the merger has helped the sample acquiring banks viz. Federal bank, PNB, ICICI and IOB in achieving the motives of profitability, efficiency, asset quality, liquidity, leverage, productivity, tax advantages and risk reduction. Though mergers are very important business strategy, the real impact of merger depends on business and economic environment of the banks. Therefore, the government may provide holistic policy guidelines to banks in order to face future challenges.

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Table 1: Impact of Merger on Profitability of Selected Acquirer Banks

(In Percentage)

Banks		IER		IPR		NIIR		NIER		Spread		Burden		PR	
		Pre	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**
PNB	Mean	5.97	5.40	4.81	2.92	2.50	1.17	3.01	2.89	1.15	2.48	0.51	1.72	0.64	0.76
	SD	1.763	0.689	0.425	0.513	2.051	0.279	0.378	0.411	1.797	0.205	1.888	0.178	0.216	0.831
	t	**0.531**		**5.535***		**1.619**		**0.677**		**-1.496**		**-1.316**		**-1.464**	
BOB	Mean	6.12	4.60	4.46	2.77	1.55	0.89	2.64	2.16	1.65	1.83	1.09	1.28	0.57	0.56
	SD	0.887	0.311	0.416	0.232	1.136	0.166	0.182	0.538	1.080	0.372	1.086	0.401	0.159	0.063
	t	**2.880***		**6.419***		**1.427**		**1.981**		**-0.288**		**-0.300**		**0.238**	
OBC	Mean	6.8	4.99	5.15	3.39	1.66	0.70	2.48	1.7	1.65	1.6	0.82	1	0.83	0.6
	SD	1.437	0.221	0.425	0.567	1.474	0.062	0.353	0.259	1.551	0.391	1.616	0.213	0.179	0.262
	t	**2.849***		**4.019***		**1.459**		**2.896***		**0.065**		**-0.233**		**2.193**	
Federal bank	Mean	5.55	5.57	4.46	3.38	2.25	0.86	2.78	2.25	1.08	2.19	0.53	1.39	0.55	0.81
	SD	1.693	0.438	1.052	0.342	1.498	0.116	0.235	0.239	1.271	0.208	1.372	0.201	0.116	0.067
	t	**-0.024**		**2.336**		**2.21**		**4.984***		**-1.751**		**-1.285**		**-4.648***	
ICICI	Mean	5.71	6.28	4.35	4.43	1.8	1.8	2.27	2.72	1.36	1.85	0.47	0.92	0.89	0.93
	SD	2.370	0.723	2.185	0.624	0.967	0.167	0.794	0.289	0.367	0.225	0.323	0.143	0.380	0.169
	t	**-0.587**		**-0.087**		**-0.005**		**-1.520**		**-2.621***		**-2.352**		**-0.254**	
IOB	Mean	6.36	5.18	4.01	3.41	1.07	0.73	2.76	1.85	2.35	1.76	1.69	1.12	0.66	0.65
	SD	0.488	0.324	0.746	0.452	0.219	0.169	0.234	0.200	0.268	0.246	0.156	0.227	0.2670	0.2360
	t	**5.740***		**1.535**		**2.314**		**6.739***		**3.023***		**13.857***		**0.0740**	
SBI	Mean	6.45	5.07	4.11	3.23	1.35	0.98	2.98	2.19	2.33	1.84	1.63	1.21	0.71	0.63
	SD	0.910	0.291	0.941	0.195	0.217	0.107	0.154	0.237	0.056	0.262	0.082	0.312	0.058	0.089
	t	**3.071***		**2.364**		**5.054***		**5.507***		**5.076***		**3.305***		**1.349**	
HDFC	Mean	5.45	5.88	2.92	3.02	1.39	1.44	2.84	3.28	2.54	2.86	1.45	1.84	1.08	1.02
	SD	0.826	0.542	0.985	0.470	0.130	0.114	0.219	0.364	0.208	0.204	0.285	0.272	0.097	0.097
	t	**-1.364**		**-0.259**		**-0.853**		**-1.747**		**-1.902**		**-1.556**		**0.773**	

Source: Computed Data from Prowess
Note: * Significant at 5 % level
IER – Interest Earned Ratio, IPR – Interest Paid Ratio, NIIR – Non-Interest Income Ratio, NIER – Non-Interest Expenses Ratio, PR – Profitability Ratio

Table 2: Impact of Merger on Efficiency of Selected Merged Banks

(In Percentage)

Banks		ROA		Profit		Asset		IIA		NIIA		OETI	
		Pre	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**
PNB	Mean	0.85	1.02	7.41	11.65	11.35	8.87	8.58	7.90	3.67	1.70	83.21	70.83
	SD	0.236	0.723	1.584	1.462	0.813	1.056	2.216	0.973	2.965	0.378	3.764	3.387
	t	**-1.953**		**-5.039***		**8.750***		**0.488**		**1.638**		**8.085***	
BOB	Mean	0.75	0.79	7.46	10.17	10.04	7.75	8.46	7.14	2.12	1.37	79.83	73.78
	SD	0.218	0.113	2.331	1.409	0.258	0.337	1.308	0.255	1.487	0.172	3.009	2.401
	t	**-0.605**		**-3.537***		**12.187***		**2.074**		**1.182**		**3.031***	
OBC	Mean	1.09	0.85	9.81	10.55	11.12	8.2	9.68	7.93	2.36	1.1	76.32	75.17
	SD	0.229	0.342	2.061	4.775	0.251	0.462	2.060	0.594	2.106	0.085	5.123	6.193
	t	**1.625**		**-0.375**		**18.786***		**1.906**		**1.328**		**0.233**	
Federal bank	Mean	0.76	1.15	7.12	12.6	10.73	9.2	8.27	8.68	3.32	1.35	73.25	68.26
	SD	0.150	0.080	1.331	1.134	1.633	0.650	2.674	0.516	2.184	0.167	4.528	2.202
	t	**-5.261***		**-5.146***		**1.839**		**-0.306**		**2.152**		**2.952***	
ICICI	Mean	0.93	1.06	11.8	11.55	7.79	9.32	6.82	7.56	2.1	2.17	75.09	73.15
	SD	0.423	0.139	2.650	2.459	3.342	0.998	2.069	0.760	0.856	0.208	2.077	3.232
	t	**-0.721**		**0.651**		**-0.988**		**-0.688**		**-0.154**		**1.798**	
IOB	Mean	0.88	0.93	9.04	10.89	9.9	8.5	9.03	8.29	1.52	1.17	78.24	76.73
	SD	0.361	0.330	4.006	3.747	0.438	0.716	0.720	0.304	0.306	0.266	7.873	3.340
	t	**-0.163**		**-0.552**		**4.342***		**2.845***		**1.582**		**0.31**	
SBI	Mean	0.85	0.86	9.21	10.4	9.31	8.28	8.03	7.53	1.69	1.45	74.5	74.97
	SD	0.094	0.111	1.501	1.430	0.599	0.483	0.715	0.508	0.263	0.141	4.116	1.710
	t	**-0.095**		**-0.929**		**2.446**		**1.334**		**2.251**		**-0.321**	
HDFC	Mean	1.24	1.34	15.93	14.03	7.8	9.6	7.18	8.72	1.83	2.13	64.56	68.22
	SD	0.047	0.141	1.135	2.036	0.552	0.776	0.782	0.977	0.157	0.198	3.739	2.867
	t	**-1.31**		**2.549**		**-6.18***		**-3.861***		**-2.671**		**-1.754**	

Source: Computed Data from Prowess

Note: * Significant at 5 % level

ROA – Return on Assets, IIA – Interest Income to Assets, NIIA – Non-Interest Income to Assets, OETI – Operating Expenses to Total Income

Table 3: Impact of Merger on Asset Quality, Liquidity and Leverage of Selected Merged Banks

(In Percentage)

Banks		NPA to Net Advances		Credit Deposit Ratio		Liquid Assets to Total		Liquid Assets to Total		Debt-Equity Ratio		Capital Adequacy	
		Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post
PNB	Mean	4.84	1.22	53.4	59.82	18.05	12.97	20.49	15.35	0.71	0.72	7.7	12.83
	SD	1.175	0.301	16.101	6.651	3.239	3.503	3.695	4.439	0.135	0.155	4.356	1.183
	t	**8.985***		**-0.736**		**2.386**		**2.010**		**-0.119**		**-2.087**	
BOB	Mean	5.38	0.74	51.67	66.69	20.52	13.89	23.76	16.33	0.498	0.75	12.43	12.77
	SD	1.425	0.447	3.861	7.737	6.714	1.241	7.924	1.339	0.218	0.232	0.756	0.666
	t	**7.102***		**-7.557***		**2.292**		**2.170**		**-1.692**		**-0.619**	
OBC	Mean	3.3	0.78	47.2	66.34	13.19	12.99	14.75	14.96	0.34	0.446	12.73	11.38
	SD	1.162	0.350	4.608	7.332	3.773	2.671	4.176	2.866	0.212	0.108	1.366	1.326
	t	**5.207***		**-7.767***		**0.249**		**-0.232**		**-1.362**		**1.252**	
Federal Bank	Mean	5.75	0.41	55.17	73.10	13.87	9.02	15.59	10.90	0.92	0.426	10.98	17.74
	SD	3.472	0.147	6.908	2.486	4.997	1.341	5.426	1.562	0.278	0.228	0.499	3.618
	t	**3.353***		**-4.972***		**1.815**		**1.589**		**4.353***		**-4.218***	
ICICI	Mean	3.35	1.58	99.71	95.27	13.18	12.34	26.56	20.87	5.07	2.1	11.25	15.86
	SD	1.839	0.521	17.141	2.513	4.522	1.194	13.093	2.056	3.219	0.468	0.555	2.836
	t	**2.367**		**0.281**		**0.445**		**0.926**		**1.849**		**-3.243***	
IOB	Mean	4.54	1.24	49.96	73.42	13.1	10.35	14.73	12.48	0.88	1.60	11.81	13.09
	SD	2.413	0.796	3.962	3.274	1.898	1.605	1.988	1.9	0.107	0.495	1.572	0.857
	t	**2.479**		**-18.269***		**3.942***		**2.588**		**-2.826**		**-1.998**	
SBI	Mean	3.63	1.75	53.48	79.26	15.6	12.77	19.97	16.74	0.95	1.57	12.94	12.25
	SD	1.483	0.075	9.518	3.906	3.918	2.013	5.124	2.815	0.200	0.156	0.741	1.086
	t	**2.861***		**-8.729***		**2.215**		**1.967**		**-5.534***		**1.681**	
HDFC	Mean	0.34	0.36	57.24	74.14	13.25	13.21	18.08	17.54	1.03	0.65	12.06	15.23
	SD	0.140	0.193	12.008	6.449	3.589	1.584	4.694	2.108	0.109	0.092	1.115	1.049
	t	**-0.156**		**-5.841***		**0.019**		**0.215**		**4.239***		**-3.468***	

Source: Computed Data from Prowess,
Note: * Significant at 5 % level

Table 4: Impact of Merger on Productivity of Selected Merged Banks

(In Percentage)

Banks		DPE		APE		BPE		DPB		APB		BPB		PPE	
		Pre	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**	**Pre**	**Post**
PNB	Mean	0.66	1.81	0.34	1.11	1.00	2.92	10.98	25.91	5.72	15.81	16.69	41.72	0.006	0.022
	SD	0.198	0.457	0.106	0.405	0.282	0.861	2.569	6.010	1.462	5.429	3.544	11.428	0.001	0.005
	t	**-9.805***		**-5.065***		**-7.11***		**-9.664***		**-4.678***		**-6.767***		**-8.154***	
BOB	Mean	1.29	3.42	0.68	2.35	1.97	5.78	20.84	45.21	10.85	30.94	31.69	76.15	0.01	0.033
	SD	0.307	1.286	0.206	1.104	0.515	2.394	2.744	14.092	2.173	12.631	4.909	26.716	0.005	0.0173
	t	**-4.780***		**-4.106***		**-4.463***		**-4.759***		**-4.249***		**-4.517***		**-3.7330***	
OBC	Mean	1.76	4.59	0.76	3.1	2.61	7.69	25.78	53.08	12.32	35.63	38.11	88.72	0.02	0.04
	SD	0.428	1.435	0.277	1.174	0.701	2.597	4.636	11.589	3.277	10.368	7.873	21.809	0.008	0.014
	t	**-5.955***		**-5.572***		**-5.849***		**-7.681***		**-7.299***		**-7.727***		**-3.577***	
Federal Bank	Mean	1.76	4.2	0.95	3.08	2.7	7.28	27.66	49.48	14.45	36.24	42.11	85.72	0.015	0.06
	SD	0.491	0.746	0.184	0.616	0.671	1.366	6.459	7.503	2.328	6.168	8.692	13.615	0.005	0.011
	t	**-20.299***		**-10.944***		**-14.564***		**-28.264***		**-12.231***		**-18.863***		**-10.624***	
ICICI	Mean	4.58	7.13	4.62	6.80	9.2	13.93	122.95	172.09	127.56	161.58	250.5	333.66	0.082	0.13
	SD	0.733	1.156	1.775	1.184	2.264	2.314	54.48	84.12	61.345	71.057	112.71	154.93	0.043	0.045
	t	**-7.489***		**-2.507**		**-3.992***		**-0.797**		**-0.585**		**-0.696**		**-3.073***	
IOB	Mean	1.47	4	0.74	2.96	2.22	6.97	24.93	51.65	12.55	38.16	37.47	89.81	0.016	0.042
	SD	0.312	1.035	0.201	0.893	0.228	0.862	4.374	10.430	2.998	9.233	7.293	19.644	0.009	0.010
	t	**-7.434***		**-7.089***		**-7.285***		**-9.394***		**-9.051***		**-9.254***		**-3.798***	
SBI	Mean	1.59	3.93	0.87	3.13	2.46	7.06	35.72	64.31	19.43	51.11	55.16	115.42	0.017	0.044
	SD	0.257	0.685	0.293	0.672	0.547	1.355	4.834	7.696	5.979	7.855	10.677	15.394	0.004	0.007
	t	**-11.756***		**-12.863***		**-12.369***		**-16.755***		**-28.486***		**-22.372***		**-9.605***	
HDFC	Mean	4.5	3.22	2.55	2.41	7.05	5.62	95.94	106.52	54.26	78.3	150.2	184.82	0.076	0.058
	SD	0.632	0.525	0.497	0.571	0.902	1.098	10.647	14.855	9.443	5.056	13.951	19.060	0.011	0.016
	t	**2.767**		**0.616**		**2.105**		**-1.425**		**-4.264***		**-2.729**		**1.648**	

Source: Computed Data from Prowess

Note: * Significant at 5 % level, DPE – Deposits per Employee, APE – Advances per Employee, BPE – Business per Employee, DPB – Deposits per Branch, BPB – Business per Branch, PPE – Profit per Employee.