IMPACT OF MERGERS AND ACQUISITION IN INDIAN BANKING SECTOR (A CASE OF ICICI BANK AND BANK OF RASJASTHAN)

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ABSTRACT

Mergers and Acquisition have become very popular throughout the world in the recent times. This has become popular due to globalization, liberalization, technological developments and intensely competitive business environment. Mergers and acquisition are a big part of corporate finance world. This process is extensively used for restructuring the business organization. The present paper studies the reasons for the merger of ICICI bank and Bank of Rajasthan. The aim of the paper is to study the impact of merger on the operating profit of the ICICI Bank. The analysis consists of two phases first is the pre-merger and second is the post-merge.

Keywords: *Acquisition, restructuring*

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1.1 INTRODUCTION

India is fastest growing economies in the world. All of we know that Bank is an institution which is dealing in money. In the recent past, the Indian banking system has been undergoing major changes that have affected both its structure and the nature of strategic interaction among banking institutions. It has also been observed that Indian banking industry is moving from traditional savings and lending functions to other services as well such as financial services, securities trading, Insurance etc. Now a days banks have also diversified their activities in wide areas. To cover wide areas of activities banks provide various facilities and various financial services to their customers at one place. In order to tackle the demand of this new environment the Indian banking industry needs to expand in form and structure. To meet these changing scenario the banks can adopt the strategy like mergers and acquisition. The growing tendency towards mergers and acquisitions (M&As) world-wide, has been driven by intensifying competition. There is a need to reduce costs, better financial planning, desire to expand business. All these could be possible with the help of merger.

1.2 PRODUCT PROFILE OF ICICI BANK

ICICI Bank is the second largest Bank in India with total assets of of Rs. 3,634.00 billion (US$ 81 billion) at March 31, 2010 and profit after tax Rs. 40.25 billion (US$ 896 million) for the year ended March 31, 2010. The Bank has a network of 2,528 branches and 6,000 ATMs in India, and available in 19 countries, including India. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialised subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management. The Bank has its subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Our UK subsidiary has established branches in Belgium and Germany.

ICICI Bank's equity shares are listed in India on Bombay Stock Exchange and the National Stock Exchange of India Limited and its American Depositary Receipts (ADRs) are listed on the New York Stock Exchange (NYSE).

1.3 PRODUCT PROFILE OF BANK OF RAJASTHAN

The Bank of Rajasthan (BOR) is a Private Sector Bank and engaged in the business of providing commercial banking, personal banking services, merchant banking services, auxiliary services, consumer banking services, deposit and money placement services, trust and custodial services, international banking services, priority sector banking and depository services. The bank operates foreign exchange and industrial business through special specialized foreign exchange and Industrial finance branches. The bank operates through a network of 463 branches, including 6 service branches, as well as had 67 onsite and 29 offsite automated teller machines in 230 cities. The Total Assets Bank of Rajasthan as on 31st March, 2010 was Rs. 173,00,06,05 and the Profit after tax was Rs. 2,34,34,45.

1.4 MERGER OF BANK OF RAJASTHAN WITH ICICI BANK.

The boards of both the banks on May 23, 2010 approved the merger. On 12th of August 2010, Alpana Killawala, CGM, department of communication, RBI has published a press release that "All branches of Bank of Rajasthan Ltd. will function as branches of ICICI Bank Ltd. with effect from August 13, 2010. RBI was critical of BOR's promoters not reducing their holdings in the company. The Reserve Bank of India approved the merger of Bank of Rajasthan with ICICI Bank Ltd, India's largest private sector Bank. All branches of Bank of Rajasthan will function as branches of ICICI Bank. ICICI paid Rs.3000 Crores for it. Each 118 shares of BOR will be converted into 25 shares of ICICI Bank

All customers will be extended seamless services as per existing Bank of Rajasthan procedures. All existing BoR products will continue with current features and charges. Customers can continue to transact using their current BoR cheque books, ATM cards, lockers etc. The minimum balance requirements and service charges on all type of accounts will remain unchanged.

Post the system integration customers can benefit from ICICI Bank's enhanced branch network of over 2500 branches and over 5600 ATMs spread across 1400 locations in the country. The Bank has a presence in 18 international locations. ICICI Bank's extensive product suite caters to all banking requirements, both corporate and retail, backed by a world class technology platform.

1.5 REASONS FOR MERGER OF BANK OF RAJASTHAN WITH ICICI BANK

Promoters of Bank of Rajasthan have decided to merge the bank with the country's largest private sector bank- ICICI Bank. BoR informed the stock exchange that it received a communication from Sanjay Kumar Tayal , director and one of the promoters to convene a board meeting on May 18 as they have entered into an agreement with ICICI Bank for proposing an amalgamation. The Bank of Rajasthan with the asset base of Rs. 17,300.06 crores incurred the net loss after provisions and taxes remained at Rs. 102.13 crores for the year ended 31st Mar 2010.

ICICI Bank is learnt to have indicated that it's willing to pay more than BoR's present market valuation. According to banking circles, the Tayals, who acquired BoR a decade ago, have been under pressure to sell the old private bank which is grappling with directives from Sebi and RBI. In March, Sebi banned 100 entities allegedly holding BoR shares on behalf of the promoters from all stock market activities.

A little earlier, RBI had slapped a penalty of Rs 25 lakh on the bank for a string of violations like deletion of records in the bank's IT system, irregular property deals and lapses in the accounts of a corporate group.

In the past few months, the central bank has virtually taken over BoR. The RBI appointed a new CEO for the bank, which currently has five RBI nominated directors.

Significantly, well before the downturn, ICICI had considered the possibility of taking over BoR. But the deal fell through as ICICI was unwilling to fork out the money Mr Tayal had asked for.

2. LITERATURE REVIEW

2.1. Kannan R. (2008) In this study " The impact of mergers and acquisition on private sector banks on global economy" have studied that Mergers and Acquisition have been a very important market entry strategy as well as expansion strategy. This present era is known as competition, goes for merger, and enjoys sometimes monopoly. Liberalisation and technological advances are increasingly pushing the banking sector towards greater globalization to improve the operational flexibility of banks, which is crucial in the competitive environment that banks operate in. The government also proposes to recapitalise weak banks. The recapitalization of weak banks has not yielded the expected results in the past and hence should be linked to a viable and time bound restructuring plan. The process of merger and acquisition is taken in many banks in India like- Times bank merged with HDFC Bank, Bank of Madura with ICICI bank, etc. The researcher has made an attempt to measure the changes in the profitability and financial position of the above banks and has calculated several ratios and tested them in the light of 'T-Test', to know the acceptance and rejection of the formulated hypothesis. The researcher has found that overall the merger and acquisition does not effect the financial position of banks except when weaker and non-viable banks are merged with a financially sound and profit making bank in such case the profitability of the later bank will be affected.

2.2 Kaushik K.P. and Sinha Neena(2010) in his study "Measuring Post Merger and Acquisition Performance: An Investigation of Select Financial Sector Organizations in India" examines the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The analysis consists of two stages. Firstly, by using the ratio analysis approach, they calculate the change in the position of the companies during the period 2000-2008. Secondly, they examine changes in the efficiency of the companies during the pre and post merger periods by using nonparametric Wilcoxon signed rank test. While we found a significant change in the earnings of the shareholders, there is no significant change in liquidity position of the firms. The result of the study indicate that M&A cases in India show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value.

2.3 Pasha Tisman Ahmad(2010), in his study "Effect of Merger on Management : Case Study of Bank " examines that Merger of organizations is a major change that's why it is necessary to focus the effects of this merger. Organizations are built and show their performance by the human resource and thus, it is important to find out the impact of merger on the employees. The present study aims to study such impact in the form of motivation, satisfaction and performance of the employees.

2.4 Bhatnagar Baxi Abhinn & Sinha Nitu(2012) in the study "Strategic Move of ICICI Bank: A Case of ICICI Bank & Bank of Rajasthan" states that changing is the regulation of nature. Any business organization undergoes change on a continuous basis, technically termed as Corporate Restructuring. It can be defined as a strategy to achieve faster growth, desired capital structure and change in the ownership and control of company. The reasons behind change may be external or internal factors. In the present scenario, business organization undertakes changes to increase their cutting edge over the competition and enhance their leadership positions. It is a fundamental fact of finance that growth and capital employed are two basic drivers of the value of an organization. On the other hand neither growth nor improvement in ROCE is possible unless the company is under the control of competent, progressive and visionary management. The present paper is an attempt to understand the strategic move of ICICI bank. The case study will reveal the motives behind and synergies from such M&A activities.

2.5 Goyal K.A & Joshi Vijay (2012) in his study "Merger & Acquisition in Banking Industry: A case of ICICI Bank Ltd" states that to keep the head high in globalized economy one has to follow the path of growth, which contains various challenges and issues; one has to overpower these challenges and issues to become a success story. It considers a case of

ICICI Bank Ltd., the largest private sector bank in India, which has acquired nine financial firms to make the steps of the ladder of success. Therefore, the aim of this article is to study the growth of ICICI Bank Ltd. through mergers, acquisitions, and amalgamation. This article is divided into four parts. The first part includes introduction and conceptual framework of mergers and acquisition. The second part discusses the historical background of ICICI Bank Ltd. and followed by review of literature. The third part discusses all the mergers, acquisitions, and amalgamations in detail. Finally, the article concludes that a firm must devise a strategy in three phases i.e. Pre-merger phase, acquisition phase and post-merger phase.

3. DATA AND METHODOLOGY

3.1 Objectives of the Study

1. To study the impact of mergers and Acquisitions on the financial performance of the selected Bank.
2. To summarize the findings and make a conclusion.

3.2 Hypothesis of the study

Ho = There would be no significant effect of Mergers and Acquisition on financial performance on selected Banks.

H1 = There would be significant effect of Mergers and Acquisition on financial performance on selected banks.

Ho = $\mu 1 = \mu 0$

H1 = $\mu 1 \neq \mu 0$

3.3 Method of data collection used

The task of data collection begins after the research problem or the objective of research has been defined. There are two kinds of data that is collected. One is primary, which is original in character that is collected for the first time. The other one is secondary, which has already been collected and needs only to be compiled.

For this research, I have chosen the secondary sources of data collection. For the purpose of research we have taken the financial statements of BOR & ICICI Bank. For this research data have been taken for pre-merger Analysis from 2008 to 2010 for both the banks and for post-merger analysis data has been taken till 2011 for ICICI Bank.

4. EMPIRICAL FINDINGS

The empirical study analyses the financial data of the merged banks before and after the merger. Since the merger took place in May 2010 but implemented in August 2010 so, the financial analysis has been done for the year 2008 to 2010 (pre-merger) and from 2008 to 2011 (post-merger). The analysis has been done on the basis of key financial ratios of both the banks.

4.1 Financial ratios has been measured for pre-merger and post-merger for both the banks. The following are the three parameters on which the analysis has been done

a) Liquidity parameters
b) Solvency parameters
c) Profitability parameters.

4.1.1 Pre-merger analysis of ICICI Bank and Bank of Rajasthan

a) Liquidity Parameters (Short term solvency): Liquidity ratios measure the short-term solvency, i.e. the firm's ability to pay its current dues. In the present study current ratio and quick ratio is used to check the liquidity position of the firm. A current ratio of 2:1 is considered as an ideal one for a sound business. A very high ratio is not good sign as it will result in idleness of funds. On the other hand a very low ratio would mean inadequacy of working capital.

Current Ratio	2008	2009	2010
ICICI Bank	0.11	0.13	0.14
BOR	0.01	0.01	0.02

ICICI is maintaining its current position in the constant way. In case of BOR the current ratio is also increasing.

Quick Ratio	2008	2009	2010
ICICI Bank	6.42	5.94	14.70
BOR	9.60	8.80	7.50

The above shows that there is a high liquidity in BOR as compared to ICICI bank in the year 2008 and 2009. It shows that BOR have more cash and cash equivalents/current assets as compared to their current liabilities. But in the year 2010 the Current position of ICICI bank is much better than BOR

b) Solvency parameters: Solvency parameters indicate the ability of an enterprise to meet its long term requirements. In this study debt-equity ratio is used to measure the solvency position.

Total Debt/Equity Ratio	2008	2009	2010
ICICI Bank	5.27	4.42	3.91
BOR	26.15	23.60	27.82

The debt portion is more in case of BOR. In the year 2008 the Debt/equity ratio was 26.15 then it went down in the year 2009 to 23.60. In the year 2010, the debt equity ratio is increased to 27.82. It means that ICICI is doing good.

c) Profitability Parameters: The main objective of business is to earn profit. In this study Net Profit margin, Return on net worth is used to measure the profitability position of the firm.

Net Profit Margin	**2008**	**2009**	**2010**
ICICI Bank	10.51	9.74	12.17
BOR	9.75	7.81	-6.85

In case of ICICI the net profit margin is 10.51 in the year 2008 and it went down in the year 2009 and again it went up in the 2010. In case of BOR the Net profit margin was 9.75 in the year 2008 and it went down in the year 2009 it becomes negative in 2010.

Return on net worth(%)	2008	2009	2010
ICICI Bank	8.94	7.58	7.79
BOR	21.75	18.29	-18.86

In case of ICICI banks the return on net worth is decreasing in the year 2009 and increasing in the year 2010. But in case of BOR it is decreasing in the year 2009 and it went negative in the year 2010.

EPS	2008	2009	2010
ICICI Bank	37.37	33.76	36.10
BOR	8.57	7.30	-6.33

In case of ICICI banks the EPS is decreasing in the year 2009 and increased in the year 2010. But in case of BOR it is decreasing in the year 2009 and it went negative in the year 2010.

4.2.2 Post Merger Analysis

	2008	2009	2010	2011
Current Ratio	0.11	0.13	0.14	0.11
Quick Ratio	6.42	5.94	14.70	15.86
Total Debt/Equity Ratio	5.27	4.42	3.91	4.10
Net Profit Margin	10.51	9.74	12.17	15.91
Return on long term funds	62.34	56.72	44.72	42.97
Return on Net Worth	8.94	7.58	7.79	9.35
EPS	37.37	33.76	36.10	44.73

Post merger results are satisfactory. The liquidity position i.e the quick ratio has increased after merger. Debt equity ratio is also improving, Net Profit margin is increasing year by year. Return on net worth has been increased after merger and the EPS has taken a good move after merger. Hence, the merger is good for both the banks.

5. LIMITATIONS OF THE STUDY

The study is mainly based on secondary data. It was very difficult to find the data related to Bank of Rajasthan. The limitation of Secondary data will also influence the study. And recent changes in RBI guidelines also affect the study.

The values of BOR & ICICI bank as per the books were not available and the annual financial statements were also not available.

6. CONCLUSION

The amalgamation of ICICI bank with Bank of Rajasthan came in to effect on August 13, 2010 when RBI approved the deal. Post merger results are satisfactory. Merger has increased the liquidity and profitability position of ICICI bank. **HR ISSUES** has always being a major concern for the merging firms because the major impact of this merger is on the employment position of employees of BOR. The merger has increased no. of branches and no. of ATM's. Hence, the merger is beneficial for both the banks.

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