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CONTENTS

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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

MERGERS AND ACQUISITIONS IN BANKING SECTOR

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ABSTRACT

Merger and acquisition encourage banks to gain global reach and better synergy and allow large banks to acquire the stressed assets of weaker banks. Merger in India between weak banks should grow faster so that they could rehabilitate providing continuity of employment with the working force, utilization of assets blocked up in the weak banks and adding constructively to the prosperity of nation through increased flow of funds. The small and medium size banks are working under threat from the economic environment which is full of problems for them, viz, inadequacy of resources, outdated technology, on-systemized management pattern, faltering marketing efforts, weak financial structure, technique obsolescence and lack of product innovations. Their reorganization through merger could offer re-establishment of those in viable banks of optimum size with global presence. Merger and acquisition in Indian banking so far has been to provide the safeguard and hedging weak bank against their failure. The merger cult in India has yet to catch fire with merchant bankers and financial consultants acquiring skills in grinding the banks to absorb unviable banks and put them again on successful operations. The selected acquiring banks such as HDFC, Indian Overseas Bank, IDBI and Oriental Bank of Commerce was working successfully. The study has brought into sharp focus on the reasons and impact of merger and evaluating the performance of the selected banks during pre-merger and post-merger period. The overall performance of these banks was increasing during post-merger period. Modern financial parameters such as EVA, MVA, IGR, OCF, RONW, ROCE, WACC and Ratio analysis have been used to evaluate the performance of the selected acquiring banks. Based upon the evaluation made, the researcher has given the summary of findings. The findings of this paper will be useful to the banks to take certain policy decision in future.

KEYWORDS
merger, acquisitiona, banking.

INTRODUCTION

Banks as financial intermediaries play a significant role in economic growth, provide funds for investments, and keep the cost of capital low. During the last few decades, structure of banking sector has turned from a controlled system into liberalized one. The efficiency of banks, which reflects the ability of banks in transforming its resources to output by making its best allocation, is essential for the growth of an economy. However, due to the major role played by banks in the development of economy, the banking sector has been one of the major sectors that have received renewed interest from researchers and economists.

Globally mergers and acquisitions have become a major way of corporate restructuring and the financial services industry has also experienced merger waves leading to the emergence of very large banks and financial institutions. 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 major motives behind the mergers and acquisition in the banking industry is to achieve economies of scale and scope. This is because as the size increases the efficiency of the system also increases. Mergers also help in the diversifications of the products, which help to reduce the risk as well.

STATEMENT OF PROBLEM

Merger helps to increase the market share, which reduces competition. Thus reduction in competition can be damaging to the public interest, but help the firm to gain more profits. Merger also tends to dilute competition in the market. It generally contributes directly to the concentration of economic power and is likely to lead the merger entities to a dominant position of market power. It may also result in lesser substitutes in the market, which would affect consumer's welfare.

This article analyze whether the banks involved in merger have profitable one or not. It is also necessary to study the impact of merger regarding the wealth of the shareholders in Indian banking industry. These necessities make the researcher to conduct the study on the merger and acquisition in Indian banking sector.

OBJECTIVES

The following are the main objectives of the present study

- To know the five forces of wealth creation
- To analyze the post- merger and pre-merger performance of select banks in India.
- To offer conclusion.

COLLECTION OF DATA

The present study is mainly focus on Secondary data. The required secondary data were collected from Internet Sources, Business Magazines, Finance books and the like

SAMPLING DESIGN

In order to analyze the pre-merger and post-merger performance of Indian banking industry, the researcher has covers the study period from 2000-2010. Among 13 banks which were merged in that period of 10 years, 4 well-known banks such as HDFC bank with Centurion Bank of Punjab, Indian Overseas Bank with Bharat Overseas Bank, IDBI bank with United Western Bank and Oriental Bank of Commerce with Global Trust Bank were taken for analysis

MERGER

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. Merger is the fusion of two or more existing companies. All assets, liabilities and the stock of one company stand transferred to Transferee Company in consideration of payment in the form of:

- Equity shares in the transferee company,
- Debentures in the transferee company,
- Cash, or

- A mix of the above modes.

ACQUISITION

Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company.

METHODS OF ACQUISITION

An acquisition may be affected by

a. Agreement with the persons holding majority interest in the company management like members of the board or major shareholders commanding majority of voting power;
b. Purchase of shares in open market;
c. To make takeover offer to the general body of shareholders;
d. Purchase of new shares by private treaty;
e. Acquisition of share capital through the following forms of considerations viz. Means of cash, issuance of loan capital, or insurance of share capital.

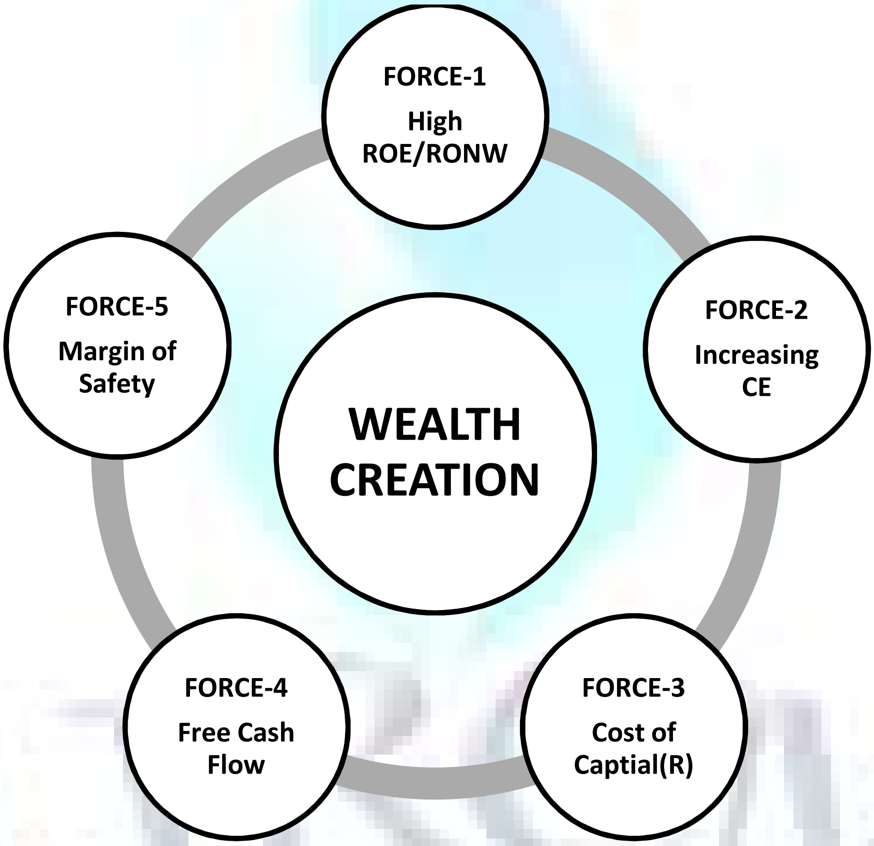
TAKEOVER

A 'takeover' is acquisition and both the terms are used interchangeably. Takeover differs from merger in approach to business combinations i.e. the process of takeover, transaction involved in takeover, determination of share exchange or cash price and the fulfillment of goals of combination all are different in takeovers than in mergers. For example, process of takeover is unilateral and the offeror company decides about the maximum price. Time taken in completion of transaction is less in takeover than in mergers, top management of the offeree company being more co-operative.

FIVE FORCES OF WEALTH CREATION

As the owners of the company are the shareholders, the primary financial objective of the corporate finance is usually stated to be maximization of the wealth of the shareholders. The following figure explains the five forces of wealth creation.

FIGURE 1: FIVE FORCES OF WEALTH CREATION



INCREASING CAPITAL EMPLOYED WITH HIGH ROE

Wealth creating companies tend to employ more capital, but the real deadly combination is one where a high ROE is combined with an increasing capital employed. Not all increases in capital employed will create additional wealth, to do that the profitability of incremental capital employed has to be more than the cost of capital larger the margin over cost, the greater the wealth created by creating capital employed.

I. DU PONT ANALYSIS OF ROE/RONW

Du Pont analysis is a methodology by which the ROE of a company can be broken down into its constituent parts. We use Du Pont analysis in two ways:

a. To undertake a comparison analysis of the individual banks to ascertain the drivers of ROE and the relative quality of earnings.
b. To perform a trend analysis of the ROE drivers such that we can see how the banks have performed relative to each other and why. We undertake this analysis using quarterly data since the beginning of 2006 to encapsulate the impact of the financial crisis on the banks.

ROE is a measure of how successfully the management of a company has deployed the equity to generate a return for its shareholders. However, ROE incorporates leverage in its calculation. For two banks with the same amount of assets and generating the same return on those assets, the bank with the smaller amount of equity (and hence the higher equity leverage) will generate the higher ROE.

ROE can thus be expressed as a follows. Note that average balance sheet numbers are used in all the Du Pont equations. Equity is as stated by the company and therefore includes intangibles. The following is the formula for calculating ROE.

$$\textbf{ROE} = \frac{\textbf{Net Profit}}{\textbf{Equity}} = \frac{\textbf{Net Profit}}{\textbf{Assets}} * \frac{\textbf{Assets}}{\textbf{Equity}}$$

= ROA x Equity Multiplier

II. RETURN ON CAPITAL EMPLOYED (ROCE/ROI)

This ratio is also called as Return on Investment (ROI). The strategic aim of a business enterprise is to earn a return on capital. If any particular case, the return in the long-run is not satisfactory, then the deficiency should be corrected or the activity be abandoned for a more favourable one. The rate of return on instrument is determined by dividing net profit by capital employed or investment made to achieve that profit. ROI consists of two components viz,

a. Net Profit Margin
b. Investment turn-over, as shown below

$$\textbf{ROCE} = \frac{\textbf{EBIT (1-T)}}{\textbf{Capital Employed}}$$

The numerator of this ratio (ie) EBIT (1-T) is otherwise called as Net Operating Profit After Tax (NOPAT). Its merit is defined in such a way that it can be compared directly with the post tax weighted average cost of capital of the firm.

GROWTH

If a high ROE starts the wealth creation process and increasing capital employed gives it size, it is the growth in free cash flows that hastens the wealth creation process. Faster the growth in free cash flows, faster the wealth creation.

i. Operating Cash Flow (OCF)

This refers to the cash flow generated by the day to day activities of manufacturing and selling. Financing expenses like interest charges and divided payment are excluded as they are not operating expenses. Cash Flow can be defined as,

OCF = EBIT (1-T) + Depreciation

ii. Cost of Capital (R)

Unlike the first three forces of wealth creation, the cost of capital or internal rates is external. It should be created normally and wealth related to the level of interest rates in the economy. The lower interest rates, higher the present value of cash flows. This in turn will result in higher share prices given certain level of expected cash flows. The Weighted Average Cost of Capital can be calculated as follows:

WACC = [Ke * (S/ V)] + [Kd * (B/V)]

Where, Ke = Cost of Equity Kd = Cost of Debt S = Equity Capital V = Value of the Firm B = Debt

iii. Margin of Safety

The fifth force of wealth creation is margin of safety. It becomes external to the company because it involves investor's risk perception. Motilal Oswal defines the margin of safety or the pay back ratio as the market capitalization of a company dividend by the sum of expected profits for future period. Lower the payback period, higher the margin of safety for investors.

PRE-MERGER AND POST-MERGER OF WEALTH CREATION

HDFC BANK

In the month of May 2008, Centurion Bank of Punjab was acquired by HDFC bank. Hence, 2007-2008 was considered as pre-merger period and 2009-2010 was considered as post-merger period. Evaluation is done on various parameters.

TABLE 1: CALCULATION OF OCF, RONW, ROCE AND WACC

S.No	Parameters	Terms of Amount	Pre-merger (2007-2008)	Post-merger (2009-2010)
1.	EBIT	Crs	7,167.75	12,075.43
2.	PAT	Crs	1,590.18	2,948.69
3.	1-Tax Rate	-	0.70	0.69
4.	Depreciation	Crs	271.72	394.39
5.	NOPAT (1*3)	Crs	5017.43	8332.05
6.	**OCF** (4+5)	Crs	**5289.15**	**8726.44**
7.	Equity	Crs	354.43	457.74
8.	Debt	Crs	4,478.86	12,915.69
9.	Reserves & surplus	Crs	11,142.80	21,064.75
10.	Miscellaneous Expenses	Crs	3,295.22	3,169.12
11.	Net Worth (7+9-10)	Crs	8202.01	18353.37
12.	**RONW** (2/11)	%	**19.39**	**16.07**
13.	CE (7+8+9)	Crs	15976.09	34438.18
14.	**ROCE [**(1/13)*3**]**	%	**31.04**	**24.19**
15.	**WACC**	%	**4.66**	**7.36**

Source: Compiled from Annual Report of HDFC bank.

Table 1 shows that the Return On Net Worth in pre-merger period (19.39%) is higher than the post-merger period (16.07%). It indicates that the pre-merger RONW is 1.2 times more than the post-merger performance. During the post-merger period the Return On Capital Employed (24.19) is lower than the pre-merger period (31.41). It reveals that the ROCE is decreased nearby seven percentage in post-merger period.So the effort of the merger is more profitable to HDFC bank with the regard to wealth.

INDIAN OVERSEAS BANK

In the year 2007, Bharat Overseas Bank was acquired by HDFC bank. Hence, 2006-2007 was considered as pre-merger period and 2008-2009 was considered as post-merger period. Evaluation is done on various parameters.

TABLE 2: CALCULATION OF OCF, RONW, ROCE AND WACC

S.No	Parameters	Terms of Amount	Pre-merger (2006-2007)	Post-merger (2008-2009)
1.	EBIT	Crs	3,324.73	6,943.73
2.	PAT	Crs	783.34	1,202.34
3.	1-Tax Rate	-	0.80	0.73
4.	Depreciation	Crs	55.34	75.1
5.	NOPAT (1*3)	Crs	2659.78	5068.92
6.	**OCF** (4+5)	Crs	**2715.12**	**5144.02**
7.	Equity	Crs	544.80	544.80
8.	Debt	Crs	736.63	6,353.65
9.	Reserves & surplus	Crs	2,510.17	4,197.90
10.	Miscellaneous Expenses	Crs	1,108.46	672.52
11.	Net Worth (7+9-10)	Crs	1946.51	4070.18
12.	**RONW** (2/11)	%	**40.24**	**29.54**
13.	CE (7+8+9)	Crs	3791.60	11096.35
14.	**ROCE [**(1/13)*3]	%	**70.15**	**45.68**
15.	**WACC**	%	**4.55**	**5.81**

Source: Compiled from Annual Report of Indian Overseas Bank.

Table 2 shows that the Return on Net Worth in pre-merger period (40.24%) is higher than the post-merger period (29.54%). It indicates that the pre-merger RONW is 1.36 times more than the post-merger performance. During the post-merger period the Return on Capital Employed (45.68) is lower than the pre-merger period (70.15) and WACC has been increased slightly in post merger period. This analysis indicates that an increase in OCF gives a positive impact on merger and the decrease in RONW and the ROCE shows the negative impact on the merger.

IDBI BANK

On October 2006, Industrial Development Bank of India was merged with United Western Bank. Hence 2005-2006 was considered as pre-merger period and 2007-2008 was considered as a post-merger period and evaluation is done under various parameters.

Table 3 shows the OCF, RONW, ROCE and WACC of the IDBI bank during pre-merger and post-merger period.

TABLE 3: CALCULATION OF OCF, RONW, ROCE AND WACC

S.No	Parameters	Terms of Amount	Pre-merger (2005-2006)	Post-merger (2007-2008)
1.	EBIT	Crs	**2,756.35**	**6,370.11**
2.	PAT	Crs	307.26	630.31
3.	1-Tax Rate	-	1.07	0.92
4.	Depreciation	Crs	84.01	122
5.	NOPAT (1*3)	Crs	2949.30	5860.50
6.	**OCF** (4+5)	Crs	**3033.31**	**5982.50**
7.	Equity	Crs	652.88	724.35
8.	Debt	Crs	50,005.54	42,404.38
9.	Reserves & surplus	Crs	5,206.63	5,511.60
10.	Miscellaneous Expenses	Crs	129.19	265.05
11.	Net Worth (7+9-10)	Crs	5730.32	5970.90
12.	**RONW** (2/11)	%	**5.36**	**10.56**
13.	CE (7+8+9)	Crs	55,865.05	48,640.33
14.	**ROCE [**(1/13)*3]	%	**5.28**	**12.05**
15.	**WACC**	%	**3.76**	**6.59**

Source: Compiled from Annual Report of IDBI bank.

The above table shows that the entire factor such as Operating Cash Flow, Return on Net Worth, Return on Capital Employed and Weighted Average Cost of Capital were increased in post-merger period.

OCF was increased by 49.3 percent, RONW was increased nearby 50 percent, ROCE was increased more than fifty percent and WACC was increased by 42.94 percent. Finally it was interpreted among four forces, three forces like OCF, RONW and ROCE shows the positive impact on merger and WACC shows the negative impact in merger.

ORIENTAL BANK OF COMMERCE

On August 2004, Oriental Bank of Commerce was merged with Global Trust Bank. Hence 2003-2004 was considered as pre-merger period and 2005-2006 was considered as a post-merger period and evaluation is done under various parameters.

Table 4 shows the OCF, RONW, ROCE and WACC of the IDBI bank during pre-merger and post-merger period.

TABLE 4: CALCULATION OF OCF, RONW, ROCE AND WACC

S.No	Parameters	Terms of Amount	Pre-merger (2003-2004)	Post-merger (2005-2006)
1.	EBIT	Crs	**2,990.34**	**3,478.75**
2.	PAT	Crs	226.54	641.42
3.	1-Tax Rate	-	0.60	0.83
4.	Depreciation	Crs	50.42	75.52
5.	NOPAT (1*3)	Crs	1794.20	2887.36
6.	**OCF** (4+5)	Crs	**1844.62**	**2962.88**
7.	Equity	Crs	192.54	250.54
8.	Debt	Crs	36,374.00	51,073.89
9.	Reserves & surplus	Crs	2,484.26	4,920.24
10.	Miscellaneous Expenses	Crs	608.86	539.57
11.	Net Worth (7+9-10)	Crs	3285.64	5710.35
12.	**RONW** (2/11)	%	**6.89**	**11.23**
13.	CE (7+8+9)	Crs	39050.80	56244.67
14.	**ROCE [**(1/13)*3]	%	**4.6**	**5.13**
15.	**WACC**	%	**5.07**	**4.92**

Source: Compiled from Annual Report of Oriental Bank of Commerce.

Above table presents that during post-merger period, the RONW is more (11.23%) than the pre-merger period (i.e.) 6.89%. It indicates that the RONW increased nearby five percentage. Compared with the pre-merger period, the ROCE was increasing by 11 percent in post-merger period. While comparing the cash flow in pre-merger and post-merger period, it has been increased as Rs.1118.26 crs. WACC was decreased in post-merger period. It shows the positive impact on merger in Oriental Bank of Commerce.

EVA AND MVA EVALUATION

ECONOMIC VALUE ADDED (EVA)

Economic Value Added is a tool to define the amount, a business generation through the measurement of the rate of return over the cost of invested capital. EVA is the registered trademark of Stern Steward & Co is one of the highly discussed topics in today's financial world. It is a financial performance that helps to reduce cost of capital and improve profits, which in turn increase the shareholders value. EVA is a simple measure that provides information about shareholders real wealth creation. It provides a more refined barometer of value addition after defraying the cost of owed and owned fund.

EVA can be calculated by using the two formulas given below,

Formula: 1 **EVA = (r – c) * Capital employed**

Where,

r = economic rate of return on capital employed (referred to as ROCE)

c = cost of capital

Formula: 2 **EVA = NOPAT – (WACC* Economic Capital)**

Where,

NOPAT = EBIT * (1-T)

WACC = (KeWe + KdWd)

Economic Capital = Total Assets (Adjusted for Intangibles)

Thus the EVA can be influenced by profit, amount of capital necessary to finance the assets and cost of capital

MARKET VALUE ADDED (MVA)

The *market value added* measurement shows the net difference between a company's market value and the cost of its invested capital. A negative amount indicates that management has done a poor job of creating value with the base of equity available to it, since investors have reduced the company's value below the amount of equity invested. The formula for MVA as follows,

MVA = Market Capitalization – Book value of Net worth

PRE-MERGER AND POST-MERGER EVA AND MVA EVALUATION

EVA &MVA EVALUATION FOR HDFC BANK

TABLE 5: EVA &MVA EVALUATION FOR HDFC

S.No	Parameters	Terms of Amount	Pre-merger (2007-2008)	Post-merger (2009-2010)
1.	EBIT	Rs. Crs	7,167.75	12,075.43
2.	PBT	Rs. Crs	2,280.63	4,289.13
3.	PAT	Rs. Crs	1,590.18	2,948.69
4.	Interest	Rs. Crs	4,887.12	7,786.30
5.	Tax	--	0.70	0.69
6.	1-Tax rate (1-(5))	--	0.30	0.31
7.	NOPAT (1*3)	Rs. Crs	5017.43	8332.05
8.	Total Assets	Rs. Crs	1,33,176.60	2,22,458.56
9.	ROI (1/8)	Ratio	0.0538	0.054
10.	DPS	Rs.	8.5	12
11.	EPS	Rs.	44.87	64.42
12.	MPS	Rs.	201.33	414.99
13.	Payout Ratio (10/11)	Ratio	0.189	0.186
14.	Retention Ratio (1-(13))	Ratio	0.811	0.814
15.	Growth Rate (9*14)	Ratio	0.066	0.044
16.	Cost of Equity (10+15)	Ratio	8.566	12.044
17.	Equity	Rs. Crs	354.43	457.74
18.	Debt	Rs. Crs	4,478.86	12,915.69
19.	Reserves & Surplus	Rs. Crs	11,142.80	21,064.75
20.	Misc. Expenses	Rs. Crs	3,295.22	3,169.12
21.	Value of the firm (17+18)	Rs. Crs	4833.29	13373.43
22.	We (17/21)	Ratio	0.073	0.034
23.	Cost of Debt (4/18)	Ratio	1.09	0.603
24.	Wd (18/21)	Ratio	0.927	0.965
25.	Cost of Capital (16+23)	Ratio	9.656	12.647
26.	CE (17+18+19)	Rs. Crs	15976.09	34438.18
27.	ROCE (7/26)	Ratio	31.04	24.19
28.	EVA (27-25/100)* 26	Rs. Crs	3416.33	3974.16
29.	Market Capitalization	Rs. Crs	713.59	1899.61
30.	Book Value of Networth	Rs. Crs	35.44	45.77
31.	MVA (29-30)	Rs. Crs	678.15	1853.84

Source: Compiled from Annual Report of HDFC bank.

Table 5 shows that post-merger EVA was higher than the pre-merger period. It was increasing by Rs. 557.83 crs. It shows positive impact after merger. Likewise the market value of HDFC bank also increasing in post-merger period when comparing to the pre-merger period.

EVA &MVA EVALUATION FOR INDIAN OVERSEAS BANK

TABLE 6: EVA &MVA EVALUATION FOR INDIAN OVERSEAS BANK

S.No	Parameters	Terms of Amount	Pre-merger (2006-2007)	Post-merger (2008-2009)
1.	EBIT	Rs. Crs	3,324.73	6,943.73
2.	PBT	Rs. Crs	985.63	1654.94
3.	PAT	Rs. Crs	783.34	1,202.34
4.	Interest	Rs. Crs	2,339.10	5,288.79
5.	Tax	--	0.20	0.27
6.	1-Tax rate (1-(5))	--	0.80	0.73
7.	NOPAT (1*3)	Rs. Crs	2659.78	5068.92
8.	Total Assets	Rs. Crs	59,357.80	1,01,859.73
9.	ROI (1/8)	Ratio	0.056	0.068
10.	DPS	Rs.	3.5	2.6
11.	EPS	Rs.	14.38	22.07
12.	MPS	Rs.	20.68	48.71
13.	Payout Ratio (10/11)	Ratio	0.243	0.118
14.	Retention Ratio (1-(13))	Ratio	0.757	0.882
15.	Growth Rate (9*14)	Ratio	0.042	0.06
16.	Cost of Equity (10+15)	--	3.542	2.66
17.	Equity	Rs. Crs	544.80	544.80
18.	Debt	Rs. Crs	736.63	6,353.65
19.	Reserves & Surplus	Rs. Crs	2,510.17	4,197.90
20.	Misc. Expenses	Rs. Crs	1,108.46	672.52
21.	Value of the firm (17+18)	Rs. Crs	1281.43	6898.45
22.	We (17/21)	Ratio	0.425	0.079
23.	Cost of Debt (4/18)	Ratio	3.175	0.832
24.	Wd (18/21)	Ratio	0.575	0.921
25.	Cost of Capital (16+23)	Ratio	6.717	3.492
26.	CE (17+18+19)	Rs. Crs	3791.6	11096.35
27.	ROCE (7/26)	Ratio	70.15	45.68
28.	EVA (27-25/100)* 26	Rs. Crs	2405.13	4681.33
29.	Market Capitalization	Rs. Crs	112.66	265.36
30.	Book Value of Networth	Rs. Crs	54.48	54.48
31.	MVA (29-30)	Rs. Crs	58.18	210.88

Source: Compiled from Annual Report of Indian Overseas Bank.

Table 6 shows that during post-merger period, the EVA is more than pre-merger period performance. It depicts the wealth created to its shareholders by increasing 48.62 percent when compared to the pre-merger performance.

With the regard to the MVA, during pre-merger period it was declining when compare to the post-merger period. In post-merger period, the MVA was increased more than 3 times when compare to the pre-merger period. It indicates that positive impact on merger and the shareholders are highly satisfied with the wealth creation in post-merger period.

EVA &MVA EVALUATION FOR IDBI BANK

TABLE 7: EVA &MVA EVALUATION FOR IDBI BANK

S.No	Parameters	Terms of Amount	Pre-merger (2005-2006)	Post-merger (2007-2008)
1.	EBIT	Rs. Crs	2,756.35	6,370.11
2.	PBT	Rs. Crs	288.48	682.62
3.	PAT	Rs. Crs	307.26	630.31
4.	Interest	Rs. Crs	2,467.87	5,687.49
5.	Tax	--	-0.07	0.08
6.	1-Tax rate (1-(5))	--	1.07	0.92
7.	NOPAT (1*3)	Rs. Crs	2949.30	5860.50
8.	Total Assets	Rs. Crs	81,360.25	1,03,839.32
9.	ROI (1/8)	Ratio	0.034	0.061
10.	DPS	Rs.	0.75	1.5
11.	EPS	Rs.	6.36	8.7
12.	MPS	Rs.		
13.	Payout Ratio (10/11)	Ratio	0.118	0.172
14.	Retention Ratio (1-(13))	Ratio	0.882	0.828
15.	Growth Rate (9*14)	Ratio	0.03	0.051
16.	Cost of Equity (10+15)	--	0.78	1.551
17.	Equity	Rs. Crs	652.88	724.35
18.	Debt	Rs. Crs	50,005.54	42,404.38
19.	Reserves & Surplus	Rs. Crs	5,206.63	5,511.60
20.	Misc. Expenses	Rs. Crs	129.19	265.05
21.	Value of the firm (17+18)	Rs. Crs	50658.42	43128.73
22.	We (17/21)	Ratio	0.013	0.017
23.	Cost of Debt (4/18)	Ratio	0.049	0.134
24.	Wd (18/21)	Ratio	0.987	0.983
25.	Cost of Capital (16+23)	Ratio	0.829	1.685
26.	CE (17+18+19)	Rs. Crs	55864.95	48640.33
27.	ROCE (7/26)	Ratio	5.28	12.05
28.	EVA (27-25/100)* 26	Rs. Crs	2486.55	5041.57
29.	Market Capitalization	Rs. Crs	510.81	741.72
30.	Book Value of Networth	Rs. Crs	65.29	72.48
31.	MVA (29-30)	Rs. Crs	445.52	669.24

Source: Compiled from Annual Report of IDBI bank.

The above table reveals that the pre-merger EVA is less than the post-merger performance. EVA shows the positive result and it creates satisfaction among the shareholders.

MVA of IDBI bank was increased from Rs. 445.52 crs to Rs. 669.24 crs in post-merger period. This is due increase of market capitalization in post-merger period. It shows the positive impact on its shareholders.

EVA & MVA EVALUATION FOR ORIENTAL BANK OF COMMERCE

TABLE 8: EVA &MVA EVALUATION FOR ORIENTAL BANK OF COMMERCE

S.No	Parameters	Terms of Amount	Pre-merger (2003-2004)	Post-merger (2005-2006)
1.	EBIT	Rs. Crs	2,990.34	3,478.75
2.	PBT	Rs. Crs	1,145.60	964.90
3.	PAT	Rs. Crs	226.54	641.42
4.	Interest	Rs. Crs	1,844.74	2,513.85
5.	Tax	--	0.40	0.17
6.	1-Tax rate (1-(5))	--	0.60	0.83
7.	NOPAT (1*3)	Rs. Crs	1794.20	2887.36
8.	Total Assets	Rs. Crs	41,006.57	58,937.37
9.	ROI (1/8)	Ratio	0.073	0.059
10.	DPS	Rs.	5	4.5
11.	EPS	Rs.	35.63	32.06
12.	MPS	Rs.	126.95	102.78
13.	Payout Ratio (10/11)	Ratio	0.14	0.14
14.	Retention Ratio (1-(13))	Ratio	0.86	0.86
15.	Growth Rate (9*14)	Ratio	0.063	0.051
16.	Cost of Equity (10+15)	--	5.063	4.551
17.	Equity	Rs. Crs	192.54	250.54
18.	Debt	Rs. Crs	36,374.00	51,073.89
19.	Reserves & Surplus	Rs. Crs	2,484.26	4,920.24
20.	Misc. Expenses	Rs. Crs	608.86	539.57
21.	Value of the firm (17+18)	Rs. Crs	36566.54	51324.43
22.	We (17/21)	Ratio	0.0053	0.0049
23.	Cost of Debt (4/18)	Ratio	0.051	0.049
24.	Wd (18/21)	Ratio	0.994	0.995
25.	Cost of Capital (16+23)	Ratio	5.11	4.6
26.	CE (17+18+19)	Rs. Crs	39050.8	56244.67
27.	ROCE (7/26)	Ratio	4.6	5.13
28.	EVA (27-25/100)* 26	Rs. Crs	(19915.91)	29809.68
29.	Market Capitalization	Rs. Crs	244.43	257.52
30.	Book Value of Networth	Rs. Crs	19.25	25.05
31.	MVA (29-30)	Rs. Crs	225.18	232.47

Source: Compiled from Annual Report of Oriental Bank of Commerce.

Table 8 shows that EVA in pre-merger period has negative value when compared to the post-merger performance. Like that the MVA of post-merger period also increasing.

From this analysis, it interprets that both EVA and MVA shows the positive impact for their shareholders because of this merger.

INTERNAL GROWTH RATE

Internal Growth Rate (IGR) is the maximum amount of growth a company can sustain without needing to borrow money, make a new issue of stocks, or otherwise obtain a new source of financing.

$$\mathbf{IGR} = \frac{\mathbf{ROA * B}}{\mathbf{1\text{-}(ROA*b)}}$$

Where,

Return of Investment (ROI) = PAT/ Total Assets

B = Retention Ratio (1- Dividend Payout Ratio)

PRE-MERGER AND POST-MERGER IGR

HDFC BANK

Table 9 presents the IGR of the HDFC bank under the pre-merger and the post-merger period.

TABLE 9: CALCULATION OF IGR FOR HDFC BANK

S.No	Parameters	Terms of Amount	Pre-merger (2007-2008)	Post-merger (2009-2010)
1.	PAT	Crs	1,590.18	2,948.69
2.	Total Assets	Crs	1,33,176.60	2,22,458.56
3.	ROI (1/2)	Ratio	0.0119	0.0133
4.	Retention Ration	Ratio	0.81	0.81
5.	Column 3 * Column 4	--	0.0097	0.0108
6.	1- column 5	--	0.9903	0.9892
7.	**IGR** (5/6)	Ratio	**0.0098**	**0.0109**

Source: Compiled from Annual Report of HDFC bank.

The above table shows that the internal growth rate in pre-merger period is less than the post-merger period (i.e. 0.0098 < 0.0109). It reveals that, it was increased by 11 present due to an increase in ROA during the post merger period.

INDIAN OVERSEAS BANK

Table 10 presents the IGR of the HDFC bank under the pre-merger and the post-merger period.

TABLE 10: CALCULATION OF IGR FOR IOB

S.No	Parameters	Terms of Amount	Pre-merger (2006-2007)	Post-merger (2008-2009)
1.	PAT	Crs	783.34	1202.34
2.	Total Assets	Crs	59,357.80	1,01,859.73
3.	ROI (1/2)	Ratio	0.0132	0.0118
4.	Retention Ration	Ratio	0.7566	0.8822
5.	Column 3 * Column 4	--	0.01	0.012
6.	1- column 5	--	0.991	0.98
7.	**IGR** (5/6)	Ratio	**0.0101**	**0.0105**

Source: Compiled from Annual Report of Indian Overseas Bank.

The above table reveals that during the post-merger period the internal growth rate (0.0105) is increasing than the pre-merger period (0.0101). The IGR has increased by more than a percent. It implies that the bank use the retained earnings in post-merger period effectively.

IDBI BANK

TABLE 11: CALCULATION OF IGR FOR IDBI BANK

S.No	Parameters	Terms of Amount	Pre-merger (2005-2006)	Post-merger (2007-2008)
1.	PAT	Crs	307.26	630.31
2.	Total Assets	Crs	81,360.25	1,03,839.32
3.	ROI (1/2)	Ratio	0.0038	0.0061
4.	Retention Ration	Ratio	0.88	0.83
5.	Column 3 * Column 4	--	0.0033	0.005
6.	1- column 5	--	0.9967	0.995
7.	**IGR** (5/6)	Ratio	**0.0033**	**0.005**

Source: Compiled from Annual Report of IDBI bank.

The above table shows that the IGR in pre-merger period (0.0033) is less than the post-merger period(0.005). Compared pre-merger period the IGR was increased by 34 percent in post-merger period. It indicates that the bank used their retained earnings in effective manner.

ORIENTAL BANK OF COMMERCE

TABLE 12: CALCULATION OF IGR FOR ORIENTAL BANK OF COMMERCE

S.No	Parameters	Terms of Amount	Pre-merger (2003-2004)	Post-merger (2005-2006)
1.	PAT	Crs	226.54	641.42
2.	Total Assets	Crs	41,006.57	58,937.37
3.	ROI (1/2)	Ratio	0.0055	0.0109
4.	Retention Ration	Ratio	0.86	0.86
5.	Column 3 * Column 4	--	0.0048	0.0094
6.	1- column 5	--	0.9952	0.9906
7.	**IGR** (5/6)	Ratio	**0.0047**	**0.0094**

Source: Compiled from Annual Report of Oriental Bank of Commerce.

Above table shows that the internal growth rate in pre-merger period is lower than the post-merger period. Compared with pre-merger period, the IGR was increased accurately by fifty percent.

This analysis reveals that the ROI is increased by 50 percent during the post merger period. It indicates that the IGR is increased due to increasing proportion of ROI in post-merger period. From this analysis, we interpreted that the Oriental Bank of Commerce used its retained earnings in efficiently in post-merger period.

CONCLUSION

Merger and acquisition encourage banks to gain global reach and better synergy and allow large banks to acquire the stressed assets of weaker banks. Merger in India between weak banks should grow faster so that they could rehabilitate providing continuity of employment with the working force, utilization of assets blocked up in the weak banks and adding constructively to the prosperity of nation through increased flow of funds. The small and medium size banks are working under threat from the economic environment which is full of problems for them, viz, inadequacy of resources, outdated technology, on-systemized management pattern, faltering marketing efforts, weak financial structure, technique obsolescence and lack of product innovations. Their reorganization through merger could offer re-establishment of those in viable banks of optimum size with global presence. Merger and acquisition in Indian banking so far has been to provide the safeguard and hedging weak bank against their failure. The merger cult in India has yet to catch fire with merchant bankers and financial consultants acquiring skills in grinding the banks to absorb unviable banks and put them again on successful operations.

The selected acquiring banks such as HDFC, Indian Overseas Bank, IDBI and Oriental Bank of Commerce was working successfully. The study has brought into sharp focus on the reasons and impact of merger and evaluating the performance of the selected banks during pre-merger and post-merger period. The overall performance of these banks was increasing during post-merger period. Modern financial parameters such as EVA, MVA, IGR, OCF, RONW, ROCE, WACC and Ratio analysis have been used to evaluate the performance of the selected acquiring banks. Based upon the evaluation made, the researcher has given the summary of findings. The findings of this paper will be useful to the banks to take certain policy decision in future.

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