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Effectiveness of merger on financial performance of ICICI bank ltd

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Abstract
Due to advent of globalisation, restructuring of business entities is common and complex process which enhances the synergy of the bidding and targeted entities. In India, government bodies have launched the several frameworks in order to restructure India's corporate sector by implementing mergers and acquisitions policies. The present study conducted on ICICI Banking companies during the period of 2003-2018 aims to examine the pre –post merger performance of the selected bank. The results revealed that there is significant difference of merger on Efficiency Ratio, Profit Margin and Return on Assets whereas on Cost of funds and Return on Equity there was no significance difference found.

Keywords: merger, acquisition, shareholders fund, profit margin, cost of funds

1. Introduction
"The word 'Merger and Acquisition' refers to the company, organizational or controlling elements of purchasing, selling or combining various companies that can sustain, finance and help a growing enterprise develop rapidly in a given industry without creating a separate organizational entity." Company may be extended to a new market or geographic area, increasing market share in a given industry. However, it should be noted that M&A is an important manner in which firms are growing and increasing in the current economy, as strong M&A may be a catalyst for successful performance.

Merger
A combination of two companies and one larger entity can be defined as a merger. Normally a mutual exchange and cash payment is expected for the target client. The volatility associated with the deal would be expressed by shares of the two entities through stock Markets. A merger usually leads to the foundation of a new brand business. Oxford Business Dictionary terms merger "the fusion of two or more businesses on an equal basis that will result in the formation of a new monitoring entity formed by merging businesses." The owners of the merged companies bear the costs and benefits of the enlarged company. The risk and advantages of the new company are shared between investors and no one who invests in the deal gets control of another."

Acquisition
Acquisitions or Takeovers are distinct from Mergers. In the case of an arrangement, a corporation must unilaterally give up its sovereignty and follow policy for the acquisition of businesses. The designated company stops from a legal point of view when the buyer 'takes the company up.' Acquisitions are part of a well thought-out business development strategy. These are the following characteristics;

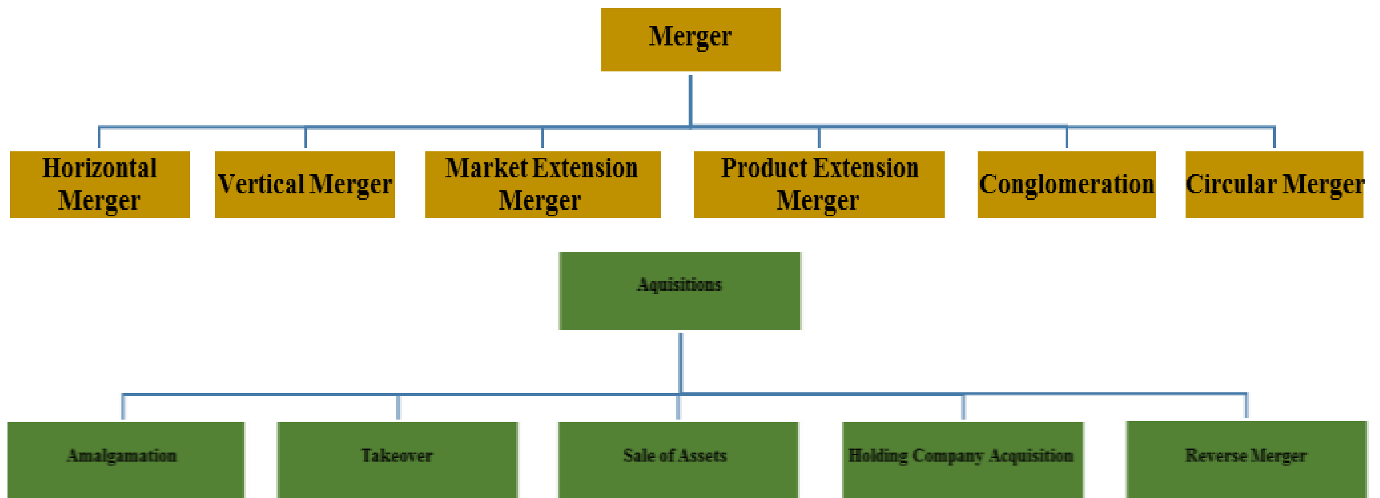
- A one-sided transaction with fewer complications will be the top management system.
- Payment provisions are easier.
- The time is usually less than a merger to be bought.

Here it must be mentioned that it is always a matter of whether a deal is a merger or an acquisition, whether or not it is agreeable, hostile or disclosed. Therefore, the real difference lies in the way that the investors, management and staff of the target company are communicated and obtained.

1.1 History of Merger and Acquisitions
Mergers and acquisition trends are typically defined which had linked to US companies' actions. The Mergers movements have been split into waves by different authors. Weston is the most prominent one, which described three principal periods of mergers in 1953 while studying American business conduct. Fusion waves are an extremely generic way of describing the strategy prevailing at the time. Different authors saw this in different ways based on their understanding. However, it would be misleading to assume that the same approach as is defined in the different organisations. Depending on the acquisition practices in the business world, the economic history has been divided into:

Table 1

Period	Phases	Facet
1889 – 1904	First Wave	Horizontal mergers
1916 – 1929	Second Wave	Vertical mergers
1965 – 1989	Third Wave	Diversified conglomerate mergers
1992 – 1998	Fourth Wave	Hostile takeovers; Corporate Raiding
2000 Onwards	Fifth Wave	Cross-border mergers



1.2 Merger of ICICI Bank with Bank of Rajasthan (August 2010)

- **Profile of ICICI Bank**

ICICI Bank is the largest private sector bank in India. The bank's total acquired assets were Rs 1250 trillion on 30 June 2019. Today ICICI Bank has 4.882 outlets in India and 15,101 ATMs in India. In the beginning ICICI Bank had been promoted and was a wholly held subsidiary of ICICI Limited, an Indian financial institution, in 1994.

- **Profile of Bank of Rajasthan**

It was founded in Udaipur in 1943 and had an originally Rs. 10 lacs. The President-founder, Late Shri Dwarka Prasad Gupta was Seth Shri Govind Ram Seksaria's first General Manager and Chief Industrialist. The Scheduled Bank was listed in 1948. The Bank set up a Mewar Anchlik Gramin Bank, situating itself in the Udaipur district, in Rajasthan, on 26 January 1983. Jaipur is home to the Bank's central office, but it is based in Udaipur. The bank now has 463 subsidiaries in 24 countries, 294 in Rajasthan.

1.3 Merger Details

- On the merger of 23 May 2010, the two banks' boards settled.
- A CGM Communications Department, Alpana Killawala, published a press release on 12 September 2010 stating that, with effect from 13 August 2010, every branch of the Bank of Rajasthan Ltd will act as ICICI banking divisions.
- At starting RBI initially blamed BOR's proponents for not reducing their investment holdings. The Rajasthan Bank was subsequently allowed by the Bank of India Reserve to merge with ICICI Bank Ltd, India's largest private sector bank.
- ICICI paid Rs.3000 Cores.
- All current BoR products will be subject to new features and charges. Customers are now trading on their BoR checkbooks, ATM cards, lockers, etc.
- All consumers received extensive streamlined services according to the current Rajasthan Bank procedures.
- The 118 BOR shares have each been converted into 25 ICICI Bank shares.
- This integration has brought BOR consumers to ICICI Bank's extended branch network with over 2,500 outlets, now extending to 1,400 locations around the country.

2. Literature Review

In accordance to Wallace, Dr William (2016) The combination of two or more companies into one new corporation can be defined as a merger or acquisition in a company's sense. Sudarsanam (1995) defines the acquisition as a "arm-length contract" where a business buys another corporation's stock and the business purchased is no longer held by the corporation. Merger and acquisition are frequently used interchangeably, but not in the same way. The principal difference between a merger and an acquisition is how the two companies are merged.

The primary motivation of M&A is to create operational synergies, while that emphasis is the leading reason for divestitures. Many companies consider that diversification is justified as a justification for acquisitions, especially to minimize losses through economic downturns..(Mukherjee, Kiymaz, & Baker, 2013) [14].

Effectiveness of merger and Acquisition can be measured by evaluating the Financial Statement of the companies involved in it. According to Metcalf, R. W. and P. L. Titard (1976) "To get clearer understanding of the status and results of the business, review of the financial statements is an assessment phase of the relationship between component sections of the financial statements."

Most of the previous analyses on mergers and acquisition use financial variables such as ROI, gross profit margin, ROI, business expansion, total asset ratio, ROI, net income as their analysis indicator for financial success calculation as their operating profit margin.(Jallow, Masazing, & Basit, 2017) [9]. (Tamragundi & Devarajappa, 2016) [22] The effect of merger in India – A study of selected commercial banks using the CAMEL model was explored in their report. It was inferred from a analysis that Merger is a valuable tactic, which helps the banks to extend its activities, service a greater base of clients, improve productivity, liquidity and performance. In another study carried out by (Kalaichelvan, 2011) [11]. There was significant improvement in the liquidity status as well as in the degree of competitiveness of both the public and the private sector banking results in the purchasing of private limited banks. Nonetheless, in the near term, the banks have raising their capacity to raise income in comparison to their expenditures in fixed assets. The CAMELS ranking of the combined banks indicated a higher result than that of the consolidated banks in the private sector. Where banks including SBI and HDFC took part in Merger for diversification or financial stability,

Overall Development integrated core criteria and increased efficiency ratios. (Athma & Bhavani, 2016) [2].

Another study evidencing the above statement was of (S. Singh, 2015) [18, 19] This showed that Merger situations had separate financial success transition outcomes. Half the trend has substantially improved in both sample cases after mergers from the overall ICICI output ratios. Though the other half of the ratios did not alter drastically after merger. (Nalwaya & Vyas, 2012) [15].

In their report, they indicated that the pace of growth grew more at a higher speed following merger, and thus led to shareholders' profitability. In terms of dividend distributions, a significant rise was reported. Since the merger of Bank of Rajasthan, a better balance sheet was observed.

3. Objective

1. To examine the significance of Merger on Selected Financial Indicators of ICICI Bank Ltd.
2. To compare Pre and Post-Merger Financial Performance of ICICI Bank Ltd.

4. Hypothesis

1. H_o: There is significant difference between Pre and Post-Merger on Cost of Funds.
2. H_o: There is significant difference between Pre and Post-Merger on Efficiency Ratio.
3. H_o: There is significant difference between Pre and Post-Merger on Profit Margin.
4. H_o: There is significant difference between Pre and Post-Merger on Return on Equity.
5. H_o: There is significant difference between Pre and Post-Merger on Return on Total Asset.

5. Research Methodology

The Descriptive Research to find out the significance of Merger on Financial performance of ICICI Bank Ltd considering 16 years starting from 2003 to 2018.

- Universe and Sample : Various Indicators of Financial Performance namely Return on Total Asset, Return on Equity, Profit Margin, Efficiency Ratio and Cost of Funds have being used to measure the impact of Merger on ICICI Bank Ltd after Merger with Bank of Rajasthan in 2010 for the period of 16 Year i.e. 2003-2018.
- Data Collection Method: Secondary data collection Method was used for this study. Data is longitudinal as for achieving the objective of the study it is collected over the years. All the data collected is obtained from RBI Database on Indian Economy
- Tools of Data Analysis and Interpretation: Descriptive Statistics Test for understanding the nature of Data. Afterwards Correlation to find out the positive/negative relationship between Pre and Post-merger performance. At the end paired *t test* to know whether there is significant difference between Pre and Post-merger on ICICI Bank or not.

6. Analysis and interpretation

6.1 Graphical analysis

Fig 1: According to the above graphical representation of Return on total assets it can be seen that there is significant increase for few years post-Merger year i.e. after 2010 but started declining later.

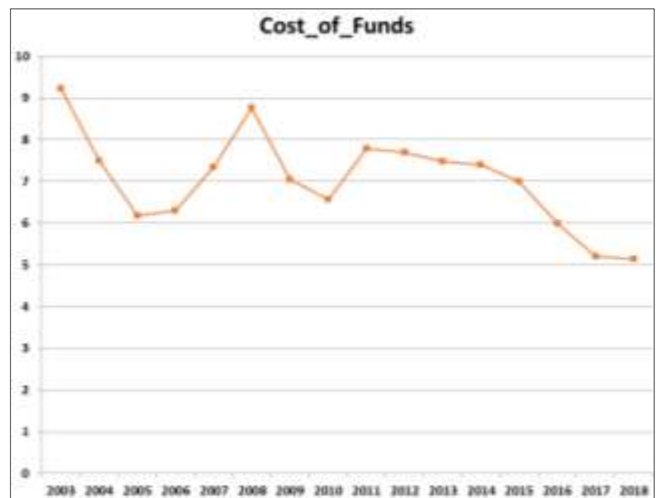


Fig 2: Decrease in cost of fund is clearly visible on the above graph after merger. Though there is not much difference.

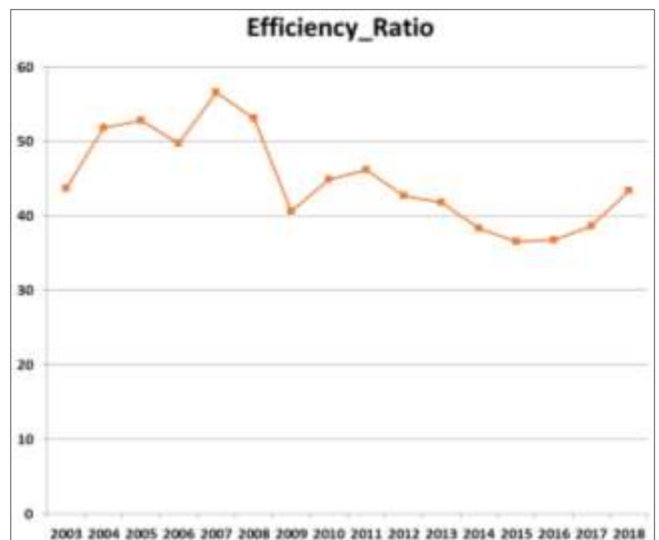


Fig 3: A lower Efficiency ratio post-merger can be seen on the graph which indicates that the bank has higher earnings as compared to spending.

Fig 4: According to the graphical representation of Return on Equity it can be established that post-merger instead of increasing it is decreasing.

Fig 5: Profit margin increased post-merger though started declining later.

6.2 Hypothesis Testing

- **6.2.1 Descriptive Statistics**

Table 1

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	Pre Cost of Fund	7.3650	8	1.11573	.39447
	Post Cost of Funds	6.7125	8	1.10272	.38987
Pair 2	Pre Efficiancy	49.1975	8	5.51369	1.94938
	Post Efficiency Ratio	40.5750	8	3.48732	1.23296
Pair 3	Pre Profit	11.7075	8	2.59515	.91752
	Post Profi Margin	15.6688	8	1.49530	.52867
Pair 4	Pre ROE	12.6250	8	5.40891	1.91234
	Post ROE	10.9912	8	1.50479	.53202
Pair 5	Pre ROA	1.1913	8	.21034	.07436
	Post ROA	1.6488	8	.23961	.08471

From above descriptive statistics of pre and post financial indicators it can be said that Profit margin and Return on Assets have been increased which shows there were decrease in Business cost and Revaluation of Inventories.

Decreased Cost

Of funds and Efficiency Ratio shows ICICI Bank become more profitable and increment in Income. However decreased Return on Equity can be seen.

- **6.2.2 Paired sample T-Test**

Table 2

Paired Samples Test										
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	99% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Pre Cost of Fund Post Cost of Fund	0.65250	1.45130	.51311	-1.14313	2.44813	1.272	7	.244
Pair 2	Pre Efficiency - Post Efficiency Ratio	8.62250	7.78306	2.75173	-1.00713	18.25213	3.133	7	.017
Pair 3	Pre Profit Post Profit Margin	-3.96125	2.94170	1.04005	-7.60088	-.32162	-3.809	7	.007
Pair 4	Pre ROE – Post ROE	1.63375	5.35305	1.89259	-4.98934	8.25684	.863	7	.417
Pair 5	Pre ROA – Post ROA	-.45750	.29717	.10506	-.82517	-.08983	-4.354	7	.003

Hypothesis 1: There is significant difference between Pre and Post-Merger on Cost of fund- Rejected

As the significant value 0.244 is more than 0.05(when p value is less than 0.05 than a hypothesis is accepted) it stands rejected which implies that there was no significant difference between Pre and Post-Merger on ICICI Banks cost of fund post-merger. Though slight changes where visible in graphical analysis.

Hypothesis 2: There is significant difference between Pre and Post-Merger on Efficiency Ratio – Accepted

P value is less than 0.05 i.e. 0.017 for post-merger impact of efficiency ratio. This hypothesis is accepted which implies that there is a significant difference between Pre and Post-merger on efficiency resulting in increased profits.

Hypothesis 3: There is significant difference between Pre and Post-merger on Profit Margin- Accepted

Since again the p value for the test of pre and post-Merger significant difference is 0.007 which is less than the Significant value of 0.05 which implies that this hypothesis is accepted due to decreased Efficiency ratio and cost of funds.

Hypothesis 4: There is significant difference between Pre and Post-Merger on Return on Equity – Rejected

Paired t test result shows p value of 0.417 which is higher than significant value of 0.05 and so this hypothesis stands rejected. This implies that there was no significant increase in Return on Equity.

Hypothesis 5: There is significant difference between Pre and Post-Merger on Return on Assets – Accepted

A significant change in Return on Assets is implied as p value for pre and post-merger result is 0.003 which is less than 0.05. Hence this hypothesis is accepted.

7. Findings and Suggestions

- On applying t test and with the help of graphical representation of Efficiency Ratio over the period of 16 years, the impact of Merger was found significant and we can see the significant improvement in Efficiency Ratio. (Reimink, n.d.) The bank efficiency ratio in the banking industry is a quick and simple indicator of the ability of a business to turn capital into revenue. The smaller the ratio, the higher (the average optimal ratio is usually called 50 percent). An rise in the efficiency ratio reveals that all expense rises and income declines. Importantly, distinctive market models may yield various ratios of bank productivity with comparable profits for banks. A focus on customer support, for example, can lower the success ratio of the business, but increase its net income. Banks that focus more on cost control will naturally have a higher efficiency ratio, but they may also have lower profit margins. Based on the study results and to further improve the efficiency ratio it is suggested to adopt methods like Business Realignment to exit from not profitable units to ones with low operating cost and higher profitability. Improving process cost, Channel optimization, improving staff productivity by automation by bring new technologies are some other methods which can improve the banks efficiency.
- This study revealed a significant difference between Pre and Post-Merger on Return on assets. ROA helps assess how effectively a company is managing its assets. Although ROA had increased over the years but it can be increased more. (Beers, n.d.)It is suggested to the bank to concentrate on boosting revenues and selling those assets which are not Performing well. Low ROA means a company is underutilizing its assets. This should also be given due consideration.
- A significant increase in Return on Equity was not found on applying the paired T-Test. (“Improving ROE,” 2015) Equity returns are an significant financial metric that indicates the net profits of corporations to their owners. Lower ROE suggests that a net profit of the business is not adequate to fulfil its shareholders' needs. The bank is encouraged to boost ROE by exploiting financial resources, i.e. more debt capital funded or improved profit margins. Other strategies, such as efficient asset selling or sharing unused currency, may also be enforced.
- Paired T- Test result shows that there was no significant difference between Pre and Post Merger on Cost of funds. (“Improving Cost of funds,” 2017)It is suggested to the bank to take serious measures to decrease the cost of funds. Measures such as Removing unproductive activities, centralizing the process which can reduce branch banking burden and improving performance management.
- A significant increase in profit margin was visible according to the paired T-Test results. Though graphical representation shows the increase but it can be further improved. It is advisable to the banks to reduce the liquidity risk in order to meet the short term demand/withdrawal of deposits in unprecedented circumstances like financial crisis. Bank should maintain enough cash reserves as they are short term highly liquid funds. Banks should focus more on innovative ways to meet the customer demands like in home services which would ultimately reduce the operation cost at branches. There are several other ways to maintain high profit margin like improvement in above stated Ratio in order to achieve long term advantages.

8. Limitations of the study

This study only considers the merger between ICICI Bank ltd and Bank of Rajasthan. Results may vary if all the mergers undertaken by ICICI are included in the study being a future scope. Apart from that only five financial indicators have been selected for the study. There are many other indicators also that can be tested. And this study does not considers other factors say Inflation Index, Market

conditions or any other factor which have the capacity to change the statistics of the results.

9. Conclusion

The banking industry is one of the prominent indicators of the health of an economy. Consolidation in the Banking sector is very important in terms of Mergers and Acquisitions for the growing Indian Banking Industry. This can be achieved through cost reduction and increasing revenue. The objective of this study was basically to analyse the position of ICICI Bank pre and post its Merger with Bank of Rajasthan in 2010. To conclude this study Banks may plan to adopt strategies like Mergers and Acquisition in order to expand their business but necessary analysis should be undertaken before taking such major strategies. To completely analyse the subsidiary bank is highly advisable because investing in Sick banks would ultimately increase the operational cost and decrease the profit margin. In result of this it will start losing its Customers due to lack of trust between the bank and them which will lead to sudden withdrawal of funds and the situation will further be progressively worse. Once the Bank has undertaken Merger process it should keep the mind the long term profitability by maintaining the liquidity, customer services, Innovative products and maximum satisfaction among the shareholders. If not followed banks may give short run profit but in long run it would be hard to survive.

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