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A STUDY OF FINANCIAL PERFORMANCE ANALYSIS OF SELECTED BANKS IN INDIA WITH SPECIAL REFERENCE TO MERGER & ACQUISITION

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Abstract

The banking sector is the lifeline of every modern economy. Banking sector is one of the crucial financial pillars of the financial system which plays a vital role in the success and failure of an economy. Banks are one of the oldest financial intermediaries in the financial system. They play an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. The banking system is the fuel injection system which spurs economic efficiency by mobilizing savings and allocating them to high return investment. Research confirms that countries with a well-developed banking system grow faster than those with a weaker one. The banking system reflects the economic health of the country. The strength of economy of any country basically hinges on the strength and efficiency of the financial system, which, in turn, depends on a sound and solvent banking system. The current paper evaluates the performance of the selected 5 banks based on the financial ratio from the perspective of pre-merger scenario and post-merger scenario. To analyze the impact of merger ratio analysis was applied to the financial ratio for before and after merger data, based on the analysis of India's selected banks.

Keywords: *Ratio analysis, banking system, merger and acquisition, financial system, nation's economy.*

INTRODUCTION

As in our body backbone is important likewise banking system is important as well as backbone of the financial system. New economic reforms played major role in economic development. NEO-LIBERALISM policy was introduced by the government in the period of 1991. The crucial point of the NEO-LIBERALISM was liberalization of economy or we can also say that opening up of economy. Regulation simplified through the NEO-LIBERALISM policy. Main motto of new economic policies was about enhancing competition through market orientation. And new industrial policy was heart of the economic development.

Every bank wants to become stronger in particular country where it is situated. And making their operation/working more efficient and effective. If we talk about current scenario some fraud has been happened. It creates the question mark on the officials of bank- what they are doing? How they are approving loan on large scale? Only by seeing the financial statement of particular company. If these is going on then the banking system becomes weakened. And if banking system becomes weakened then the financial system also becomes weakened. And it also influences the economic development of the country.

LITERATURE REVIEW

Post academic studies examined impact of merger in sector by adopting one of the approaches is ratio analysis. In case of merger and acquisition is assumed to create value if the combined value of bidder and target banks increases on the announcement of the merger and the consequent stock prices reflect potential net present value of acquiring banks. The current paper follows the former method and tries to find some empirical evidence for the same.

AZHAGAIAH & KUMAR (2011) studied that he has tested hypothesis concerning whether there is significant improvement in the corporate performance of INDIAN manufacturing corporate firms following the manufacturing event using paired t-test. This study finding indicate that INDIAN corporate firms involved in M&A have achieved an increase in the liquidity position, operating performance, profitability and reduce financial and operating risk. In another study they examined a sample consisting of 20 acquiring firms during the period 2007. They concluded that firms in INDIA appear to have performed better financially after the merger, as compared to their performance in the pre-merger period.

DEO AND SHAH (2011) studied that work entitled "shareholder wealth effect to merger announcement in INDIAN industry." addressed the financial implications of the acquirer and target shareholder wealth in the INDIAN INFORMATION TECHNOLOGY INDUSTRY (IT) that occurred from the January 2000 to june2010, The study which consisted of a sample of 28 merger announcements both by independent and controlling bidder firms, applied a constant market model to evaluate acquirer and target shareholders (real owner of the company) wealth. The study findings indicate that merger announcement in the IT sector have no significant impact on the bidder portfolio. M&A create significant positive abnormal returns for target shareholder only.

ANTONY A KHIL (2011) studied that analysis of "post-merger profitability of selected banks in INDIA" examined the impact of the banks merged banks in banking sector. The study samples were 6 acquirer banks selected, three of them were public sector banks and three were private sector banks. The study used PAIRED T-TEST. The study findings indicate that there is a significant difference in the profitability ratios, like (growth of total assets ratio, growth of net profit ratio, return on an assets ratio, return on equity ratio, and net interest margin ratio) of banks in the post-merger scenario.

DUTTA AND DAWN (2012) studied that research paper "merger and acquisition in INDIAN banks after liberalization: an analysis" investigates the performance of merger banks in term11s of its growth of total profit, revenue, assets, deposits, and numbers of employees. The performance of merged banks compared taking 4 years of prior-merger and 4 years post-merger. The study findings indicates that the post-merger periods were successful and saw a significant increases in total profits, revenues, assets, deposits, and in the banking industry in INDIA.

PRAMOD &REDDY (2007) studied that he had evaluated that 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. They selected all merge1r including public limited and traded companies in INDIA between 1991 and 2003, result suggested that there were title variation in terms of impacts as operating performance after merger. They concluded that particularly banking and finance industry had a slightly positive impact on profitability, nevertheless, pharmaceutical, textiles and electrical equipment sector and showed the marginal negative impact on operative performance. However, some of the industries had a significant decline in terms of both profitability and returns on investment and assets after merger.

TAMBL (2005) studied that evaluated the impact of mergers on the performance of a corporation of INDIA. However, the theoretical assumption says that merger improves the overall performance of the company due to increased market power and synergy impacts, He has evaluated selected banks using three parameters PBITDA, PAT and ROCE-for any change in their before and after values by comparison of means using T-TEST. The results of this study indicate that mergers have failed to contribute positively.

A BOOK TITLED "M&A in the banking sector-The Indian scenario", written by SELVAM .M (2007) has analyzed the implication of stock price reactions to merger and acquisition activities taken place in, banking industry with special reference to private and public sector banks, he had concluded that the share price are market sensitive and majority of the banks went for branch expansion to some extent and it resulted in unhealthy competitive among the players.

GOURLAY, RAVISHANKAR, & TOM (2005) studied that efficiency gains from mergers among Indian banks during 1991 to 2005 and concluded that the merger led to improvement of efficiency for the merging banks.

ROMERO, ALBERTO, HERRERA & LUIS (2007) studied that merger and acquisition under taken by groups same into ANGULO within the Colombian banking sector using the strategic analysis model. It was concluded that the relational strategic component played an important role in designing and deploying the strategy of the group being studied.

KHAN (2012) studied that carried out a comparative study of the pre and post merger financial performance of acquiring banks by taking a sample of two cases of merger occurred in the year 2004 in the Indian banking sector. In order to analyze the data ratio and T-TEST have been used. It was found that the post merger and acquisition have not creates difference in the financial performance of the acquiring banks.

RESEARCH GAP

1.ANTONY A KHIL (2011): covered only post merger profitability data of selected banks and pre-merger data had ignored. Even from the post data we can find that how much and comparatively merger creates impact on profitability. From my point of view pre-merger data should take so we can exactly compare and we can analyze the exact fluctuation in ratio.

2.PRAMOD &REDDY (2007), In his study he has mentioned that banking and financial industry had a slightly positive impact on profitability, according to my analysis-what I have analyzed that finance industry have not only slightly impact but large impact on profitability and liquidity of an organization. He has not analyzed the Indian financial system and banking sector in depth.

3. TAMBL (2005), In his study stated that by analyzing PBITDA, PAT and CACE have no beneficial impact on merger of a corporation of INDIA. I want added here that not only merger of bank or company or corporation is necessary by their management decision power also important, means that management of that merged entity most not have weaker decision. Correct decision at correct movement also plays vital role. So analysis of B.O.D has ignored by the TAMBL.

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Objectives of the study

1. Main objective of the study is the impact of merger and acquisition on financial performance of company.
2. Another objective of the study is the financial position of company.
3. The third objective is merged banks is on growth stage or not?
4. Strength of merged entity to survive in market.

Collection of data

secondary data has taken to analysis of various selected merged banks

Hypothesis of the study

Merger and acquisition increases the financial performance of banks.

Data analysis

The performance of the selected banks has been evaluated based on the following financial measures:

Table.1 financial ratio of HDFC bank pre-merger & post-merger period

Financial ratio	Before merger 2 years		After merger 2 years	
	2006	2007	2009	2010
Dividend per share	5.50	7	10	12
Operating profit per share	52.56	86.19	92.36	106.25
Earning per share	35.64	43.29	52.77	64.42
Cash Earning retention ratio	90.30	87.40	89.79	89.60
Book value	169.24	210.42	344.44	4170.19

By analyzing the above data we can say that the rate of dividend per share is increase from 2006 to 2010.and operating profit margin per share even it is in increasing trend the next one is earning per share is also increases after merger. The Cash Earning retention ratio are also in increases the book va1lue of firm is also increases which basically shows that the HDFC bank is getting synergy benefit.(HDFC bank merged with CENTURIAN bank).

Table.2 financial ratio of ICICI bank pre-merger & post-merger period

Financial ratio	Before merger 2 years		After merger 2 years	
	2005	2006	2008	2009
Dividend per share	8.50	8.50	11	11
Operating profit per share	36.37	36.75	51.29	48.58
Earning per share	27.22	28.55	37..37	33.76
Cash Earning retention ratio	74.44	80.79	83.35	85.01
Book value	170.35	249.55	417.64	444.94

By analyzing the above table we conclude that after there is grater impact on the dividend per share and earning capacity is also increases year by year but there is slightly change in the second year after the merger. The Cash Earning retention ratio also on increasing trend which shows the strength of the company to meet contingency in future; the book value of the company is also increases which shows the wealth of the bank after merger is increasing.(ICICI bank merged with SANGLI bank in 2007).

Table.3 financial ratio of SBI Bank pre-merger & post-merger period

Financial ratio	Before merger 2 years		After merger 1 years	
	2015	2016	2017	2018
Dividend per share	3.50	2.60	2.60	19.98
Operating profit per share	24.21	22.04	22.17	247.07
Earning per share	17.55	12.82	13.15	7.34
Cash Earning retention ratio	81.38	82.68	83.50	-
Book value	172.04	185.85	196.53	217.69

From the above data we concluded that dividend per share is increases after the merger of SBI bank , operating profit per share is also highly increases, the earning per share of the merged bank is also decreasing then the previously. Cash earning retention ratio is NILL after the merger of SBI bank. But book value of the bank is increases. It is concluded here that the SBI bank could not maximizes its wealth after the merger. In future there may be chance of merged bank will grow.(SBI merged with its associates banks & BHARTIYA MAHILA bank in April1,2017).

Table.4 financial ratio of KOTAK MAHINDRA Bank pre-merger & post-merger period

Financial ratio	Before merger 2 years		After merger 2 years	
	2013	2014	2016	2017
Dividend per share	0.70	0.80	0.50	0.60
Operating profit per share	15.11	17.43	9.36	15.20
Earning per share	18.23	19.51	11.39	18.53
Cash Earning retention ratio	96.50	96.22	96.14	100
Book value	126.53	159.35	130.61	150.01

From the above table we concluded that divided per share is increases and the operating profit per share in initial year it is decreasing but latter on it is increasing. Earning per share is initially decreases but latter on it is increasing and the cash retention ratio is slightly increases and the book value of the merged bank also increases. It can said that in initial period ratio or impact on merged bank is not good but latter on it is increases means it will definitely grow in future.(In November 2014 ING VYSYA bank merged with KOTAK MAHINDRA bank).

Table.5 financial ratio of INADIAN OVERSEAS BANK pre-merger & post- merger period

Financial ratio	Before merger 2 years		After merger 2 years	
	2005	2006	2008	2009
Dividend per share	2.40	2.60	3.50	4.50
Operating profit per share	18.21	17.52	28.16	35.48
Earning per share	11.96	14.38	22.07	24.34
Cash Earning retention ratio	84.98	83.67	85.45	83.37
Book value	44.67	56.08	87.05	109.06

From the above table we concluded that the dividend per share, operating profit per share, earning per share, cash Earning retention ratio, book value of the merged bank is increasing year by year. This merged bank had the synergy benefit. (Indian overseas bank merged with Bharat overseas bank in 2007).
Thus the hypothesis is accepted which is significant impact on merger of banks.

LIMITATION OF THE STUDY

1. Selected merged banks data has taken.
2. Time duration is limited from 2005 to 2017.
3. Number of year's data could not take because every decade had different economy.
4. Inflation rate is different in every segment of decade.

CONCLUSION

From the above research concluded that in initial period in some cases there is lower financial ratio or say lower financial performance of the merged banks but the further study tell us that there is increasing in the financial performance of the merged banks. Because not only financial factor of country is affect the financial performance of company but also the political factor of the nation also affect. And the prevailing culture of the nation also affected the performance of the country. And as you see now days the financial fraud related to banks going to increases the, here the role of SEBI plays vital role because the act or controlled by the SEBI is very strict. And merger and acquisition have more impact on the financial performance of the merged entity or merged banks.

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