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A Comparative Study Of Pre And Post Merger Financial Performance Of Selected Indian Banks

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Abstract: *The banking sector is the most important part of national and economic development. The economic growth of a country is illustrated by the flexibility of the banking system. Mergers and acquisitions (M&A) aim to restructure the business while increasing competitiveness and shareholder value through increased efficiency. The banking industry has experienced an unprecedented level of consolidation on the belief that it can achieve unparalleled benefits through cost reduction, increased market power, volatility of earnings and economies of scale and space. The current paper analyzes before and after the merger performance of two-selected bank that is SBI and Kotak Mahindra bank. The merger data were applied to different financial ratios before and after the merger by applying pair T-test. Based on the analysis of SBI and KMB, it can be concluded that there is no significant difference in net profit margin, profit operating profit margin, return on assets, and return on equity and income ratio.*

Keywords: *Merger, Acquisition, financial performance, Indian Banks.*

1. INTRODUCTION :

The banking sector is the most important tool of national development, having a unique place in the country's economy. The economic growth of a country is illustrated by the flexibility of the banking system. Surprising changes have taken place in the banking industry leading to financial market control, market liberalization, incredible competitiveness in economic reform and technological sophistication, leading to a new era of banking.

The banking industry is divided into two classes, namely Scheduled Commercial Banks and Non-Scheduled Commercial Banks. Banks registered under Schedule II of the Reserve Bank of India Act, 1934 are known as Scheduled Commercial Banks, which are classified as Public Sector Banks, Private Sector Banks and Foreign Banks. Nationalized Banks, State Bank of India and its associate banks, Regional Rural Banks fall under the category of Public Sector Bank. Private sector banks absorb old private sector banks and new private sector banks. Regional Rural Banks are sponsored by a special bank, State Government and Central Government and operate in rural areas.

1.1 Financial Performance :

The financial performance metrics provide a company with a relevant basis for comparing a company over time or against competitors in its industry. The financial performance metrics also know no international boundaries and are useful in evaluating a company's performance worldwide. It is always said that financial statements are the language of business.

The value of this approach is that quantitative relationships can be used to diagnose strengths and weaknesses in quantitative operations. Financial performance analysis must include strategic and economic development considerations for the long-term success of the firm. Financial managers as well as general senior managers are demanding evaluation standards by which they can quickly measure the firm's performance and chart the appropriate course.

This matrix should provide immediate actionable feedback to improve payroll performance. Management's intense interest in financial performance metrics has grown dramatically as more and more annual and long-term incentive returns, measured by financial performance metrics, have been linked to achieving acceptable levels of performance.

1.2 Mergers And Acquisitions :

Mergers and acquisitions (M&A) are defined as the consolidation of companies. Distinguishing between the two terms, *Mergers* are a combination of two companies to form one, while *Acquisitions* is a company that is taken over by another company. M&A is a key aspect of the corporate finance world. The reasoning commonly given behind M&A is that two different companies create more value than being on an individual stand. With the objective of maximizing assets, companies continue to evaluate various opportunities through mergers or acquisitions.

Over the past decade, mergers and acquisitions in the Indian industry have steadily increased in terms of the number of deals and the value of deals. It is expected that in the next decade (2010-2019), global mergers and acquisitions by Indian industries will be more than triple. The economic downturn has affected overall mergers and acquisitions activity in Asia Pacific, but India is among the top five countries in the region, along with Japan and China. Previously, India was seen as a low cost hub for operations, but in recent decades it has developed in its own way as an active market and innovation hub.

Mergers and acquisitions (M&A) have become a global phenomenon in today's free market economy in which banks need to constantly evolve to stay competitive. Banking has become an increasingly global industry, knowing no geographical and regional boundaries. The failure of a bank has far-reaching effects than the failure of a manufacturing company. Moreover, the government and policy makers have adopted various policies and measures, out of which the consolidation of banks has emerged as the most preferred strategy. There are various ways to integrate the banking industry. The most widely adopted method by banks is merger. The merger of two weak banks or the merger of one healthy bank with one weak bank can be considered as a quick and less expensive way to improve profitability while stimulating internal growth. One of the major goals behind mergers and acquisitions in the banking industry is to achieve scale and space economies.

1.3 Classification of Mergers and Acquisitions:

A : Classification in the form of integration:

- Statutory merger
- Subsidiary merger
- Consolidation merger

B : Classification in the form of relatedness of the business activities:

- Horizontal merger
- Vertical merger
- Conglomerate merger
- Market extension mergers
- Product extension mergers

C: Other classifications:

- Complementary or supplementary merger
- Hostile or friendly merger
- Arm’s length merger
- Strategic merger

1.4 Reasons for Mergers and Acquisitions:

- Financial synchronization for the low cost of capital
- Company Improving performance and accelerating growth
- The Economy of the Scale
- Growth diversification for high growth products or markets
- Market To give market share and position access to a wider market
- Strategic re-installation and technical modification
- Tax matters
- under valuable target
- Risk diversification

1.5 Merger of the State bank of India and It’s an associate bank on 1 April, 2017

The first merger under State Bank India f India took place in 2008, when State Bank of Indore and State Bank of Saurashtra merged into SBI. However, the merger was only incorporated in 2010. As much as technological advances have not been made today, the merger has faced many problems. Contrary to the advancement of technological and faster integration systems, State Bank of India merged with 5 associate banks namely State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH) and State Bank of Patiala (SBP), now operating under the name State Bank of India on 1 April, 2017. The government claims that the merger will increase the capital base and capital structure and also increase the availability of loans. After the merger, SBI indicates that the big bank is getting bigger and more powerful, and enters the top 50 leagues in terms of assets, giving its image a big advantage in the global view. In terms of performance, the bank has now become the fourth largest country in the world to enter the top 100 banks. Since the merger, SBI's business has grown from 17 percent to 23 per

cent, with a total turnover of Rs 37 lakh crore. The merged entity now has a deposit base of over Rs 26 lakh crore, more than a quarter of the country's deposit and loan market. Contrary to estimates, SBI's employee count has rightly increased to 2.77 lakh employees.

1.6 Merger of the Kotak Mahindra bank and ING Vaishya Bank in 2014:

Kotak Non-Banking Financial Company (NBFC) - Started in India in 1985 as Kotak Mahindra Capital Management Finance Limited (KMCMFL). KMCMFL was renamed Kotak Mahindra Finance Limited (KMFL) in 1985 and received its banking license in February 2003, becoming the first NBFC to be transformed into a fully fledged private bank in India. In 2014, Kotak Bank acquired or merged ING Vaishya Bank in a deal worth Rs 15,000 crore (US $ 2.3 billion). With the merger, total employment will reach about 40,000, and the number of branches will reach 1261. After the post merger, ING Group, which controls ING Vaishya Bank, will have a 7% stake in Kotak Mahindra Bank. This deal will make Kotak the fourth largest private bank in the country in terms of total business. The three largest in this order are ICICI Bank, HDFC Bank and Axis Bank. Kotak Mahindra Bank has a network of 1,369 branches and 2,163 ATMs (as on March 31, 2017) at 689 locations across the country. It was the fourth largest private bank in India by market capitalization in 2016. The merger increased geographical presence and deepened Kotak's network thanks to ING Vaishya's complementary network. Prior to the merger, Kotak had 80% branches in the western and northern parts of the country and only 15% in the southern part of India. ING Vaishya, on the other hand, has a large presence in the southern part of the country with 64% of its branches located there and only 32% branches in the western and northern parts of the country.

2. LITERATURE REVIEW :

(Dutta & Dawn, 2012)[1] Conducted study on mergers and acquisitions (M & A) in Indian banking industry after liberalization To measure the bank performance after pre merger and post merger, they have selected a sample of 5 bank mergers from 1994 -2004. The study examine the performance of merged banks in terms of its growth of total assets, profits, revenue, deposits, number of employees etc, from four years of pre merger and four years of post-merger as the time frame. The study findings indicate that the post-merger periods were successful and saw a significant increase in total assets, profits, revenue, deposits, and in the number of employees of the acquiring firms of the banking industry in India.

(Mahesh & Prasad, 2012)[2] analyze post merger and acquisition financial performance analysis of selected indian airline companies . They have selected a sample of three companies to analyzed two year data for both Pre and Post merger performance analysis. They used Mean, Variance and standard deviation were used for descriptive statistics. The hypotheses are tested using Pearson Correlation, Paired Sample t-test, and regression. The finding indicates that there is no improvement in surviving Company's return on equity, net profit margin, interest coverage, earning per share and dividend per share post-merger & acquisition.

(R.Patel, 2017)[3] Conducted study on Pre & Post-Merger Financial Performance of selected Indian bank. He select Bank of Baroda, Oriental bank of commerce, State bank of India , IDBI Bank and Indian overseas bank for a period of 2003-04 to 2013-2014. The study conclueds a negative impact of merger on return on equity, return on assets, Net profit ratio, yield on advance and yield on investment on other hand variables, like the Earnings per Share, Profit per employee and Business per employee have shown positive trend and grown after the merger.

(Sai & Sultana, 2013)[4] evaluates the performance of the selected two banks based on the financial ratios from the perspective of pre and post merger.To analyze the data they were applied paired t-test to evaluate various financial ratios for before and after merger data. Based on their analysis the Indian overseas bank and of HDFC bank data concluded that except Gross profit margin; Net profit margin, Operating profit margin, Return on capital employed, Return on equity and Debt Equity ratio there is no significant difference in these ratios before after merger But significant difference with respect to.

(Sharma, 2016)[5] examine the impact of merger on the financial performance of merging companies. The sample has been taken of 9 BSE listed companies of metal industry involved in mergers during the year 2009-10. Paired sample t-test is carried out to assess the difference in performance between post-merger and pre-merger periods. The findings concludes that marginal but not significant improvement in case of liquidity and leverage but the profitability results showed significant decline in RONW and ROA which are contrary to our hypothesis.

3. RESEARCH METHODOLOGY :

3.1 Objectives of the study:-

1. To measure the impact of mergers and acquisitions on Profitability of the SBI and Kotak Mahindra bank.

3.2 Hypotheses of the study :-

H0 There is no significant impact of mergers and acquisitions on profitability of the selected banks

H1 There is significant impact of mergers and acquisitions on profitability of the selected banks

3.3 Scope of the study :-

The study focuses on mergers and acquisitions activities in the Indian context with a special reference to a public sector bank and a private sector bank to evaluate the financial performance of banks from a pre- and post-merger perspective.

3.4 Sampling design :-

In this study, 2 bank have been taken up by using the convenience sampling method of non-probability sampling.

3.5 Source of Data Collection :-

For this research, a secondary data has been collected from various published materials such as annual reports, newspapers, magazines, books, etc. and from Internet web sites.

3.6 Period of the Study:-

Here, three pre merger and three post merger years are considered as the event year to identify the M&A deals in bank and to compare the corporate performance.

3.7 Tools used for Analysis:-

In order to analyze the data collected various statistical tools and techniques have been applied in this study. Mean, variance and standard deviations were used for descriptive statistics. Hypotheses are tested using Pearson correlation, pair sample T-test.

4. DATA ANYLSIS :-

TABLE : 1

Financial Ratios of State bank of India before and after merger

financial ratio	Before Merger 3 years			After merger 3 years		
	2014	2015	2016	2018	2019	2020
Net Profit Margin (%)	7.98	8.59	6.06	-2.96	0.35	5.63
Operating Profit Margin (%)	-5.61	-6.21	-10.91	-23.19	-14.14	-9.52
Cost to Income (%)	36.76	36.85	39.14	47.52	44.68	43.47
Return on Assets (%)	0.60	0.63	0.42	-0.18	0.02	0.36
Return on Equity / Networth (%)	9.20	10.20	6.89	-3.37	0.39	6.24

Source: Financial statement of State Bank of India collected from moneycontrol.com

In the above table presents the data of various financial ratios of State bank of India. In the pre-merger layout calculated for the 3 year, the following financial ratios observed a upward trend in cost of income , while net profit margin, return on capital and return on equity showed an mixed trend.

In the post-merger environment, it has been shows that net profit, Return on assets and Return on Equity indicate the increasing trend on other side Operating Profit Margin, Cost to Income, have shown a declining trend for the period considered.

TABLE : 2

Comparison of Profitability ratio between Pre and Post Merger Periods of SBI

SBI		Mean	Std. Deviation	t-value	p-value	Correlation
Net Profit Margin (%)	Pre	7.5433	1.32032	2.074	.174	-.811
	Post	1.0067	4.33249			
Operating Profit Margin (%)	Pre	-7.5767	2.90230	1.468	.280	-.822
	Post	-15.6167	6.95361			
Cost to Income (%)	Pre	37.5833	1.34886	-4.111	.054	-.753
	Post	45.2233	2.07895			

Return on Assets (%)	Pre	.5500	.11358	2.224	.156	-.874
	Post	.0667	.27301			
Return on Equity / Networth (%)	Pre	8.7633	1.69766	2.131	.167	-.766
	Post	1.0867	4.84273			

The summary of the analysis presented in table 2 It's also presents descriptive statistics and analysis of the various ratios of the SBI. To analys there is significant difference in the financial ratios before and after merger, paired t-test is applied using SPSS. However, the mean ratios of Net profit margin, Operating Profit Margin, Return on Assets, Return on Equity of post merger were decreased as compared to pre merger ,on other side cost of income were increased. The Net profit margin, Operating profit margin, cost of income, Return on Assets, Return on equity the p-value is more than 5 percent, it can be concluded that there is no significant difference in these ratios before and after merger. If the p-value was less than 5 percent so it can be indicates that there is significant difference before and after merger.

TABLE 3
Financial Ratios of Kotak Mahindra bank before and after merger

KMB 's fin.ratio	Before Merger 3 years			After merger 3 years		
	2011	2012	2013	2015	2016	2017
Net Profit Margin (%)	19.52	17.55	16.91	19.19	19.52	17.55
Operating Profit Margin (%)	0.89	1.74	2.48	-1.67	0.89	1.74
Cost to Income (%)	41.44	33.59	32.65	37.33	39.07	38.68
Return on Assets (%)	1.60	1.65	1.62	1.76	1.60	1.65
Return on Equity / Networth (%)	11.97	13.59	14.37	13.19	11.97	13.59

Source: Financial statement of Kotak Mahindra bank collected from moneycontrol.com

In the foregoing table presents the data of various financial ratios of Kotak Mahindra bank. In the pre-merger layout calculated for the 3 year, the following financial ratios observed a upward trend in Operating Profit Margin, Return on Equity , while net profit margin, Cost to Income and return on equity showed an mixed and downward trend.

In the post-merger environment, it has been shows that Operating Profit indicate the increasing trend on other side Net Profit Margin, Cost to Income, Return on Assets, Return on Equity have shown a declining trend for the period considered.

TABLE: 4
Comparison of Profitability ratio between Pre and Post Merger Periods of KMB

KMB		Mean	Std. Deviation	t-value	p-value	Correlation
Net Profit Margin (%)	Pre	17.9933	1.36031	-1.140	.372	.568
	Post	18.7533	1.05510			
Operating Profit Margin (%)	Pre	1.7033	.79563	2.348	.143	.971
	Post	.3200	1.77502			
Cost to Income (%)	Pre	35.8933	4.82649	-.749	.532	-.951
	Post	38.3600	.91307			
Return on Assets (%)	Pre	1.6233	.02517	-.763	.525	-.947
	Post	1.6700	.08185			
Return on Equity / Networth (%)	Pre	13.3100	1.22425	.467	.686	.040
	Post	12.9167	.84388			

The summary of the analysis presented in table 4 It's also presents descriptive statistics and analysis of the various ratios of the SBI. To know whether there is significant difference in the financial ratios before and after merger, paired t-test is applied using SPSS. However, the mean ratios of Net profit margin, cost of income, Return on Assets, Return on Equity of post merger were decreased as compared to pre merger ,on other side Operating Profit Margin were increased. The Net profit margin, Operating profit margin, cost of income, Return on Assets, Return on equity the p-value is more than 5 percent, it can be concluded that there is no significant difference in these ratios before and after merger. If the p-value was less than 5 percent so it can be indicates that there is significant difference before and after merger.

5. FINDINGS OF THE STUDY:

- ⇨ Both banks have negative relationship between pre merger and post merger.
- ⇨ Net profit and cost of Income are rising for both the bank.
- ⇨ Return on Equity are shows mixed results for both the bank.

6. CONCLUSION:

The merger will benefit the Indian economy by providing advanced, efficient and efficient banking products and services to the residents and non-residents of the country. As the economic boundaries between countries disappear with the forces of globalization, we are beginning to see a common financial market in the world. The banking industry is one of the fastest growing industries in India. It has transformed itself from a sluggish business entity into a dynamic industry. It will help optimize its functions and performance by compensating for the weaknesses of the smaller branches and appreciating its larger strengths. Mergers in the banking sector are a form of horizontal merger because merging companies are involved in a similar type of activity. Through mergers and acquisitions in the banking sector, banks can achieve significant growth in their operations, significantly reduce their costs, and reduce competition as mergers eliminate competitors from the banking industry. The results of this study suggest that in the case of mergers and acquisitions, careful use of resources, accurate evaluation of targets and estimation of future prospects can generate synergy in the long run.

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