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Mergers in service sectors: Post merger financial analysis of ICICI bank

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Abstract
The banking sector is one of the most important sector that contributes to the national development. In today's globalized economy, mergers and acquisitions (M&A) are being increasingly used world over, and baking sector is not being escape. This paper evaluates the performance of the ICICI bank, after buy the Sangli Bank in April 2007 and Bank of Rajasthan in May 2010. Pre and Post amalgamation performance was analysed based on financial statements of ICICI bank from (2004- 2014) by using various financial ratios like, Net Profit Margin, ROA, ROE, ROI, Return on Advances, Debt/Equity ratio, Current Ratio, Quick Ratio and EPS.T-test was applied to the various financial ratios for before and after merger data. The results show that, out of total performance ratios of ICICI Bank half of ratios have significantly changed after mergers in both sample cases. While other half of ratios have not significantly changed after merger, because null hypothesis is accepted in both sample cases.

Keywords: Merger & Actuations, Bank performance, financial performance**,** Pre-Post measurement.

Introduction
The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. The growing tendency towards mergers and acquisitions (M&A) world-wide, has been driven by intensifying competition. There is a need to reduce costs, reach global size, take benefit of economies of scale, increase investment in technology for strategic gains, desire to expand business into new areas and improve shareholder value. A businessman can grow its business either by internal expansion or through external expansion. Internal expansion will take time as you have to work hard to promote sales by motivating employees, purchasing new assets, producing new products, by replacing old technology with the new one, or by establishing new links. But in case of external acquisition this can be done overnight through corporate combinations. Indian banks have also realized the importance of these and have done great deals because of external expansion. Mergers and acquisitions have become popular due to globalization, liberalisation etc. Mergers and acquisitions means to bring the two organisations together. In simple words, Merger is the combination of two or more entities by purchase acquisition where the identity of one of the entities remains while the other are being dissolved.

Literature Review
Neena (2010) [6] examines the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions during the period 2000-2008 in India. The objective of paper was examine the significant difference between the financial performance of the companies before and after the merger. The Wilcoxon signed rank test was used to compares the median of a single column of numbers against a hypothetical median. Study produced several interesting findings. First, earning available to shareholders and debt to equity ratio showed a significant change in pre and post-merger financial position of the companies. Second, it was found the change in the return on net worth, liquidity position and profit before tax to total income of the companies to be not statistically significant. Mahesh (2012) [7] focused on the performance of Indian Airline Companies after the consolidation of Airline sector in year 2007-08 in his paper "Post Merger and Acquisition Financial Performance

Analysis: A Case study of select Indian Airline Companies". The main objective of this paper was to analyse whether the Indian Airline Companies have achieved financial performance efficiency during the post-merger& acquisition period specifically in the areas of profitability, leverage, liquidity, and capital market standards. Paired sample t-test at confidence level of 0.01 or 99% has been performed to determine the significance differences in financial performance standards two year before and two year after the merger activity. The finding of this study shows that there is no improvement in surviving Company's return on equity, net profit margin, interest coverage, earning per share and dividend per share post-merger & acquisition. Kumara (2013) [3] in his research paper on "Comparative Study of Pre and Post Corporate Integration through Mergers and acquisition" found that mergers & acquisition have a significant positive impact on the value creation to the acquired firms. The data was collected from IIMA-Database with the focus on Mergers and Acquisitions transactions in India during the financial year- 2010-2011. For the purpose of study 10 companies were selected from different sectors like chemicals, power, telecommunication, pharmaceutical, banking. Steel, personal care, hospital and medical service and auto mobiles industry. The study shows that the liquidity positions of the merger and acquisition has improved but it is not statistically insignificant. The profitability position of the companies has positively increased in terms of return on capital employed, return on long term funds, and return on assets and it declines in terms of return on net worth. Abbas *et al*. (2014) [1] assess the impact of M&A on the financial performance of banks in Pakistan. Data was taken about 10 banks from the financial statement analysis (FSA) by State Bank of Pakistan from the period of 2006- 2011. For the analysis of pre and post-Merger and Acquisition performance 15 financial ratios were used and to compare the results Paired sample t-Test was used to measure the significant difference between pre and post M&A financial performance. The overall results show that there was no significant difference in financial performance after mergers and acquisition. Ahmed (2014) [2] measures the effect of mergers upon financial performance of manufacturing industries in Pakistan. This research consist the sample of twelve manufacturing companies involved in the process of merger during 2000-2009. Three years before and after-merger data is used to test the significance of study. Paired sample t-test statistics is applied on accounting ratios. The study concluded that overall financial performance of acquiring manufacturing corporations insignificantly improved in after merger period. The liquidity, profitability and capital position insignificantly improved while the efficiency deteriorated in after- merger period. Moctar (2014) [4] carried the study to examine the impact of merger and acquisition on the performance West African Banks. Two groups of banks have been used as case study: the first group consists of Access bank plc Nigeria and SG-SSB Ghana two banks that have experienced M&A and the second group consists of Zenith bank plc Nigeria and BOA Niger that have not experienced M&A. Three groups of variables were used in this study: liquidity ratio, performance ratios (ROA and ROE) and investment valuation variables (earnings per share,).The study reveals that in terms of liquidity, M&A improves the situation of the banks in short and long term. It also reveals that performance and investment variables decrease in the period of M&A and increase two or three years later. This means that in West Africa, M&A have significant short and long term positive effects on the liquidity of banks, while a negative effect in short term and a positive effect in long term on the performance and investment valuation variables were found.

Objective of the Study

The study has been undertaken to analyse whether the ICICI Bank have achieved financial performance efficiency during post-merger period in the area of profitability, financial leverage, liquidity and capital market standards. The study has followings objectives:

- To analyse the impact of merger of Bank of Rajasthan on the financial performance of ICICI Bank.
- To analyse the impact of merger of Sangli Bank on the financial performance of ICICI Bank.

Research Methodology

The aim of the study is to answer *"Has ICICI Bank improved their financial performance after merger?"* It analyse the effect of merger on financial performance of the bank. For this purpose ICICI Bank has chosen as sample and two merger case with this bank have been taken. Net profit margin, ROI, ROA, ROE, Debt/Equity ratio, Current ratio, Acid test ratio and EPS has considered as most important and reliable ratio to check the financial performance of ICICI Bank.

Hypotheses

It is reviewed from various literatures that merger & acquisition have both positive as well negative impact on the financial performance of organisations. This study is conducted on ICICI Bank to evaluate the impact of two mergers on the financial performance of ICICI Bank. Therefore, following assumptions have been taken towards hypothesis of the study:

H0a: There is no significant difference in Profitability Standards between pre and post M&A.

H0b: There is no significant difference in Financial Leverage Standards between pre and post M&A.

H0c: There is no significant difference in Liquidity Standards between pre and post M&A.

H0d: There is no significant difference in Capital Market Standards between pre and post M&A.

Data and Sample of the Study

This paper analyse the impact of merger & acquisition on the financial performance of ICICI Bank, for analysis the impact two merger case (Sangli Bank in 2007 and Bank of Rajasthan in 2010) with ICICI Bank have been taken. Financial Performance is checked before merger of 4 years and after merger of 4 years. Financial data of ICICI Bank from 2003- 2015 have been collected from annual reports, journals and websites of bank.

Tools and Techniques

To analyse the financial information of the study, various tools like mean, standard deviation and t-test: paired two sample mean with a confidential level 95% has been set to test the significance difference between pre and post financial performance. The performance of ICICI Bank has been evaluated on the followings financial standards:

- Profitability Standards.
- Financial Leverage Standards.

- Liquidity Standards.
- Capital Market Standards

Merger of Sangli Bank with ICICI Bank on 19th April, 2007

The Reserve Bank of India was approved the amalgamation of Sangli Bank Limited with ICICI Bank Limited on April 19, 2007. Sangli Bank had deposits of Rs. 2,004 crore, advances of Rs. 888 crore, net NPA ratio of 2.3% and capital adequacy of 1.6%. In the year ended March 31, 2006, it incurred a loss of Rs. 29 crore. Sangli Bank has 198 branches and extension counters, including 158 branches in Maharashtra and 31 branches in Karnataka. As per the scheme, the share exchange ratio was fixed at 100 equity shares of the ICICI Bank for every 925 equity shares of Sangli Bank. ICICI is expected to issue 3.46 million equity shares of the face value of Rs 10 each against Sangli Bank's 31.96 million equity shares of the face value of Rs 10 each.

Table 1 conclude shows that Net Profit Margin, Ratio of Operating Profit to Total Assets, Acid Test Ratio and EPS has been increased after merge with Sangli Bank But ROE, Total Debt/Equity Ratio and Interest Expended/Interest Earned Ratio has significantly decrease after merger. Further the table shows that some of ratios, ROE and Debt/Equity ratio has decreased by more than 44% and 50% respectively and Acid Test Ratio has increased by 143% after merge with Sangli Bank. The average ratio of EPS before merger was Rs. 29.33, there has increase to Rs. 42.82 after merger.

- The analysis of table 1 present that, in Profitability Standards expect ROE and Ratio of Operating Profit to Total Assets all other ratios Net Profit Margin, ROA, ROI and Return on Advances the p-value is greater than 5 percent. Hence the null hypothesis *"There is no significant difference in Profitability Standards between pre and post M&A"* in respect of these ratios is accepted. It is concluded that there has been significant difference in the value of ROE and Ratio of Operating Profit to Total Assets after merge with Sangli Bank.
- In respect of Financial Leverage Standards and Capital Market Standards, null hypothesis is rejected; the p-value is less than 0.05. It is concluded that significant difference was found in these two standards after merger.
- In Liquidity Standards, there has been significantly difference in Acid Test Ratio and Interest Expended/Interest Earned Ratio after merger; p-value is 0.02 and 0.01.

Table 1: Financial Performance of ICICI Bank Pre & Post Merger with Sangli Bank.

	Before merger 4 years		After merger 4 years		t stat 5%	P(T<=t) one-tail
	Mean	Stdev	Mean	Stdev		
Profitability Standards						
Net Profit Margin	13.73	2.26	15.25	5.07	-0.47	0.34
Return on Assets	1.32	0.21	1.24	0.23	0.42	0.35
Return on Equity (Standalone)	16.62	3.55	9.15	1.61	2.95	0.03
Return on Investment	6.10	1.06	6.36	0.49	-0.66	0.28
Ratio of Operating Profit to Total Assets	1.97	0.08	2.40	0.15	-5.49	0.01
Return on Advances	9.33	0.87	9.11	0.79	2.05	0.07
Financial Leverage Standards						
Total Debt/Equity	8.37	0.88	4.17	0.21	10.60	0.00
Liquidity Standard						
Current Ratio	0.09	0.01	0.10	0.04	-0.63	0.29
Acid Test Ratio	5.46	1.10	13.30	4.98	-3.83	0.02
Interest Expended / Interest Earned	72.37	4.39	68.71	3.24	3.93	0.01
Capital Market Standards						
EPS (PAT/No. of Equity Share)	29.33	3.75	42.82	10.15	-4.05	0.01

Source: Compiled from Annual Reports of ICICI Bank RBI Annual Publications.

Merger of Bank of Rajasthan with ICICI Bank on 1oth May, 2010

Bank of Rajasthan was agreed to merger with ICICI Bank on 18th May, 2010, India second largest private sector lender. The Board of Directors of ICICI Bank and Bank of Rajasthan cleared their merger through an all- share deal, valued about 30.41 billion rupees. ICICI offered Bank of Rajasthan 188.42 rupee per share, in an all-share deal. The Big Deal, which gave ICICI a sizeable presence in the north-western desert state of Rajasthan, valued the small bank at about 2.9 times of its book value, compared with an Indian banking sector average of 1.84.

Table 2 explicit that all ratios expect ROI, Total Debt/ Equity Ratio Ratio and Interest Expended/Interest Earned Ratio has been increased after merge with Bank of Rajasthan. Net Profit Margin, ROA, ROE, Acid Test Ratio and EPS has increased by more than 50% after merger. But some ratios like ROI, Total Debt/ Equity Ratio and Current Ratio has decreased after merger.

- It is analysed that in Profitability Standards, null hypothesis is rejected in Net Profit Margin, ROA and Ratio of Operating Profit to Total Assets and concluded that there was a significant difference in these ratios after merger. Further table conclude that ROE, ROI and Return on Advances ratios of ICICI Bank has not changed after merge with Bank of Rajasthan, null hypothesis is accepted is these ratios.
- There was a no significant difference was found in Financial Leverage Standard and Capital Market Standard, p-value was more than 0.05 therefore null hypothesis is accepted.
- In Liquidity Standards, there was significant difference was found in Current Ratio and Interest Expended/Interest Earned Ratio, p-value was less than 0.05. But Acid Test Ratio was not changed after merger, null hypothesis was accepted with p-value 0.07.

Table 2: Financial Performance of ICICI Bank Pre & Post Merger with Bank of Rajasthan.

	Before merger 4 years		After merger 4 years		t stat 5%	P(T<=t) one-tail
	Mean	**Stdev**	**Mean**	**Stdev**		
Profitability Standards						
Net Profit Margin	10.81	1.01	21.25	1.56	-12.75	0.00
Return on Assets	1.08	0.07	1.71	0.15	-7.28	0.00
Return on Equity (Standalone)	10.13	2.69	13.03	1.35	-1.46	0.12
Return on Investment	6.85	0.75	6.62	0.03	0.59	0.30
Ratio of Operating Profit to Total Assets	2.26	0.28	2.69	0.30	-5.88	0.00
Return on Advances	9.72	0.87	9.86	0.30	-0.34	0.38
Financial Leverage Standards						
Total Debt/Equity	5.78	2.55	4.41	0.14	1.02	0.19
Liquidity Standard						
Current Ratio	0.12	0.02	0.07	0.01	3.40	0.02
Acid Test Ratio	8.28	4.29	13.09	2.79	-2.03	0.07
Interest Expended / Interest Earned	72.24	3.30	64.33	3.00	4.43	0.01
Capital Market Standards						
EPS (PAT/No. of Equity Share)	36.03	2.44	58.16	28.46	-1.54	0.11

Source: Compiled from Annual Reports of ICICI Bank and RBI Annual Publications.

Conclusion

On the basis of analytical study of sample merger cases, study concluded that both merger cases give different results regarding changes in financial performance. In Profitability Standards ICICI Bank perform better in Return on Advances and Ratio of Operating Profit to Total Assets after both merger cases. In Financial Leverage Standards, Total Debt/Equity Ratio was significantly changed in one case, and same response has found in Liquidity Standards. Overall it is conclude that, out of total performance ratios of ICICI Bank half of ratios have significantly changed after mergers in both sample cases. While other half of ratios have not significantly changed after merger, because null hypothesis is accepted in both cases.

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