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   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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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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

UNPUBLISHED DISSERTATIONS AND THESES

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ONLINE RESOURCES

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

WEBSITE

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

A STUDY ON MERGERS AND BANKS PERFORMANCE IN INDIA

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ABSTRACT

In today's globalised economy, mergers and acquisitions (M&A) are being increasingly used the world over, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale etc. This research aims at evaluating the synergies gained from bank mergers by dividing them into two categories of forced mergers and market driven mergers. The result indicate that market have reacted negatively to the announcement of forced mergers while the reaction has been positive to that of market driven mergers. In line with the market expectation, forced mergers have not added any value to financial performance of merged banks in the post merger period. Although market driven mergers have not immediately improved the financial performance of merged banks, but they have improved the operating performance of merged banks and have provided these banks an edge over the competitors in terms of geographic dispersions and thus have provided a better vehicle growth.

KEYWORDS
Driven Merger, Forced Merger.

INTRODUCTION
Mergers and acquisitions (M&A) and corporate restructuring are a big part of the corporate finance world. 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. The key driving force for merger activity is severe competition among firms of the same industry which puts focus on economies of scale, cost efficiency, and profitability. The other factor behind bank mergers is the "too big to fail" principle followed by the authorities. Weak banks were forcefully merged to avoid the problem of financial distress arising out of bad loans and erosion of capital funds. The first approach relates to evaluation of the long term performance resulting from mergers by analyzing the accounting information such as return on assets, operating costs and efficiency ratios. A merger is expected to generate improved performance if the change in accounting-based performance is superior to the changes in the performance of comparable banks that were not involved in merger activity. An alternative approach is to analyze the merger gains in stock price performance of the bidder and the target firms around the announcement event.
The Mergers and acquisitions (M&A) has two types of approaches they are as follows.

DRIVEN MERGERS
There have been a few mergers in Indian banking with expansion, diversification, and overall growth as the primary objectives. The first of its kind in the post 1993 period was the acquisition of Times Bank by HDFC bank subsequently followed by Bank of Madura's acquisition by ICICI Bank.

FORCED MERGERS
Many small and weak banks have been forcefully merged with other banks mainly to protect the interests of depositors. Normally the acquiring bank takes up all assets and liabilities of the weak bank and ensures payment to all depositors in case they wish to withdraw their claims. In 2004 South Gujarat Local Area Bank was acquired by Bank of Baroda followed by Oriental Bank of Commerce acquired Global Trust Bank Ltd.

BANK MERGERS IN INDIA	
Period	Number of Mergers
Pre-nationalization of banks (1961-1968)	46
Nationalization period (1969-1992)	13
Post-reform period (1993-2006) - Forced Mergers 13 - Driven Mergers 5 - Convergence of Financial Institutions in to Banks 2 - Other Regulatory Compulsions 1	21
Total number of mergers	80

(Source: Compiled from various publications of RBI)

REVIEW LITERATURE

1. G. Mandelker (1970) examines the profitability of mergers along such aspects as risk, growth, capital structure, income tax savings, earning per share. The conclusion drawn is that the long run profitability of acquiring firms is probably somewhat higher than that of comparable non-merging firms.

2. Vardhana Pawaskar (2001) compares the pre and post merger operating performance of Indian companies involved in merger by identifying their financial characteristics, the study finds that the mergers seem to lead to financial synergies and a onetime growth.

3. Havrylchyk (2004) observed that the reaction of stock market to 17 bank mergers and acquisitions during 1997-2001 was positive and most of the returns were realized before the announcement of merger.

4. Survey—Grant Thornton (2006) found that mergers and acquisitions are a significant form of business strategy today for Indian corporate. The main objectives behind any M&A transaction, for corporate today were found to be:

Objective behind the M&A Transaction	Response
To improve revenues & Profitability	33%
Faster growth in scale and quicker time to market	28%
Acquisition of new technology or competence	22%
To eliminate competition & increase market share	11%
Tax shields & Investment savings	3%

STATEMENT OF THE PROBLEM

Now–a–days mergers and acquisitions (M&A) are being increased in the global economy, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk for entering new markets and geographies and capitalizing on economies of scale etc. This research study was aimed to study the impact of mergers on the operating performance and share price of acquiring corporate in banking, by examining some ratios in pre- merger and post-merger period.

OBJECTIVE OF THE STUDY

1. To find the average abnormal return generated by the banks before and after merger.
2. To find the operating performance of banks before and after merger.

LIMITATION OF THE STUDY

A major limitation of the study is that it has been undertaken with a small sample size that has made difficult to draw proper statistical inferences.

RESEARCH METHDOLOGY

1) The study is based on the analysis of performance after merger announcements; so the research design is based upon descriptive and analytical type.
2) The secondary data is been used in the analysis because the closing price of the banks has been taken for the pre- merger and post- merger performance analysis from the stock market and the sample size selected is 30.
3) The study covers two classifications as Bank mergers (Driven Merger & Forced Merger).
- Driven mergers - HDFC, IOB, SBI and ICICI.
- Forced mergers - BOB, FEDERAL, Oriental, and IDBI.
4) The statistical tools used in the study are “Paired t’ test” and “Regression”
5) The financial ratios used in the study like operating profit margin, gross profit margin, net profit margin, ROCE, Return on net worth are taken to find out the financial performance of the banks in pre- merger and post-merger period.

ANALYSIS AND INTERPRETATION

COMPARING MEANS – DRIVEN MERGER & FORCED MERGER

OBJECTIVE

It is indented to study whether there is any significant difference in share prices of banks during pre and post merger period. To find out this the‘t’ test was applied.

HYPOTHESIS

Ho – There is no significant difference in Average abnormal return of banks before and after merger.

H1 – There is significant difference in Average abnormal return of banks before and after merger.

TABLE 4.1.1: COMPARISON OF AVERAGE ABNORMAL RETURNS GENERATED BY BANKS

Bank	Period	N	Mean	T_o
HDFC	Before merger	30	-0.974	1.69
	After merger	30	0.73	
IOB	Before merger	30	-0.334	1.32
	After merger	30	0.548	
SBI	Before merger	30	-0.523	1.10
	After merger	30	0.408	
ICICI	Before merger	30	-0.077	-0.3
	After merger	30	-0.316	
BOB	Before merger	30	-0.348	-0.01
	After merger	30	-0.356	
FEDERAL	Before merger	30	0.362	-1.36
	After merger	30	-0.374	
Oriental	Before merger	30	0.246	-0.84
	After merger	30	-0.500	
IDBI	Before merger	30	-0.999	0.27
	After merger	30	0.088	

INFERENCES

From the above tables, the value of T_o is less than table value (2.045) at 5% level of significance, so we accept the null hypothesis.

OPERATING PERFORMANCE ANALYSIS – DRIVEN MERGER

OBJECTIVE

It is indented to study whether there is any significant difference in operating profit margin, gross profit margin, net profit margin, ROCE, Return on net worth of banks during pre and post merger period. To find out this the't' test was applied.

NULL HYPOTHESIS

There is no significant difference in operating profit margin, gross profit margin, net profit margin, ROCE, Return on net worth of market driven banks before and after merger.

COMPARING MEANS – OPERATING PROFIT MARGIN - DRIVEN MERGER

TABLE 4.2.1: MEAN PRE-MERGER AND POST-MERGER OPERATING PROFIT MARGIN FOR ACQUIRING BANKS

Operating profit margin	Before merger	After merger	T(0.05)
HDFC	78.91	89.60	3.488
IOB	78.35	87.64	3.493
SBI	82.87	94.78	3.297
ICICI	87.84	97.46	1.508

INFERENCES

From the above table, the value of T_o is greater than the table value (3.182) at 5% level of significance for HDFC, IOB and SBI so we reject the null hypothesis. So it is concluded the operating profit margin have increased considerably after merger. In the other hand T_o is less than the table value (3.182) at 5% level of significance for ICICI. So we accept the null hypothesis.

COMPARING MEANS – GROSS PROFIT MARGIN - DRIVEN MERGER

TABLE 4.2.2: MEAN PRE-MERGER AND POST-MERGER GROSS PROFIT MARGIN FOR ACQUIRING BANKS

Gross profit margin	Before merger	After merger	T(0.05)
HDFC	77.76	85.53	2.336
IOB	77.18	86.62	3.598
SBI	81.23	83.76	2.664
ICICI	82.55	56.36	-2.720

INFERENCE

From the above table, the value of T_o is less than the table value (3.182) at 5% level of significance for HDFC, ICICI and SBI so we accept the null hypothesis. In the other hand T_o is greater than the table value (3.182) at 5% level of significance for IOB. So we reject the null hypothesis. So it is concluded the Gross profit margin have showed significant change after merger.

COMPARING MEANS – NET PROFIT MARGIN- DRIVEN MERGER

TABLE 4.2.3: MEAN PRE-MERGER AND POST-MERGER NET PROFIT MARGIN FOR ACQUIRING BANKS

Net profit margin	Before merger	After merger	T(0.05)
HDFC	13.88	17.25	3.180
IOB	15.96	15.52	-1.460
SBI	16.57	19.54	3.172
ICICI	11.46	14.35	1.202

INFERENCE

From the above table, the value of T_o is less than the table value (3.182) at 5% level of significance for HDFC, ICICI, SBI and IOB so we accept the null hypothesis.

COMPARING MEANS – RETURN ON NET WORTH- DRIVEN MERGER

TABLE 4.2.4: MEAN PRE-MERGER AND POST-MERGER RETURN ON NET WORTH FOR ACQUIRING BANKS

Return on net worth	Before merger	After merger	T(0.05)
HDFC	19.17	22.69	2.295
IOB	30.04	27.26	-1.500
SBI	28.93	32.67	2.268
ICICI	12.87	16	0.591

INFERENCE

From the above table, the value of T_o is less than the table value (3.182) at 5% level of significance for HDFC, ICICI, SBI and IOB so we accept the null hypothesis.

COMPARING MEANS – RETURN ON CAPITAL EMPLOYED- DRIVEN MERGER

TABLE 4.2.5: MEAN PRE-MERGER AND POST-MERGER RETURN ON CAPITAL EMPLOYED FOR ACQUIRING BANKS

ROCE	Before merger	After merger	T(0.05)
HDFC	1.06	1.2	1.052
IOB	1.22	1.16	-1.500
SBI	1.12	1.14	1.076
ICICI	0.65	0.88	0.518

INFERENCE

From the above table, the value of T_o is less than the table value (3.182) at 5% level of significance for HDFC, ICICI , SBI and IOB so we accept the null hypothesis.

FINANCIAL PERFORMANCE – DRIVEN MERGER

TABLE 4.3: FINANCIAL PERFORMANCE (DRIVEN MERGER)

RATIOS	Accepted	Rejected
Operating profit margin	1	3
Gross profit margin	3	1
Net profit margin	4	0
Return on net worth	4	0
Return on capital employed	4	0

INFERENCE

Out of four, market driven bank mergers three banks showed a significant change in operating profit margin and one bank showed a significant change in gross profit margin and remaining showed insignificant change.

OPERATING PERFORMANCE ANALYSIS – FORCED MERGER

OBJECTIVE

It is indented to study whether there is any significant difference in operating profit margin, gross profit margin, net profit margin, ROCE, Return on net worth of banks during pre and post merger period. To find out this the't' test was applied.

NULL HYPOTHESIS

There is no significant difference in operating profit margin, gross profit margin, net profit margin, ROCE, Return on net worth of non-market driven banks before and after merger.

COMPARING MEANS – OPERATING PROFIT MARGIN- FORCED MERGER

TABLE 4.4.1: MEAN PRE-MERGER AND POST-MERGER OPERATING PROFIT MARGIN FOR ACQUIRING BANKS

Operating profit margin	Before merger	After merger	T(0.05)
BOB	79.57	79.61	0.005
Federal	80.43	83.25	0819
Oriental	85.94	80.30	-1.602
IDBI	108.74	100.89	-4.347

INFERENCE

From the above table, the value of T_o is less than the table value (3.182) at 5% level of significance for BOB, Federal, Oriental and IDBI. So we accept the null hypothesis.

COMPARING MEANS – GROSS PROFIT MARGIN- FORCED MERGER

TABLE 4.4.2: MEAN PRE-MERGER AND POST-MERGER GROSS PROFIT MARGIN FOR ACQUIRING BANKS

Gross profit margin	Before merger	After merger	T(0.05)
BOB	78.50	78.29	-0.032
Federal	78.41	81.83	1.002
Oriental	84.59	78.37	-1.593
IDBI	105.35	99.75	-3.802

INFERENCE

From the above table, the value of T_o is less than the table value (3.182) at 5% level of significance for BOB, Federal, Oriental and IDBI. So we accept the null hypothesis.

COMPARING MEANS – NET PROFIT MARGIN- FORCED MERGER

TABLE 4.4.3: MEAN PRE-MERGER AND POST-MERGER NET PROFIT MARGIN FOR ACQUIRING BANKS

Net profit margin	Before merger	After merger	T(0.05)
BOB	7.73	12.97	2.892
Federal	9.47	15.41	5.790
Oriental	10.57	15.02	4.224
IDBI	7.05	10.20	0.318

INFERENCE

From the above table, the value of T_o is greater than the table value (3.182) at 5% level of significance for Federal bank and oriental bank. So we reject the null hypothesis. So it is concluded the Net profit margin have increased considerably after merger and the increased showed significant change. In the other hand T_o is less than the table value (3.182) at 5% level of significance for BOB and IDBI. So we accept the null hypothesis.

COMPARING MEANS – RETURN ON NET WORTH- FORCED MERGER

TABLE 4.4.4: MEAN PRE-MERGER AND POST-MERGER RETURN ON NET WORTH FOR ACQUIRING BANKS

Return on net worth	Before merger	After merger	T(0.05)
BOB	12.43	17.23	1.575
Federal	19.27	19.32	0.009
Oriental	19.45	20.03	0.182
IDBI	7.05	10.20	1.011

INFERENCE

From the above table the value of T_o is less than the table value (3.182) at 5% level of significance for BOB, Federal, Oriental and IDBI. So we accept the null hypothesis.

COMPARING MEANS – RETURN ON CAPITAL EMPLOYED-FORCED MERGER

TABLE 4.4.5: MEAN PRE-MERGER AND POST-MERGER RETURN ON CAPITAL EMPLOYED FOR ACQUIRING BANKS

ROCE	Before merger	After merger	T(0.05)
BOB	0.72	0.95	1.055
Federal	0.76	1.12	3.787
Oriental	1.02	1.13	0.930
IDBI	0.57	0.55	-0.129

INFERENCE

From the above table, the value of T_o is less than the table value (3.182) at 5% level of significance for BOB, Oriental and IDBI. So we accept the null hypothesis. In the other hand the value of T_o is greater than the table value (3.182) at 5% level of significance for Federal Bank. So we reject the null hypothesis. So it is concluded there is significant change in Return on capital employed after merger.

FINANCIAL PERFORMANCE – FORCED MERGER

TABLE 4.5: FINANCIAL PERFORMANCE (FORCED MERGER)

RATIOS	Accepted	Rejected
Operating profit margin	4	0
Gross profit margin	4	0
Net profit margin	2	2
Return on net worth	4	0
Return on capital employed	3	1

INFERENCE

Out of four forced bank mergers two banks showed a significant change in Net profit margin and one bank showed a significant change in ROCE and remaining showed insignificant change.

FINDINGS

From the analysis, the researcher has found mergers are favourable for banks, in terms of improving shareholders wealth, only when they are market driven. This is the reason why markets react positively to the stocks of these acquiring banks. On the other hand, when mergers were forced by regulatory agencies, they have deteriorated the wealth of shareholders during announcement period.

Furthermore the analysis of various financial ratios for both forced mergers and market driven mergers have showed weakened signals. But compare with forced mergers, market driven mergers were slightly better. It means market driven mergers have not brought immediate changes in the operating performance.

One of the reasons why forced mergers are value destroying is that most of these forced mergers were sick banks with healthy one to rehabilitate the former. So instead of bringing any improvements, these mergers burdened the acquiring banks with their huge non-performing assets, negative net worth and negative profitability.

CONCLUSION

From the above analysis it can be concluded that market driven mergers create wealth to shareholders but it doesn't create synergies in operating performance of the banks. On the other hand, forced mergers have not created wealth to shareholders as well as synergies in operating performance of the banks.

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ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals