INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION AND MANAGEMENT

CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	INTERDEPENDENCE OF VALUE CHAIN LINKS: A TALE OF THREE CITIES *MUHAMMAD RIZWAN SALEEM SANDHU*	1
2.	PEOPLE IN MARKETING OF MANAGEMENT INSTITUTE: A STUDY OF INDIAN CONTEXT *DR. RAJESH.S.MODI*	9
3.	INTERNATIONAL SMALL - SCALE FOREST CARBON SEQUESTRATION PROGRAM AND ITS IMPACT ON THE LIVELIHOOD OF LOCAL PEOPLE: EVIDENCES FROM CENTRAL KENYA *DEREJE TEKLEMARIAM GEBREMESKEL*	14
4.	ANALYSIS OF MARKET AND COMPETITORS TO IDENTIFY TRENDS FOR STRATEGIC MARKETING *DR. R. K. SRIVASTAVA & S. T. SALUNKE*	23
5.	BIO DEGRADABLE SOLID WASTE MANAGEMENT IN BANGALORE CITY *M. P. KALIAPERUMAL*	29
6.	ATTITUDE TOWARDS THE ENVIRONMENT AND GREEN PRODUCTS: AN EMPIRICAL STUDY *DR. D S CHAUBEY, SIDHESWAR PATRA & DR. SAURABH JOSHI*	34
7.	CORPORATE GOVERNANCE AND BUSINESS ETHICS *M. SUBRAMANAYAM, DR. HIMACHALAM DASARAJU & KOTA SREENIVASA MURTHY*	42
8.	PERFORMANCE MANAGEMENT SYSTEM FOR EMPLOYEES OF IT SECTOR IN CHENNAI *J. JERLIN VIOLET & DR. S. N. GEETHA*	49
9.	A STUDY ON QUALITY OF WORK LIFE IN TAMILNADU NEWSPRINT AND PAPER LIMITED, KARUR *DR. V. MOHANASUNDARAM*	53
10.	JANTAR MANTAR ON 'UNESCO' WORLD HERITAGE LIST UNIQUE SELLING PROPOSITION *SUNIL KAKKAR, DR. T. N. MATHUR & DR. TAPASYA JULKA*	59
11.	XMOWL MODEL: SUPERVISED APPROACH TO TRANSFORM SYNTACTIC MODEL TO SEMANTIC MODEL *SHIKHA SINGH & DR. U. S. PANDEY*	63
12.	CRM PRACTICES OF TWO INDIAN E-BUSINESS FIRMS AND EVALUATION OF THEIR COMPETITIVE ADVANTAGE THROUGH RBV *DIBYENDU CHOUDHURY & DR. SASMITA MISHRA*	70
13.	ANALYSIS OF DEPOSITS, ADVANCES AND PROFITS OF HDFC BANK: SPECIAL FOCUS ON PRE AND POST MERGER ERA *DR. NARAYAN C. BASER & DR. MAMTA BRAHMBHATT*	80
14.	FINANCIAL STRENGTH - A STUDY OF REDINGTON INDIA LIMITED, TRICHY, TAMIL NADU *S. CHRISTINA SHEELA & DR. K. KARTHIKEYAN*	85
15.	A STUDY ON THE MANAGEMENT ACTION PROFILE OF THE TRIBALS IN THE NILGIRIS DISTRICT OF TAMIL NADU *K., MALAR MATHI, AMUL RAJ.K.T. & EBENEZER PAUL RAJAN*	91
16.	STRATEGICAL IMPACTS ON GLOBAL BRANDING *C. S. JAYANTHI PRASAD*	94
17.	A STUDY ON DEPLOYMENT OF EFFECTIVE MICRO FINANCE FOR WOMEN EMPOWERMENT *DR. P. ANBUOLI*	100
18.	A STUDY OF HRD PRACTICES IN AUTO COMPONENT COMPANIES IN HARYANA *SACHIN MAHESHWARI & S P AGARWAL*	105
19.	GREEN HEALTH MANAGEMENT FOR EMPLOYEES IN I.T. AND BPO SECTORS, USING SHARON SCHEMA WITH CHRISTINA THEORY *N. AKBAR JAN & T. SHANTHA KUMAR*	108
20.	WHETHER BSE SENSEX (BSE30) AND BSE NATIONAL INDEX (BSE 100) ARE COINTEGRATED? *R. KUMARA KANNAN*	113
21.	A STUDY ON ROLE OF SHG'S IN DEVELOPMENT OF WOMEN ENTREPRENEUR *DR. SAVITA TRIVEDI*	116
22.	PERCEPTION TOWARDS ADVERTISEMENTS AND ITS IMPACT ON SOCIETY - AN EMPIRICAL ANALYSIS *R. MAHARA JOTHI PRIYA, DR. R. DHANALAKSHMI & DR. K. PONGIANNAN*	119
23.	PERCEPTION OF CUSTOMERS TOWARDS SERVICES OF BRANCHES OF NATIONALISED COMMERCIAL BANKS OF SEMI URBAN AREAS WITH SPECIAL REFERENCE TO E-TECHNOLOGY *BIDYUT JYOTI BHATTACHARJEE*	126
24.	SHORT SEA SHIPPING - POTENTIALS, BENEFITS AND CHALLENGES IN INDIA *M. SARAVANAN*	130
25.	DETERMINANTS OF CAPITAL STRUCTURE DECISION IN INDIAN MANUFACTURING INUDUSTRIES - AN EMPIRICAL ANALYSIS *DR. V. MOHANRAJ*	139
	REQUEST FOR FEEDBACK	143

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ANALYSIS OF DEPOSITS, ADVANCES AND PROFITS OF HDFC BANK: SPECIAL FOCUS ON PRE AND POST MERGER ERA

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ABSTRACT

The world economy has experienced a revolutionary change in the environment of banking sector. The changes in regulation, technological advancement, competitive trends and disintermediation have all led to large scale banking sector consolidation all over the world. One of the main motives behind the mergers and acquisitions in the banking industry is to achieve economies of scale. Scale economies arise when banks increase their scale of operations and size by merging with other banks. The financial sector in India is highly fragmented and is characterized by a large number of small banks and financial institutions. The trends in M&As in this sector would, therefore, be of special interest to economists, researchers and policy makers. It has been observed that there has been a rising number of M&As in this sector, especially after the recommendations of Narasimham Committee II on Consolidations in the banking sector. This paper is an attempt to empirically investigate the impact of merger on the financial performance parameter of bank with the help of a case study of merger of Centurion Bank of Punjab with HDFC Bank. This paper analyze the pre and post merger financial performance of the HDFC Bank in terms of changes in various financial parameters like EPS, DPS, Deposits, Advances and Profit After Tax.

KEYWORDS

Advance, Amalgamation, Bank, Deposit, DPS, EPS, Merger.

INTRODUCTION

Merger is defined as combination of two or more companies into a single company where one survives and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Generally, the surviving company is the buyer, which retains its identity, and the extinguished company is the seller. Merger is also defined as amalgamation. All assets, liabilities and the stock of one company stand transferred to Transferee Company in consideration of payment in the form of Equity shares, Debentures, and Cash in the transferee company, or a mix of the above modes. In business or economics a merger is a combination of two companies into one larger company. Such actions are commonly voluntary and involve stock swap or cash payment to the target. Stock swap is often used as it allows the shareholders of the two companies to share the risk involved in the deal. Merger is a financial tool that is used for enhancing long-term profitability by expanding their operations. Mergers occur when the merging companies have their mutual consent as different from acquisitions, which can take the form of a hostile takeover.

RATIONALE FOR MERGER

Factor affecting mergers change with the changing legal, political, economic and social environments (Kaushal, 1995). Business Organization literature has identified two common reasons which are derived out of mergers and acquisitions i.e. efficiency gain and strategic rationale (Neary, 2004). **Efficiency gain** means the merger would result into benefits in the form of economies of scale and economies of scope. **Economies of scale** and scope are achieved because of the integration of the volumes and efficiencies of both the companies put together. Secondly the strategic rationale is derived from the point that mergers and acquisition activity would lead to change in the structure of the combined entity which would have a positive impact on the profits of the firm.Economies of scale arise when increase in the volume of production leads to a reduction in the cost of production per unit. This is because, with merger, fixed costs are distributed over a large volume of production causing the unit cost of production to decline. Economies of scale may also arise from other indivisibilities such as production facilities, management functions and management resources and systems. This is because a given function, facility or resource is utilized for a large scale of operations by the combined firm which generates synergy. **Synergy** implies a situation where the combined firm is more valuable than the sum of the individual combining firms. Operating economies are one form of synergy benefits. But apart from operating economies, synergy may also arise from enhanced managerial capabilities, creativity, innovativeness, R&D and market coverage capacity due to the complementarily resources and skills and a widened horizon of opportunities. **Diversification** implies growth through the combination of firms in unrelated businesses. It results in reduction of total risks through substantial reduction of cyclicality of operations. The combination of management and other systems strengthen the capacity of the combined firm to withstand the severity of the unforeseen economic factors which could otherwise endanger the survival of the individual companies. A merger may result in financial synergy and benefits for the firm in many ways like by eliminating financial constraints, by enhancing debt capacity and by lowering the financial costs. This is because a merger of two companies can bring stability of cash flows which in turn reduces the risk of insolvency and enhances the capacity of the new entity to service a larger amount of debt at a lower rate of interest.

THE INDIAN BANKING SYSTEM

The financial system plays a crucial role in mobilizing funds and savings and the use of these funds and savings into more productive use. Banking sector as a major part of the financial system plays an effective role in accelerating the path of economic growth. A sound and efficient financial system has been considered as a pre-requisite for the growth of any economy. This sector plays a very crucial role in promoting the payment and settlement system of an economy. Banks also play an important role in discharging social responsibilities such as poverty eradication, balanced regional development, employment generation etc. The main cause behind the outcome of industrial revolution in Europe during 18th and 19th century was the growth of commercial banking. The banking sector in India as well as in the world continues to be one of the primary engines of growth. The strategic priority in the banking industry has changed over the last two decades. Presently, more emphasis has been put on efficiency, soundness, value creation, and productivity rather than on growth. **To achieve all these goals, the government and regulatory authorities have adopted various policies and measures, out of which consolidation of the banks emerged as**

one of the most preferable strategy. There are several ways to consolidate the banking sector; the most commonly adopted by the banks is mergers. Merger and acquisition of the banking sector was one of the outcomes of the deregulation, liberalization, and technological progress. Merger of two weaker banks or merger of one healthy bank with one weak bank can be treated as the faster and less costly way to improve profitability than spurring internal growth. **One of the main motives behind the mergers and acquisitions in the banking industry is to achieve economies of scale. Scale economies arise when banks increase their scale of production and size by merging with other banks.**

APPROACH OF INDIAN BANKING TOWARDS M & A

M&As in India have also been used as a tool for strengthening the financial system. Through a conscious approach, the weak and small banks have been allowed to merge with stronger banks to protect the interests of depositors, avoid possible financial contagion that could result from individual bank failures and also to reap the benefits of synergy. Thus, the Indian approach has been different from that of many other EMEs, wherein the Governments were actively involved in the consolidation process. For instance, in East-Asia, after the banking crisis in 1997, the Government led the process of bank mergers in order to strengthen capital adequacy and the financial viability of many smaller and often family-owned banks. In these crisis ridden countries, the involvement of the Government was inevitable, as viable but distressed institutions were hardly in a position to attract potential buyers without moving some non-performing loans to an asset management company and/or receiving temporary capital support. Such intervention also proved more cost-effective than taking the bank into public ownership. However, with the intensification in competition through deregulation, privatisation and entry of foreign banks in the emerging markets, consolidation is becoming more market-driven.

LITERATURE REVIEW

B. Rajesh Kumar (2010) has discussed trends of mergers in Indian Banking Sector as well as strategic role of M&A in Indian economy. It is helpful to analyze the overall scenario of M&A in Indian Banking Sector. Reports on banking sector often indicate that India is slowly but surely moving from a regime of 'large number of small banks' to 'small number of large banks'. Jawa, Rachna(2009) in her study attempts to evaluate whether M&A have been able to generate value by comparing various measures of value creation pre and post merger as well as by a case study approach**.** The study on "M&As In The Indian Banking Sector - Strategic And Financial Implications" by Srinivasan R. (IIMB, Oct. 2009) analyzed that banks want to safeguard against risks, as well as exploit available opportunities indicated by existing and expected trends. M&As in the banking sector have been on the rise in the recent past, both globally and in India. In this backdrop of emerging global and Indian trends in the banking sector, this article illuminates the key issues surrounding M&As in this sector with the focus on India. It seeks to explain the motives behind some M&As that have occurred in India post-2000, It also analyze the benefits and costs to both parties involved and the consequences for the merged entity. A look at the future of the Indian banking sector, and some key recommendations for banks, follow from this analysis. Kakani Ram Kumar and Mehta Jay (November 2006) has written a paper on "Motives for Mergers and Acquisitions in the Indian Banking Sector - A Note on Opportunities & Imperatives" at SPJCM Singapore. (Working Paper No. 06-13) The aim of this paper is to probe into the various motivations for mergers and acquisitions in the Indian Banking sector. Kar, Rabi (2006) examines the issues and trends associated with M&A of business enterprise in India from 1990-91 to 2001. In order to carry out this analysis, he adopts the 16 major industrial groupings done by National Industrial Classification 1987 and further modifies it by using data from CMIE, Capital Market Online, BSE and NSE for the period 1991 to 2000. The study provides a rich sectoral trend analysis and provides a sector wise data bank of M&A taking place since 1991. Beena, P.L. (2001) in her study analyzed the role of mergers in the private corporate sector during the period 1972-73 to 1994-95. According to Beena, a substantial growth of M&As has been witnessed since 1990s. There were a total of 291 M&A deals during the period 1990-95. But the trend has been sharper since the latter half of 1990s. The total number of M&A jumped to a total number of 736 for the period 1995-2000. Thus, literature is reviewed to look into the various motivations behind a banks' merger/ acquisition event. Given the increasing role of the economic power in the turf war of nations, the paper looks at the significant role of the state and the central bank in protecting customer's interests vis-à-vis creating players of international size. While, gazing at the mergers & acquisitions in the Indian Banking Sector both from an opportunity and as imperative perspectives, the paper also glances at the large implications for the nation. After reading various research articles and notes, it has been found that no specific attempt has been made towards the analysis of performance of Indian banks with detailed focus on pre and post merger regime. This paper is a small effort towards analysis of Pre and Post Merger Financial Performance of Indian bank with the help of case study.

RESEARCH OBJECTIVE

To analyze pre and post merger financial performance of the HDFC Bank in terms of changes in various financial parameters like EPS, DPS, Deposits, Advances and Profit After Tax

RESEARCH HYPOTHESIS

H_0 = There is no significant difference between pre and post merger financial performance of HDFC Bank

RESEARCH METHODOLOGY

The present study is descriptive in nature, which is based on empirical evidences in the form of case study based on secondary data available from database "ACEEQUITY" of Accord Fintech Pvt. Ltd. The data on various financial parameters like Deposits, Advances and Profit after Tax along with EPS and DPS were collected and analyzed with special focus on pre and post merger time period. This merger has taken place in 2008, so three years data (March 2008, 2009 and 2010) were available for the study. For pre merger period, total six years data prior to March 2008 were collected to smooth out the variance in per merger period and to become conservative in performance analysis. Then the all variables under the study are analyzed with the help of tools like percentage growth, average and standard deviations for both pre and post merger period. All the variables of financial performance were tested with "t test" assuming equal variance for two samples i.e. pre and post merger period.

MERGER OF CENTURION BANK OF PUNJAB WITH HDFC BANK

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to setup a bank in the private sector, as part of the RBI's liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994in the name of' HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. Today, the bank boasts of as many as 1412 branches and over 3275 ATMs across India. In 2002, HDFC Bank witnessed its merger with Times Bank Limited (a private sector bank promoted by Bennett, Coleman & Co. / Times Group).With this, HDFC and Times became the first two private banks in the New Generation Private Sector Banksto have gone through a merger.

On 25th February 2008, HDFC Bank Board approved the acquisition of Centurion Bank of Punjab (CBoP) for Rs 9,510 crore in one of the largest merger in the financial sector in India. CBoP shareholders got one share of HDFC Bank for every 29shares held by them.HDFC Bank and Centurion Bank of Punjab have agreed to the biggest merger in Indian banking history, valued at about $2.4 billion. It was the beginning of a wave of M&A deals in the financial services industry, as India has relaxed restrictions on bank ownership in 2009. This was HDFC Bank's second acquisition after Times Bank. HDFC Bank jumped to the 7th position among commercial banks from 10th after the merger and the merged entity became second largest private sector bank. The merger has strengthened HDFC Bank's distribution network in the northern and the southern regions. CBoP had close to 170 branches in the north and around 140branches in the south. CBoP has a concentrated presence in the in the Indian states of Punjab and Kerala. The combined entity had a network of 1148 branches. HDFC has also acquired a strong SME (small and medium enterprises) portfolio from CBoP. There is not much of overlapping of HDFC Bank and CBoP customers. The entire process of the

merger had taken about four months for completion. The merged entity is known as HDFC Bank. RanaTalwar's Capital hold less than 1 per cent stake in the merged entity from 3.48 in CBoP, HDFC shareholding falls from 23.28 per cent to around 19 per cent in the merged entity. RanaTalwar, chairman of Centurion Bank of Punjab, said, "I believe that the merger with HDFC Bank will create a world-class bank in quality and scale and will set the stage to compete with banks both locally as well as on a global level." According to HDFC Bank Managing Director and Chief Executive Officer AdityaPuri, "Integration will be smooth as there is no overlap. At 40% growth rate, there will be no lay-offs."The integration of the officials was smooth as there is hardly any overlap. There was a potential of business synergy and cultural fit between the two organizations. For CBoP, HDFC bank would exploit its underutilized branch network that had the requisite expertise in retail liabilities, transaction banking and third party distribution. The combined entity had improved productivity levels of CBoP branches by leveraging HDFC Bank's brand name. The deal created an entity with an asset size of Rs 1,09,718 crore (7th largest in India), providing massive scale economies and improved distribution with 1,148 branches and 2,358 ATMs (the largest in terms of branches in the private sector). CBoP's strong SME relationships complemented HDFC Bank's bias towards high-rated corporate entities. There were significant cross-selling opportunities in the short-term. CBoP management had relevant experience with larger banks (as evident in the Centurion Bank and BoP integration earlier) managing business of the size commensurate with HDFC Bank. The only drawback of this merger is that the merged entity will not lend home loans given the conflict of interest with parent HDFC and may even sell down CBoP's home-loan book to it. The retail portfolio of the merged entity will have more by way of unsecured and two-wheeler loans, which have come under pressure recently.

PRE AND POST MERGER ANALYSIS OF HDFC BANK'S FINANCIAL PERFORMANCE

TABLE 1: GROUP STATISTICS OF HDFC

Indicators	Merger	N	Mean	SD
EPS	Post	3	54.02	9.83
	Pre	6	21.33	9.51
DPS	Post	3	10.17	1.76
	Pre	6	4.33	1.69
Deposits (amount in lakhs)	Post	3	1369948.73	336965.77
	Pre	6	384812.92	197570.78
Advances (amount in lakhs)	Post	3	960468.47	312983.75
	Pre	6	239809.05	150712.20
PAT (amount in lakhs)	Post	3	22612.73	6794.08
	Pre	6	6453.22	3173.49

HDFC and Centurion Bank of Punjab were merged on February 25, 2008. The financial performance of the bank was examined by studying the balance sheet data, six years before the merger and three years after the merger. Pre and post average EPS were Rs.21.325 lacs and Rs.54.02 lacs respectively. The average growth of EPS of the bank is found to be 153.32% after the merger. The mean DPS disbursed by the bank to the shareholders before and after the merger is Rs.4.33 lacs and Rs.10.17 lacs respectively. The mean percentage increase in DPS was recorded at 134.87% after the merger. The average Deposits observed before and after the merger is Rs.3,84,812.91 lacs and Rs.13,69,948.73 lacs respectively. The mean percentage increase in deposits was 256% after the merger. The average Advances disbursed by the bank to the various parties before and after the merger is Rs.2,39,809.05 lacs and Rs.9,60,468.47 lacs respectively. The mean percentage increase in advances was recorded at 300.51% after the merger. Average Profit of the bank before and after the merger was Rs.6,453.21 lacs and Rs.22,612.73 lacs respectively. After the merger, there has been a tremendous growth in the profit of the bank with an average increase of 250.41%. EPS of HDFC is continuously increasing from the year 2002 to the year 2010. EPS is calculated on the basis of Profit After Tax (PAT) divided by total no. of Equity shares. EPS has increased from Rs.10.56 lacs to Rs.64.42 lacs which show increase of 6.1 times. It is due to growth of profit also. In the year 2008, as the merger of HDFC and Centurion Bank of Punjab has done, there has been seen highest growth in 9 years. So, we can say that there is a synergy gain in EPS from the merger.DPS is calculated on the basis of dividend paid divided by total no. of equity shares. From the graph presented in annexure, it is observed that dividend payout is continuously rising. Retention ratio is kept low by giving higher dividend pay-out to the shareholders. It has been growing from Rs. 2.5 to Rs.12 from the year 2002 to the year 2010. Total growth in DPS is 5 times than in the year 2002. In the year of the merger that is in 2008, tremendous change has been taken place that is 380%increase in DPS. The Deposits of HDFC has increased significantly from Rs.1,76,538.1 lacs to Rs.16,74,044.3 lacs. In the year of merger, there is an increase in the amount of deposits. So it can be said that the synergy has been achieved from the merger. The increase in deposits is 9.48 times. The advances of HDFC have increased to Rs. 12,58,305.9 lacs from Rs. 68,137.2 lacs. Even after merger in the year 2008, the deposits are increased tremendously. The increase is 18.47 times in nine years. So it can be said that the synergy has been obtained from the merger. The PAT has increased to Rs. 91,660.53 lacs from Rs. 24,316.18 lacs for the year 2010 and 2002 respectively. This increase is because of increase in deposits and advances. Even after the merger in the year 2008 there is significant increase in that year so it can be said that the synergy is obtained. The increase in PAT is 3.78 times.

TABLE 2: PRE & POST MERGER FINANCIAL PERFORMANCE OF KEY VARIABLES

Year	EPS	DPS	Deposits (in lacs)	Advances (in lacs)	PAT (in lacs)
2002	10.56	2.5	176538.1	68137.2	2970.4
2003	13.75	3.0	223760.7	117548.6	3876.0
2004	17.95	3.5	304088.6	177445.1	5095.0
2005	21.48	4.5	363542.5	255663	6655.6
2006	27.92	5.5	557968.2	350612.6	8707.8
2007	36.29	7.0	682979.4	469447.8	11414.5
2008	44.87	8.5	1007686.0	634269.0	15901.8
2009	52.77	10.0	1428115.8	988830.4	22449.3
2010	64.42	12.0	1674044.3	1258305.9	29487.0

HYPOTHESIS TESTING: T-TEST: TWO SAMPLE ASSUMING EQUAL VARIANCE

H0 =There is no significant difference between pre and post merger financial performance of HDFC

H1 = There is significant difference between pre and post merger financial performance of HDFC

TABLE 3: INDEPENDENT SAMPLE TEST OF HDFC

Indicators	Assumption	t-test	DoF	P(T<=t) two-tail
EPS	Equal Variances	4.8147	7	0.0019
DPS	Equal Variances	-1.9502	7	0.0921
Deposits (amount in lakhs)	Equal Variances	5.6724	7	0.0007
Advances (amount in lakhs)	Equal Variances	4.8469	7	0.0018
PAT (amount in lakhs)	Equal Variances	5.0619	7	0.0014

CONCLUSION

P value is less than 0.05 in all parameters except DPS. As per t-test, if value of t-calculation is greater than 2.36, (at the 5% significance level) $H_0$is rejected. Here, H_0 is rejected in case of EPS, deposits, advances, and PAT while H_0 is not rejected in case of DPS. It means there is a significant difference between pre and post mergerfinancial performance of the HDFC Bank in terms of changes in financial parameters named EPS, Deposits, Advances and Profit After Tax but there is no significant change in DPS after the merger. So, this indicates that the productivity and efficiency of the bank increased after the merger by considering all four parameters except DPS.**There is a synergy gain from the merger due to high growth in post merger performance. In HDFC Bank, all parameters have high growth after the merger.**

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ANNEXURE

ANNEXURE 1: PERFORMANCE GRAPHS OF KEY VARIABLES

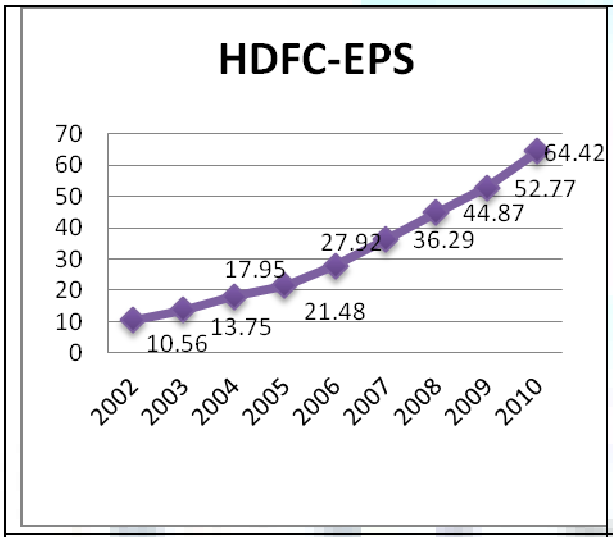

FIG. 1: HDFC-EPS

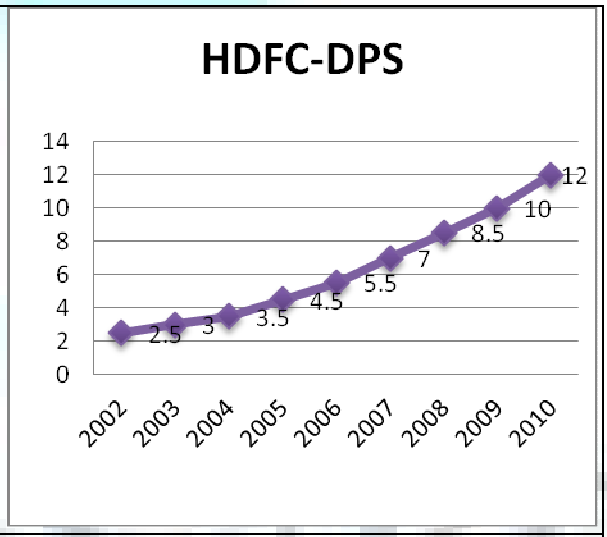

FIG. 2: HDFC-DPS

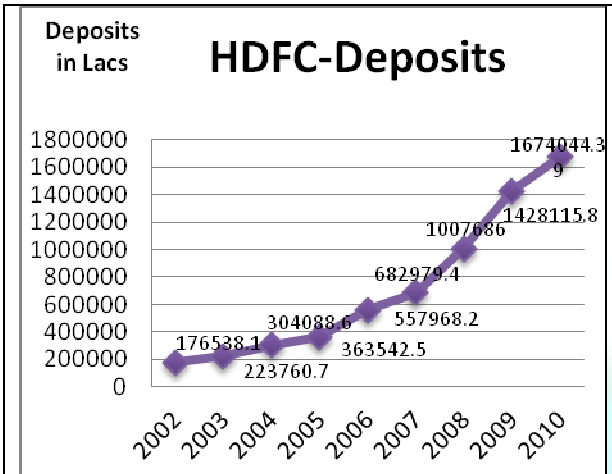

FIG. 3: HDFC-DEPOSITS

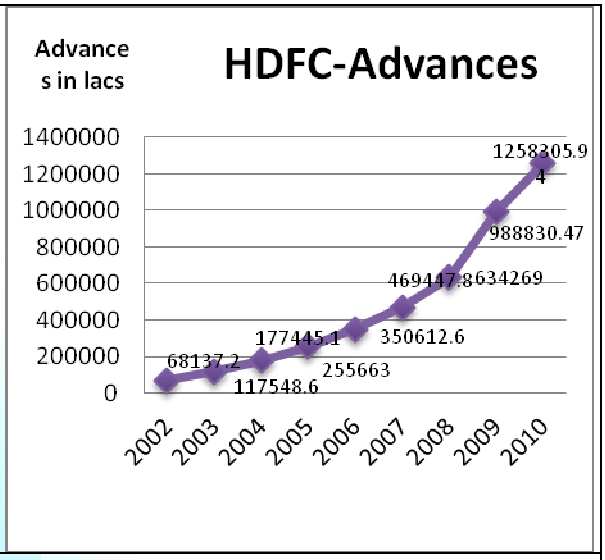

FIG.4: HDFC-ADVANCES

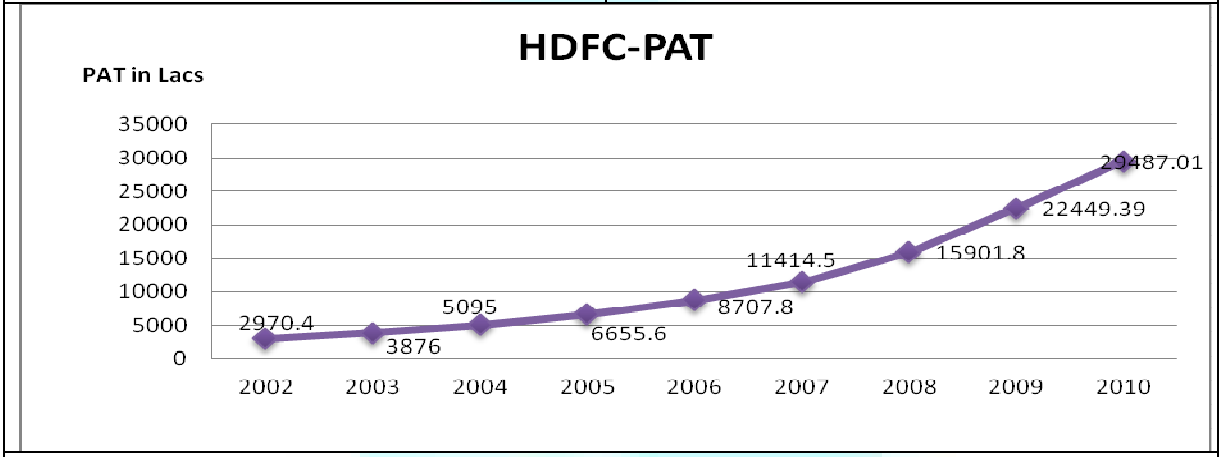

FIG. 5: HDFC-PAT

ANNEXURE 2: BANKS AMALGAMATED SINCE NATIONALIZATION OF BANKS IN INDIA

Sr. No.	Name of Transferor Bank/Institution	Name of Transferee Bank/Institution	Date of Amalgamation
1	Bank of Bihar Ltd.	State Bank of India	November 8, 1969
2	National Bank of Lahore Ltd	State Bank of India	February 20, 1970
3	Miraj State Bank Ltd.	Union Bank of India	July 29, 1985
4	Lakshmi Commercial Bank Ltd.	Canara Bank	August 24, 1985
5	Bank of Cochin Ltd.	State Bank of India	August 26, 1985
6	Hindustan Commercial Bank Ltd.	Punjab National Bank	December 19, 1986
7	Traders Bank Ltd.	Bank of Baroda	May 13, 1988
8	United Industrial Bank Ltd.	Allahabad Bank	October 31, 1989
9	Bank of Tamilnadu Ltd.	Indian Overseas Bank	February 20, 1990
10	Bank of Thanjavur Ltd.	Indian Bank	February 20, 1990
11	Parur Central Bank Ltd.	Bank of India	February 20, 1990
12	Purbanchal Bank Ltd.	Central Bank of India	August 29, 1990
13	New Bank of India	Punjab National Bank	September 4, 1993
14	KashiNath Seth Bank Ltd.	State Bank of India	January 1, 1996
15	Bari Doab Bank Ltd	Oriental Bank of Commerce	April 8, 1997
16	Punjab Co-operative Bank Ltd	Oriental Bank of Commerce	April 8, 1997
17	Bareilly Corporation Bank Ltd.	Bank of Baroda	June 3, 1999
18	Sikkim Bank Ltd.	Union Bank of India	December 22, 1999
19	Times Bank Ltd.	HDFC Bank Ltd.	February 26, 2000
20	Bank of Madura Ltd.	ICICI Bank Ltd.	March 10, 2001
21	ICICI Ltd.	ICICI Bank Ltd.	May 3, 2002
22	Benares State Bank Ltd.	Bank of Baroda	June 20, 2002
23	Nedungadi Bank Ltd.	Punjab National Bank	February 1, 2003
25	Global Trust Bank Ltd.	Oriental Bank of Commerce	August 14, 2004
26	IDBI Bank Ltd.	IDBI Ltd.	April 2, 2005
27	Bank of Punjab Ltd.	Centurion Bank Ltd.	October 1, 2005
28	Ganesh Bank of Kurundwad Ltd.	Federal Bank Ltd.	September 2, 2006
29	United Western Bank Ltd.	IDBI Ltd.	October 3, 2006
30	Bharat Overseas Bank Ltd.	Indian Overseas Bank	March 31, 2007
31	Sangli Bank Ltd	ICICI Bank Ltd	April 19, 2007
32	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	August 29, 2007
33	Centurion Bank of Punjab Ltd.	HDFC Bank Ltd.	May 23, 2008
34	State Bank of Saurashtra	State Bank of India	August 14, 2008

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