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FINANCIAL SYNERGIC IMPACT ON ICICI AND HDFC BANK AFTER MERGER (WITH EVA & MVA APPROACH)

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ABSTRACT

The present paper deals with the Financial Synergic Impact in Banking Industry after merger with special reference to ICICI Bank & HDFC Bank. Merger takes place with a view to improve the financial synergy so its necessary to evaluate whether this financial synergy has created any shareholder wealth or not. Hence the study attempt here to evaluate the impact of financial synergy on shareholder value after merger takes place with EVA & MVA approach.


KEYWORDS

BOR, CBOP, Merger, EVA, MVA.

ABBREVIATION USED

BOR-	Bank of Rajasthan
CBoP-	Centurian Bank of Punjab
EVA-	Economic Value Added
MVA-	Market Value Added
COD-	Cost of Debt
COE-	Cost of Equity
NPAT-	Net Profit After Tax
WACC-	Weighted Average Cost of Capital
BVC-	Book Value of Capital
MVC-	Market Value of Capital

INTRODUCTION

 Synergy or the potential financial benefit can be achieved through merger that can be described as a driving force behind merger. Shareholder will get benefit if a company post merger share price increases due to the synergistic effect of the deal. There is a need of better financial planning, reduce cost; desire to expand business and all this can which can be said a part of financial synergy achieved through merger. In the present study we have taken a sample of two leading merger in Indian Banking Industry in the name of ICICI with BOR and HDFC with CBoP with a view of synergic impact using EVA & MVA approach.

PROFILE OF ICICI BANK

ICICI Bank (Industrial credit and Investment Corporation of India) was originally promoted in 1994 by ICICI Ltd. an Indian financial institution, and was its wholly owned subsidiary. ICICI's shareholding in ICICI Bank was reduced to 46% through a public offering of shares in India in fiscal 1998 an equity offering in the form of ADRs listed on NYSE in fiscal 2000.

ICICI is one of the Big four banks of India, along with State Bank of India, Punjab National Bank and Bank of Baroda.

Services: It offers investment Banking, Insurance & Non Life Insurance, Venture capital and Assets Management.

BSE & NSE : ICICI Bank's equity shares are listed in India BSE and on NSE and its American Depository Receipts (ADRs) are listed on the New York Stock Exchange (NYSE).

Merger approved on May 23, 2010 but announcement from RBI, all branches of BOR will operate under the function of ICICI Bank w.e.f August 13, 2010. Swap ratio was 25:118 (BOR shareholders would get 25 shares of ICICI for 118 shares of BOR). The value of merger was \$30.41 billion.

The merger added significant value to ICICI Bank in terms of low cost deposit ratio, greater opportunities for earning fee based income, ability to participate in the payment system, to provide transaction banking services, entry into new business segments, larger capital base and scale of operations.

PROFILE OF HDFC BANK

HDFC Bank (Housing Development and Finance Corporation) was amongst the first to receive an 'in principal' approval from RBI to set up a bank in Pvt. Sector as part of RBI's liberalization of the Indian Banking Industry in 1994.

Services: It deals in 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 Baking Service.

BSE & NSE: HDFC Bank's equity shares are listed in India BSE and on NSE and its American Depository Receipts (ADRs) are listed on the New York Stock Exchange (NYSE) and its Global Depository Receipts are listed on Luxembourg Stock Exchange.

Merger approved on May 23, 2008, swap ratio was 29:1 (CBoP shareholders would get 1 shares of HDFC for 29 shares of CBoP). The value of merger was \$2.5 billion. The nature of merger was horizontal, the objectives was to gain economies of scale, wide line product and dominance in the competitive banking industry in India.

The merger added significant value to HDFC Bank in terms of increased branch network, geographic reach, customer base and a bigger pool of skilled manpower.

DATA METHODOLOGY**NEED OF THE STUDY**

The study deals with the financial synergic impact on shareholder value after merger of ICICI Bank and HDFC Bank, because one of the purpose of merger can be said to increase the shareholder value, so it's necessary to check whether the merger has created any shareholder wealth or not.

OBJECTIVES OF THE STUDY

1. To study the impact of financial synergy on the shareholder value of the selected banks (ICICI and HDFC Bank)
2. To give suggestion on the basis of findings

DATA SOURCE

Data has been taken for selected bank from Moneycontrol.com and the financial statement of the bank's website before and after 3 years of merger.

ICICI & BOR 2008-2010/2012-2014
HDFC & CBOP 2006-2008/2010-2013

RESEARCH METHODOLOGY

EVA & MVA approach has been taken into consideration to check the synergic impact on the shareholder value after merger.

EVA Approach

EVA is the difference between NPOT and WACC
 WACC means weighted average cost of capital.

COD: Average of Opening and Closing debt has been taken into account which is given in the balance sheet for the year ending 31st march each year.

COE: It has been calculated using 1/PE ratio, PE ratio has been directly taken from the financial statement of selected banks from moneycontrol.com

MVA Approach

The higher the MVA the better it is. A high MVA indicates the company has created substantial wealth for the shareholders. A negative MVA means that the value of management's action and investment are less than the value of capital contributed to the company by the capital market. It's the diff between the market value of the company and capital contributed by investors (both bondholders and shareholders).

MVA=V-K

V= MV of the firm , including the value of firm's equity and debt

K=capital invested in the firm

DATA ANALYSIS AND INTERPRETATION

The data has been analyzed from the **acquiring company perspective** only, 3 years data before and after the merger has taken into the study. The year **2008** and **2010** of merger has not been taken into account for the analysis of data.

The **NPAT** and **WACC** are given in the below mentioned table:-

TABLE 1: ICICI-EVA-2010-2011 (has not been taken for analysis, it's a merger year)

Years	COE %	COD %	WACC	P (E) %	P (D) %	NPAT	EVA
							NPAT-WACC
2008	0.05	0.28	0.25	0.12	0.88	4157.73	4157.48
2009	0.10	0.23	0.21	0.12	0.87	3758.13	3757.92
2010	0.04	0.14	0.12	0.12	0.86	4024.98	4024.86
			After Merger				
2011	0.04	0.11	0.10	0.12	0.86	5151.38	5151.28
2012	0.06	0.12	0.11	0.12	0.88	6465.26	6465.15
2013	0.07	0.12	0.01	0.12	0.88	8325.47	8325.46

TABLE 2: HDFC-EVA-2008-2009 (has not been taken for analysis, it's a merger year)

Years	COE %	COD %	WACC	P (E) %	P (D) %	NPAT	EVA
							NPAT-WACC
2006	0.23	0.27	0.27	0.07	0.93	1115.94	1115.67
2007	0.23	0.62	0.60	0.07	0.93	1382.54	1381.94
2008	0.17	0.83	0.77	0.09	0.91	1590.18	1589.41
			After Merger				
2010	0.17	0.55	0.51	0.10	0.90	2948.7	2948.19
2011	0.18	0.45	0.43	0.09	0.91	3926.4	3925.97
2012	0.04	0.48	44.01	0.09	91.14	5167.09	5123.08
2013	0.04	0.43	0.39	0.09	0.91	6726.28	6725.89

TABLE 3: MVA-ICICI-HDFC

Years	ICICI			Years	HDFC Bank		
	BVC	MVC	MVA		BVC	MVC	MVA
2008	46820.21	88818.30	41998.09	2006	5299.60	13200.59	7900.99
2009	49883.02	38553.38	-11329.64	2007	6433.15	45926.51	39493.36
2010	51618.37	110012.27	58393.90	2008	11497.23	63536.13	52038.90
2011	55090.93	128919.36	73828.43	2010	21522.49	93065.98	71543.49
2012	60405.25	102816.71	42411.46	2011	25379.27	112913.80	87534.53
2013	66705.96	120718.97	54013.01	2012	29924.68	125110.82	95186.14
				2013	36214.14	150501.20	114287.06

ICICI BANK

EVA- It can be observed from the above data that there has been an increase in the case of NPAT and EVA of ICICI bank which can be described as the positive impact of merger on the financial synergy of bank which has helped in increasing a shareholder value in the market. After merger (2010) the bank has acquired higher EVA and NPAT in the years 2012 and 2013.

MVA-In 2009, as it can be observed from the data that before 1 year of merger MVA of ICICI was negative, but in the year of merger there has been an upward movement. But very soon in the next year it went down but in the year 2013 again a shift can be seen in the MVA of ICICI which can be said a positive impact on the shareholder wealth of bank.

HDFC BANK

EVA-There has been an increasing trend can be observed in the EVA & NPAT of HDFC Bank . COE has been reduced in the coming years after merger. A positive trend can be seen in 2013 which can be said a good factor after merger in the EVA of bank.

MVA- In the case of HDFC bank's MVA a positive trend can be seen during the study period, which is a satisfactory factor from shareholder's point of view, because higher MVA means higher value of the firm. Higher value of the firm will bring higher return for the shareholders.

CONCLUSION

In order to justify the decision of merger it's necessary to generate profit after merger. Post-merger Result can be said satisfactory as banks have achieved higher NPAT after merger it can be said beneficial for both the banks. Upward movement can also be observed in the case of MVA, which means higher value of the firm.

Positive Impact: EVA and MVA are increased after the merger of both the banks. Benefits like wide network of branches, broad range of products and skilled man power has been achieved through merger. Merger has helped in creating better shareholder value for bank's shareholders in future.

RECOMMENDATIONS

Company needs to measure the value to determine its current status and EVA & MVA can be helpful to determine credit worthiness, tax purpose or sustainability for acquisition by a larger firms. Both use different techniques and returns with different result. EVA can be calculated within the common company instead of entire company e.g. for departments and product lines. It will allow more details and comparison form the decision making perspectives. MVA offers a judgment on company's past, present and future use of invested capital.

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