'MERGER & ACQUISITION': AN UNCONVENTIONAL WAY TO GROW STRATEGICALLY & FINANCIALLY- A STUDY BASED ON HDFC BANK & ICICI BANK

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ABSTRACT:

The purpose of this research paper is to find out whether one organization can consider merger and acquisition as a strategic tool for its financial growth and expansion or not. The research is based on the India's most two popular and leading private sector banks i.e. HDFC Bank and ICICI Bank. The result has been analyzed based on some selected financial components like: net profit, operating profit, and profit after tax, investments, and deposits, earnings per share and most importantly market price per share. To find out the result, paired "t" test has been applied to the pre and post-merger selected financial components and the result proved that after merger HDFC Bank's financial performance has grown rapidly. It also resulted that the merger with Bank of Madura does not have any effect on the financial performance of ICICI Bank, but the merger with Bank of Rajasthan explains a different story. The most important is that after the merger the profitability position of HDFC Bank as well as ICICI Bank have grown rapidly. Finally, this paper concluded that merger and acquisition helps an organization to grow financially and expand its business in the competitive market.

Keywords: Merger and Acquisition, Banking Sector, Financial components, Profitability position.

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I. Introduction:

"With a burgeoning Indian economy, a competitive private sector and a strong entrepreneurial spirit, Indian companies are increasingly seeking help in identifying and acquiring suitable domestic and overseas targets."

-PankajKarna, Grant Thornton, India[1].

An entrepreneur may grow its business either by internal expansion or by external expansion. In the case of internal expansion, a firm grows gradually over time in the course of business, through acquisition of new assets, replacement of the technologically obsolete equipment's and the establishment of new lines of products. But in external expansion, a firm acquires a running business and grows overnight through corporate combinations. These combinations are of mergers, acquisitions, amalgamations and takeovers and have now become important features of corporate restructuring. They have been playing an important role in the external growth of a number of leading companies the world over. They have become popular because of the enhanced competition, breaking of trade barriers, and free flow of capital across countries and globalization of businesses. In the wake of economic reforms, Indian industries have also started restructuring their operations around their core business activities through merger, acquisition and takeovers because of their increasing exposure to competition both domestically and internationally.

Mergers and Acquisitions have been a very important market entry strategy as well as expansion strategy. The present era is known as competition era. In this era, companies to avoid competition, should go for merger and enjoy short time monopoly. As competition increased in the economy, so to avoid unhealthy competition and to face global challenges, Indian companies are going for mergers and acquisitions.

[1]PankajKarna, Head in Grant Thornton, India had wrote his view about India in "Mergers and acquisitions: opportunities for global growth" published by Grant Thornton (International Business Report, 2008).

Concept of Merger or Amalgamation, Acquisition, and Takeover:

Merger:

According to the **Oxford Dictionary**, the word merger means ***"a combination of two things, especially companies, into one"***.

The **Income-Tax Act, 1961** defines amalgamation u/s **2(1B)** as : ***"Amalgamation"***, in relation to companies, means the merger of one or more companies with another company or the merger of two or more companies to form one company in such a manner that—

(i) All the property of the amalgamating company or companies immediately before the amalgamation becomes the property of the amalgamated company by virtue of the amalgamation.

(ii) All the liabilities of the amalgamating company or companies immediately before the amalgamation become the liabilities of the amalgamated company by virtue of the amalgamation.

(iii) Shareholders holding not less than three-fourths in value of the shares in the amalgamating company or companies become shareholders of the amalgamated company by virtue of the amalgamation.

In general word merger can be defined as combination of two or more companies in to a single company where one survives and other lose their corporate existence. And the survivor firm acquires the assets as well as liabilities of the merged company or companies.

Acquisition:

Acquisition in general sense is acquiring the ownership in the property. Acquisition is the purchase by one company of controlling interest in the share capital of another existing company**.**

The five rules of successful Acquisition: by P.F Drucker is as under[2]:

- An acquisition will succeed only if the acquiring company thinks through what it can contribute to the company it is buying, not the other way around.
- Successful diversification by acquisition requires "a common core of unity"—that is, a commonality of markets or technology that provide a sufficient unity of experience, expertise and language.
- Those in the acquiring company must respect the products, markets and customers of the company they acquire.
- Within a year or so, the acquiring company must be able to provide top management for the company it acquires.
- Within the first year of a merger, it is important that a large number of people in the management groups of both companies receive substantial promotions across the lines—that is, from one of the former companies to the other.

Takeover:

Takeover is a corporate action in which an acquiring company makes a bid for another company. If the target company is publicly traded, the acquiring company will make an offer for the outstanding shares. When the targeted company refuses to be purchased, the takeover is considered a hostile takeover.

Process of Merger and Acquisition:

The Process of takeover should adopt a planned approach. Such a plan should include extensive explanation of various phases and activities. The process of merger and acquisition can be divided in to the following steps:

I. **Finalization of Targeted Company for Acquisition/Merger:**

The primary step is to collect all the information about the targeted company from all the possible sources and if the situation needed business intelligence could also be hired to collect internal information which may not be easily available in the market. The final evaluation of the targeted company will mainly depend on the following:

[2] Source: "The ABCs of M&A", by The Drucker Institute, posted on 18th August, 2011, retrieved from http://thedx.druckerinstitute.com/2011/08/the-abcs-of-ma/.

- The main purpose of Merger and Acquisition.
- The strength and weakness of the targeted company.
- Managerial and Organizational information about the targeted company.
- And, the work environment of the country where the targeted company is located.

The final selection of the targeted company is mainly based on the following specific criteria:

- The size of the targeted company in terms of earning, sales, assets and return on investment or asset.
- The potential growth rate of the targeted company.
- The market value and financial condition of the targeted company.
- The manufacturing facilities and technological advantages available with the targeted company.
- The working capacity of management of the targeted company.

II. Formulating the Approach for Acquisition:

After finalizing the targeted company, the final recommendation must be put up to the Board of Directors for their approval.Such approval constitutes authorization of Management to proceed with succeeding steps of the process. The first and the most effective strategy is to convince the management/business leader of targeted company to explore the idea of affiliating with the acquirer and that it is going to gain from the proposal. If the management of the targeted company is willing to be acquired, then both the management should fix up the approx. price and other broad terms of conditions before moving ahead with the deal.

III. Working out the Agreement:

The agreement for merger or acquisition should be done in two stages. In first stage, a preliminary agreement between two companies could be worked out and in the final stage, the final agreement can be worked out. This is essential to give enough time to both the company to check all the details for final agreement and also check some

additional detail, which might have been overlooked previously. The preliminary agreement will include the following points:

- The basis of agreement (Terms and Conditions of Merger/Acquisition).
- The authorization by the shareholders of each company.
- The provision that during the interim period none of them will make any substantial change in its operation or enter into unusual agreement without each other's approval.

Once the agreement is approved by the Board of Directors, announcement of acquisition or merger should be made in all leading media. This announcement must highlight the main purpose of the merger or acquisition, advantages or gains of the both organizations, their employees, shareholders and customers and mainly the value of the deal and the swap ratio.

IV. Integration of Two Companies:

To get full benefit from any acquisition or merger plan, it is essential that the two companies must get integrated rapidly and effectively. To achieve this, it is essential to formulate an integration plan. This plan must cover management functions, accounting controls, budgeting control and functional control. In case of merger, it is essential to give due importance and share to both companies in running the new organization. There may be a requirement to even develop a new organizational structure to achieve an effective and smooth integration.

V. Post-Merger Integration:

The post-merger integration is the last and the most important step where both the companies become casual once deal has been finalized. The success or failure of merger or acquisition very much depends on post-merger issues. So, both the company should be careful about those issues to save their companies.

II. Review of Literature:

***Fisher, Alan A. and Robert H. Lande*, *(1983)*[3]**test hypothesis that horizontal mergers generate positive abnormal returns to stockholders of the bidder and target firms because they increase the probability of successful collusion among rival producers.

***Rao, Narsimha, V. and Rao, P, V, Krishna*, *(1987)*[4]**attempt to evaluate the impact of mergers on the performance of a corporation. They have tested three parameters – PBITDA, PAT and ROCE – for any change in their before and after values by comparison of means using t-test.

***Agarwal, A., Jaffe, J.F, Mandelker, G.N., (1992)*[5]**have tried to evaluate the efficiency and performance for selected public and private banks before and after merger as a results of market forces.

***Berger Allen N., and Humphrey David B., (1997)*[6]**had studied the efficiency of 130 financial institution in 21 countries. They found out that some consolidations improve cost efficiency, whereas others worsen the performance of the combined institution relative to the separate institutions. And, they had concluded that profit efficiency may improve with mergers and acquisitions due to altering output mix toward more profitable products, rather than improved cost efficiency.

***Andrade, G., Mitchell, M., Stafford, E., (2001)*[7]**had studied the impact of mergers on the operating performance of acquiring corporates in different industries by examining some pre-merger and post-merger financial ratios, with the sample of firms chosen as all mergers involving public limited and traded companies in India between1991 and 2003. The study suggests that there are minor variations in terms of impact on operating performance in mergers of different industries in India. Again the study results that mergers seem to have had a slightly positive impact on profitability of firms in the banking and finance industry, the pharmaceuticals,

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[3]Fisher, Alan A, Robert H. Lande, “Horizontal Mergers: An Equilibrium analysis”, American Economic Review.
[4]R. NarsimhaV.Rao and Dr. P.V.KrishnaRao, (1987), “Regulation of mergers under MRTP Act, 1969: A critical Study”, Company News and Notes, Vol.25, N0.6.
[5]Agarwal, A. Jaffe, J.F., Mandelker, G. N., (1992), “The post-merger performance of acquiring firms: A re-examination of an anomaly”, J finance 47, pp.1605-1671.
[6]Berger Allen N., and Humphrey David B., (1997), “Efficiency of financial institutions: International survey and directions for future research”, European Journal of Operational Research, pp. 175-212.
[7]Andrade Gregor, Mitchell Mark, Stafford Erik, (2001), “New Evidence and Perspectives on Mergers”, Journal of Economic Perspectives, Vol. 15, Number 2, spring 2001, pp.103-120.

textiles and electrical equipment sectors saw a marginal negative impact on operating performance.

Mehta Jay and kakani Ram Kumar, (2006)[8]discussed about the various motives for mergers and acquisitions. They stated that there were multiple reasons for mergers and acquisitions in the Indian Banking Sector. They have tried to bring light on the fact that mergers and acquisitions are highly environment dependent and hence there is a constant focus on this aspect while pertaining practices.

MantravadiPramod and Reddy A Vidyadhar,(2007)[9]evaluated the impact of merger on the operating performance of acquiring firms in different industries by using pre and post financial ratio to examine the effect of merger on firms. The analysis of pre and post-merger operating performance ratios for the acquiring firms in the sample seems to indicate that relative size does make some difference to the post-merger operating performance of acquiring firm.

Anand and Singh, (2008)[10]study the effect of five specific mergers in the Indian banking sector on the shareholders wealth. This is the first study of stock market valuation and estimation of abnormal returns in the context of Indian bank mergers. The study documents positive and significant increase in value to the shareholders of bidder banks, target banks and their combined portfolio.

SinhaPankaj and Gupta Sushant, (2011)[11]studied a pre and post analysis of firms and concluded that merger and acquisition activity in the Indian Financial Services Sector over period March 1993 – Feb 2010 has had positive effects on the profitability in majority cases but the liquidity position has deteriorated in a period of three years after merger.

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[8]Mehta Jay &Kakani Ram Kumar, (2006),"Motives for Mergers and Acquisitions in Indian Banking Sector- A Note on Opportunities & Imperatives".
[9]MantravadiPramod, Reddy A Vidyadhar, (2007), "Relative Size in Mergers and Operating Performance: Indian Experience", Economic and Political Weekly, pp. 3936- 3942.
[10]AnandManoj, Singh Jagandeep, (2008), "Impact of Merger Announcements on Shareholders' Wealth: Evidence from Indian Private Sector Banks", Vikalpa, Vol. 33, Number 1, January- March, 2008.
[11]SinhaPankaj, Gupta Sushant, (2011), "Mergers and Acquisitions: A pre-post analysis for the Indian financial services sector", MPRA, Paper No. 31253.

Goyal and Joshi, (2012)[12]studied the growth of ICICI Bank Ltd. Through mergers and acquisitions and amalgamations. Mergers and Acquisitions are Considered as corporate events which helps an organization to create synergy and provide sustainable competitive advantage, but simultaneously these sorts of corporate events have the potential to create severe personal trauma and stress which can result in psychological, behavioral, health, performance and survival problems for both the individuals and companies, whether it is a bank or a non-banking financial corporation, involved in it. It is evident from the case of ICICI Bank Limited that how an organization can become market leader by adopting some strategic tools like mergers and acquisitions.

III. Research Methodology:

Objective of the study:

The study has been undertaken to fulfill the following broad objectives:

- To find out whether mergers and acquisitions have effect on financial growth of HDFC bank.
- To find out whether mergers and acquisitions have effect on financial growth of ICICI bank.

Hypothesis of the study:

The following hypothesis has been formulated and tested to draw conclusions:

H_0: There is no relation between mergers/acquisitions and financial growth of HDFC bank.
H_0: There is no relation between mergers/acquisitions and financial growth of ICICI bank.

Merger of the HDFC bank and Times Bank Limited on 26th February, 2000:

Times bank Ltd. was a new generation private sector bankowned by The Times Group (Bennett, Coleman & Co.), was incorporated on 6th July, 1994. In 1995, the bank opened its first branch in Mumbai and home banking facilities were offered at all branches of the bank. They had started round the clock ATM facility at 34 branches in 1995. In 1999 the bank had launched internet banking and pioneering newer concepts like Debit cards and the bank had issued Debit card to all its customers. In November, 1999 HDFC bank had announced the merger with Times Bank

[12]Goyal K. A., Joshi Vijay, (2012), “Merger and Acquisition in Banking Industry: A Case Study of ICICI Bank Ltd.”, International Journal of Research in Management, Issue 2, Vol. 2.

Limited. With the RBI's green signal, the merger was likely to come into effect by the first quarter in 2000.The merger deal was struck with a stock swap whereby the shareholders of Times Bank will get one share of HDFC Bank for every 5.75 shares held.With one stroke the merger helped HDFC Bank become the largest of the private sector banks in the Indian banking industry. The merger increased the customer base of HDFC Bank by 2, 00,000 taking the figure to 6, 50,000.Most importantly the branch network increased from 68 to 107. HDFC Bank's total deposits were around Rs. 6,900 crores and the size of the balance sheet was over Rs.9, 000 crores.

Merger of the HDFC bank and Centurion Bank of Punjab on 23rd May, 2008:

The Centurion Bank of Punjab (formerly Centurion Bank) was an Indian private sector bank that provided retail and corporate banking services, incorporated on 30th June, 1994. In 1995, 20th Century Finance Corporation Limited, had been amalgamated with Centurion Bank Limited. In 1996, the bank had set up its branches in all metro cities and hence the number of branched had increased to 10 from 4. In 1998, as a first private sector bank, Centurion Bank had started internet banking facility to its customer. In 2005, Centurion Bank had acquired Bank of Punjab with a swap ratio of 9:4, and became known as Centurion Bank of Punjab. Again, on 29thAugust 2007, Centurion Bank of Punjab merged with Lord Krishna Bank (LKB), which was one of the oldest private banks in India (founded in 1940). Under the scheme of amalgamation, Centurion Bank of Punjab had issued up to 13.22 crores shares of Re 1 each to the shareholders of Lord Krishna Bank in the ratio of 7:4. Centurion Bank of Punjab operated o a strong nationwide franchise of 404 branches and 452 ATMs in 190 locations across the country, supported by employee base of over 7,500 employees. In 2008, HDFC bank made the announcement of its merger with Centurion Bank of Punjab with a swap ratio of 1:29 and the deal value was Rs 9,510croress. After the merger, HDFC bank had nationwide network of 1,167 branches, with a strong deposit base of around Rs. 1, 22,000 crores and net advances of around Rs. 89,000 crores. The balance sheet size of HDFC bank was over Rs. 1,63, 000 crores.

Period of the study:

The researchers have made an attempt to study the financial growth of HDFC bank through its mergers and acquisitions by using financial reports of HDFC bank. The period has been chosen for 10 year i.e. 5 years before merger and 5 years after merger. In case of merger of HDFC bank

with Times Bank Limited, the pre-merger period was 1995-96 to 1999-2000 and post-merger period was 2000-01 to 20004-05. In case of merger of HDFC bank with Centurion Bank of Punjab, the pre-merger period was 2003-04 to 2007-08 and post-merger period was 2008-09 to 2012-13.

Data Collection:

After defining the objectives and hypothesis, it is needed to look at the type and sources of data and other specific information needed to attain the said objectives. The present study is mainly based on secondary data which have been collected through annual reports of the bank, books and journals, newspapers and magazines etc. The data of just preceding years of the year the merger took place has been considered for pre-merger study which is from 1995-96 to 1999-2000 (i.e. 5 years in case of merger with Times Bank Limited) and 2003-04 to 2007-08 (i.e. 5 years in case of merger with Centurion Bank of Punjab). And, the period considered for post-merger study is started from2000-01 to 20004-05 (i.e. 5 years in case of merger with Times Bank Limited) and 2008-09 to 2012-13(i.e. 5 years in case of merger with Centurion Bank of Punjab).

Tools and Techniques:

HDFC bank's financial growth through its mergers and acquisitions, has been analyzed based on its pre and post-merger net income, operating profit, profit after tax, deposits, working funds, earning per share, investments, and market price per share[13], which all information's are derived from its financial report.

These all financial componentsare going to compare by using Paired Sample 't' test. A confidence interval of 95% has been set for difference in means.

[13]Market Price Per is not available for the specific period in case of merger with Times Bank of India. So, this parameter is not considered for this particular case.

Table 1: Mean and Standard Deviation of pre and post-merger financial components of HDFC bank: (merger with Times Bank Limited on 26th February, 2000):

Sl no.	Financial Components	Pre-merger(total) (1995-96 to 1999-2000)	Post-merger(total) (2000-01 to 2004-05)	Increased (%)	Mean		SD	"t" value	**p-value***
					Pre	Post			
1	Net Income	96429	718181	**644.7**	19285	143636	55928	-4.97	**.0076**
2	Operating Profit	57655	398182	**590.6**	11531	79636	30367	-5.01	**.0074**
3	Profit After Tax	32637	206982	**534**	**6**527	41396	14071	**-**5.54	**.0051**
4	Deposits	1549934	11845110	**664**	309986	2369022	727869	-6.32	**.0031**
5	Working Funds	2171852	16356478	**653**	434370	3271295	1061476	-5.97	**.0039**
6	Earning per Share	1.04[14]	22.92[15]	**2103**	3.25[16]	14.85[17]	3.8049	-6.81	**.0024**
7	Investments	981741	7114384	**624**	196348	1422876	381396	-7.19	**.0019**

* Significant at 5%.

The above statement is showing the changes in selected financial components in pre and post-merger period. The total net income of HDFC bank has increased by 644% after merger with Times Bank Ltd. in compare to pre-merger period. Similarly, total operating profit and profit after tax also increased by 590% and 534% respectively in post-merger period. Apart from the profit total deposits of HDFC bank also increased rapidly after merger with Times Bank Ltd. The total assets value has increased by 653% after merger. A high increment can be seen in earning per share which is also increased by 2103%. The total investments of HDFC bank has an

[14] Pre-merger Earning per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.1996.
[15] Post-merger Earning per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2005.
[16] The pre-merger average mean of EPS is the average of 5 years EPS value from 1995-96 to 1999-2000.
[17] The post-merger average mean of EPS is the average of 5 years EPS value from 2000-01 to 2004-05.

increment of 624%, whereas a dramatic high level can be seen in the changes of market price of HDFC bank. The above table is showing the p-value of all selected financial components which are all less than the significant level of 5%. So, it can be concluded that merger of HDFC bank and Times Bank Ltd has an important effect on financial growth of HDFC bank.

Table 2: Mean and Standard Deviation of pre and post-merger financial components of HDFC bank: (merger with Centurion Bank of Punjab on 23rd May, 2008):

Sl no.	Financial Components	Pre-merger(total) (2003-04 to 2007-08)	Post-merger(total) (2008-09 to 2012-13)	Increased (%)	Mean		SD	"t" value	**p-value***
					Pre	Post			
1	Net Income	1458939	5476267	**275.3**	291787	1095253	178785	-10.04	**.0005**
2	Operating Profit	1090717	4015225	**268.1**	218143	803045	134438	-9.72	**.0006**
3	Profit After Tax	478698	2101338	**338.9**	95739	420267	136112	-5.33	**.0059**
4	Deposits	29162647	106175586	**264**	5832529	21235117	3381834	-10.18	**.0005**
5	Working Funds	39165459	142132335	**262**	7833091	28426467	5208548	-8.84	**.0009**
6	Earnings per Share	17.95[18]	28.5[19]	**58.7**	30.3[20]	50.22[21]	33.90	-1.31	**.2595**
7	Investments	14695890	39745104	**170.4**	2939178	7949020	1337531	-8.37	**.0011**
8	Market Price	75.75[22]	625.35[23]	**136.8**	158.88[24]	439.37[25]	94.58	-6.63	**.0026**

*Significant at 5%.

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[18] Pre-mergerEarning per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2004.
[19] Post-mergerEarning per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2013.
[20] The pre-merger average mean of EPS is the average of 5 years EPS value from 2003-04 to 2007-08.
[21] The post-merger average mean of EPS is the average of 5 years EPS value from 2008-09 to 2012-13.
[22] Pre-mergerMarket price per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2004 as per NSE.
[23] Post-mergerMarket price per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2013 as per NSE.
[24] The pre-merger average mean of Market price per share is the average of 5 years Market price per share value from 2003-04 to 2007-08.
[25] The post-merger average mean of Market price per share is the average of 5 years Market price per share value from 2008-09 to 2012-13.

The above table is showing the changes in selected financial components of HDFC bank before and after merger with Centurion Bank of Punjab. The total net profit, operating profit and profit after tax of HDFC bank has increased by 275%, 268%, and 338% respectively after merger with Centurion Bank of Punjab. The total deposits also increased by 264% after merger and total investment increased by 170%. But the merger with Centurion Bank of Punjab does not have much effect on earnings per share of HDFC bank which increased by only 58%. The market price of HDFC bank has shown a dramatic change in post-merger period which is increased to Rs. 625.35 as compare to pre-merger period. From the above table it can be shown that except earnings per share, all other selected financial components has lesser p-value at 5% significant level, which is accepting the alternate hypothesis. So, it can be concluded that the merger with Centurion Bank of Punjab has effect the financial growth of HDFC bank too.

Merger of the ICICI Bank (acquirer bank) and Bank of Madura on 9th December, 2000:

The Bank of Madura, established in 1943, was one of the premier private-sector bank. Under the leadership of Dr. K. M. Thiagarajan, who assumed the position of Chairman in 1993, the Bank of Madura reoriented its focus toward increasing deposits and consolidating unprofitable branches. It had a significant coverage in the southern states of India. It had extensive network of 263 branches across India. The Bank of Madura became the most automated old private-sector bank in the country by implementing a number of technological improvements, which allowed the bank to eliminate overhead costs and increase the customer base. With the branch consolidation and technological changes, Bank of Madura's deposits had increased to Rs.37 million (US$740,000)[26] prior to the merger with ICICI bank in 2001. It had a capital adequacy ratio of 15.8% as on March31, 2000. As of March 2000, Bank of Madura had a staff strength of 2,623 in its rank (with 955 officers, 1,340 clerks and 328 staffs) while that of ICICI bank was 1,134. This was due to fact that ICICI bank had technology to support when it started the bank, an advantage not available to Bank of Madura. As on December 9, 2000, ICICI bank announced amalgamation of Bank of Madura. On the day of announcement of the merger, the Kotak Mahindra group was holding about 12% stake on Bank of Madura, the chairman of Bank of Madura, Mr. K. M. Thaigarajan, along with his associated, was holding about 26% stake, Spic group had about 4.7%, while LIC and UTI

[26] "ICICI Bank: Innovations in Finance." Available in Safari Books Online, Retrieved from http://my.safaribooksonline.com/book/international-business-globalization/9780137042029/icici-bank-innovations-in-finance/ch36lev1sec5.

were having marginal holdings. The swap ratio was approved to be at 1:2. This merger was supposed to increase ICICI bank's hold on South Indian market.

Merger of the ICICI Bank (acquirer bank) and Bank of Rajasthan as on 18th May, 2010:

The Bank of Rajasthan was found at Udaipur in 1943 with an initial capital of Rs. 10, 00, 000. The founder chairman of the bank was Late Seth ShriGovind Ram Seksaria. During 1948, it considered as a schedule bank and also established its rural (Gramin) bank MewarAnchlikGramin Bank in Udaipur District in Rajasthan on 26 January 1983. The promoters of the Bank of Rajasthan had been under enormous pressure from the regulatory authorities to restructure the bank for different types of problems. The Bank of Rajasthan was controlled by the Tayal Group, and had been asked by the RBI to reduce their shareholdingfrom 28% to less than 10%. On February 26, 2010, the RBI levied a penalty of Rs. 25 lakhs for a series of violations including irregular property deals, actions against money laundering norms, deletion of corporate records from the information systems, irregularities in the accounts of corporate groups, extension of repayment period over permissible limits on intra-day overdraft, lack of enough credit committees and poor corporate governance. Further, the RBI appointed a new CEO and nominated 5 directors for the Bank. Following this, SEBI banned 100 entitiesthat are all holding Bank of Rajasthan Shares for the sake of their promoters from stock market activities. The RBI then asked the Bank of Rajasthan to perform an audit of '**Internal Delegation of Sanctioning Powers followed by the Banks'**and the provisioning procedure of the bad debts. Due to all these steps of actionsfrom the regulators, the Tayal Group had decided to merge the bank with ICICI Bank, the second largest bank in India which was looking for a target to increase their customer base and geographical reach in northern India. After merger the ICICI Bank hadgot the control of 83 branches of MewarAanchalikGramin Bank (MAGB), a regional rural bank sponsored by the Bank of Rajasthan.

Period of Study:

The researchers have tried to study the impact of Mergers on financial performance of ICICI bank by using the available information for the period of 1997-98 to 2002-03 in case of merger with Bank of Madura. And, in case of merger with Bank of Rajasthan the period of the study was 2007-08 to 2013-14.

Data Collection:

After framing up the objectives and hypothesis, it is necessary to look at the type and sources of data and other specific information's that are needed to attain the said objectives. The research is mainly based on the secondary data which have been collected through annual reports of the bank, books and journals, newspapers and magazines etc. The data of just preceding years of the year the merger took place has been considered for pre-merger study which was from 1997-98 to 1999-2000 (i.e. 3 years) and the period considered for post-merger study was started from 2000-01 to 2002-03 (i.e. 3 years) in case of merger with Bank of Madura. In case Bank of Rajasthan the pre-merger period was 2006-07 to 2009-10 and post-merger period was 2010-11 to 2013-14.

Tools and Techniques:

To analyze the available financial information's to study the bank's financial performance, various principal financial parameters had been considered. The following 8 major financial parameters and their means were calculated for analyzing the financial performance of the sample case:

- Net Income
- Operating Profit
- Profit after Tax
- Working Funds
- Deposits
- Investments
- Earnings Per Share
- Market Price per Share[27].

These average ratios are going to compare by using Paired Sample't' test. A confidence interval of 95% has been set for difference in means.

[27] In case of merger with Bank of Madura the Market price per share for the specific period is not available in the website of BSE. Hence, this parameter is not considered in this particular case.

Table 3: Mean and Standard Deviation of pre and post-merger financial components of ICICI bank: (Merger of ICICI bank and Bank of Madura as on 9th December, 2000.)

Sl no.	Financial Components	Pre-merger(total) (1997-98 to 1999-2000)	Post-merger(total) (2000-01 to 2002-03)	Increased (%)	Mean		SD	"t" value	**p-value***
					Pre	Post			
1	Net Income	401.84	8708.5	**2067**	33.48	725.70	988.78	-2.42	**.0337**
2	Operating Profit	2322.70	24259	**944**	774.23	8086.42	12633	-1.00	**.421**
3	Profit After Tax	214.2	878.58	**310**	17.85	73.21	105.69	-1.81	**.0720**
4	Deposits	18567	96592	**420**	6189	32197	12257	-11.02	**.0081**
5	Working Funds	22333	220588	**887**	7444.57	-73529.33	63977	2.192	**.159**
6	Earning per Share	3.04[28]	19.68[29]	**547**	4.42	13.14	4.18	-3.60	**.068**
7	Investments	8300	79540	**858**	2766	26513	14395	-2.85	**.103**

Source: Annual Reports published by ICICI bank. * Significant at 95%.

According to the above table all the selected parameters had increased immensely during post-merger with Bank of Madura. The net income and operating profit were increased by 2067% and 944% respectively. Also profit after tax increased by 310% in post-merger period. The working fund which reflects the liquid cash position of the company also increased by 887% in post-merger period which was a big achievement for the bank. The Earning per share and Market price per share touched a new high. As per the table p value of net income and deposits fall below the significant level of 5%. The research resulted that the merger with Bank of Madura does not have any effect on selected parameters except net income and deposits. Hence, null hypothesis has been accepted.

[28] Pre-merger Earning per share does not reflect the total value for 5 years, whereas it is the value as on 31.3.2000.

[29] Post-merger Earning per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2003.

Table 4: Mean and Standard Deviation of pre and post-merger financial components of HDFC bank: (Merger of ICICI bank and Bank of Rajasthan as on 18th May, 2010.)

Sl no.	Financial Components	Pre-merger(total) (2006-07 to 2009-10)	Post-merger(total) (2010-11 to 2013-14)	Increased (%)	Mean		SD	"t" value	**p-value***
					Pre	Post			
1	Net Income	141834	176694	**24**	35458	44173	9253	-1.88	**.156**
2	Operating Profit	-888.58	-6376.92	**618**	-222.14	-1594.93	22738	-.246	**.911**
3	Profit After Tax	11026.08	29752	**169**	3762.76	7438.14	1806.5	-4.06	**.0267**
4	Deposits	895304	1105627	**23**	223826	276406.75	61850	-1.700	**.1876**
5	Working Funds	824625	1152419	**39.7**	206156	288104.75	46288	-3.540	**.038**
6	Earning per Share	36.20[30]	84.95[31]	**134**	35.48	64.485	17.70	-3.277	**.046**
7	Investments	426661	642659	**50.6**	106665	160664	10901	-9-90	**.002**
8	Market Price	646.88[32]	1031.83[33]	**59.5**	646.88	1031.83	236.74	-3.25	**.047**

Source: Annual Reports published by ICICI bank. * Significant at 95%.

Though the merger with Bank of Madura does not have any effect on the selected parameters, but in this case of merger with Bank of Rajasthan mirrors a different story. All the selected parameters except operating profits show an increasing trend in post-merger period. But during post-merger the operating loss had been increased by 618%. The research results that all the

[30] Pre-merger Earning per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2010.
[31] Post-merger Earning per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2014.
[32] Pre-merger Market Price per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2010 as per BSE.
[33] Post-merger Market Price per share does not reflect the total value for 5 years, whereas it is the value as on 31.03.2014 as per BSE.

selected parameters except net income, operating profit and deposits, have satisfied the significant level of 95%. Hence it can be concluded that the merger with Bank of Rajasthan has effect on the financial performance of the ICICI Bank. So, the alternative hypothesis can be accepted.

IV. Conclusion:

Merger is one of the important strategic tools for organization's growth and expansion. Now a day's mergers and acquisitions play an important role in Indian banking sector for its growth. It is very helpful for the survival of a weak bank by merging into larger bank. This paper shows the financial growth of HDFC Bank as well as ICICI Bank through mergers and acquisitions based on its financial performance during pre and post-merger period. To analyze the effect of merger a comparison between pre and post-merger financial performance examined in terms of net profit, operating profit, profit after tax, deposits, investments, earnings per share, working funds and market price per share. The result of this comparison has proved that after merger HDFC bank's financial performance has grown rapidly. Though the merger with Bank of Madura does not have any effect on the financial performance of the ICICI Bank, but the merger with Bank of Rajasthan has a serious impact on the financial performance of the ICICI Bank. The most important is that after both the merger the profitability position of HDFC Bank and ICICI Bank had grown rapidly. The merger also helps both the banks to expand their business domestically. So, it can be concluded that one organization can consider merger and acquisition as a strategic tool for its financial growth and expansion.

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