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AN ANALYSIS OF FINANCIAL PERFORMANCE OF INDIAN BANKS BEFORE AND AFTER MERGERS AND ACQUISITIONS

Dr. Shubha B.N
Associate Professor, Dept. of Management Studies,BMS College of Engineering, Bangalore.
Yathiraju K
Asst. Professor, Dept. of Commerce and Management, Seshadripuram Academy of Business Studies, Bangalore.

Abstract
Mergers and Acquisitions are being increasingly used word as a strategy for achieving larger size and faster growth in market share and to achieve competitive advantage through economies of scale. The purpose of this paper is to explore various strategic motivations of Mergers and Acquisitions in the Indian banking sector. The paper compares pre and post-merger financial performance of merged banks with the help of certain financial parameters: Gross-Profit Margin, Net- Profit Margin, Return on Equity and Return on Capital Employed. The literature review helped to identify the various parameters to be considered to check the impact of Merger and Acquisitions. This study examines the changes occurring in the acquiring firms on the basis of financial ground and also the overall impact of Merger and acquisitions on acquiring banks. In this research we used independent t-test for testing the statistical significance and this test is applied not only for the ratio analysis but also to test the effect of Merger and Acquisitions on the performance of banks. For this exercise two banks were selected and data's were collected for three years prior to and three years after merger. The result of the study suggests that after the merger the efficiency and performance of banks have increased apart from better return on equity.

Keywords: Merger & Acquisitions, Banking, Financial parameters, Pre and Post Profitability.

Introduction

Merger is defined as combination of two or more companies into a single company where one survives and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Generally, the surviving company is the buyer, which retains its identity, and the extinguished company is the seller. Mergers and acquisitions in banking sector have become familiar in the majority of all the countries in the world. A large number of international and domestic banks all over the world are engaged in merger and acquisition activities. One of the principal objectives behind the mergers and acquisitions in the banking sector is to reap the benefits of economies of scale. With the help of mergers and acquisitions in the banking sector, the banks can achieve significant growth in their operations and minimize their expenses to a considerable extent. Another important advantage behind this kind of merger is that in this process, competition is reduced because merger eliminates competitors from the banking industry.

Mergers and acquisitions in banking sector are forms of horizontal merger because the merging entities are involved in the same kind of business or commercial activities. Sometimes, non-banking financial institutions are also merged with other banks if they provide similar type of services. Through mergers and acquisitions in the banking sector, the banks look for strategic benefits in the banking sector. They also try to enhance their customer base. In the context of mergers and acquisitions in the banking sector, it can be reckoned that size does matter and growth in size can be achieved through mergers and acquisitions quite easily.

Growth achieved by taking assistance of the mergers and acquisitions in the banking sector may be described as inorganic growth. Both government banks and private sector banks are adopting policies for mergers and acquisitions. In many countries, global or multinational banks are extending their operations through mergers and acquisitions with the regional banks in those countries. These mergers and acquisitions are named as cross-border mergers and acquisitions in the banking sector or international mergers and acquisitions in the banking sector. By doing this, global banking corporations are able to place themselves into a dominant position in the banking sector, achieve economies of scale, as well as garner market share.

Mergers and acquisitions in the banking sector have the capacity to ensure efficiency, profitability and synergy. They also help to form and grow shareholder value. In some cases, financially distressed banks are also subject to takeovers or mergers in the banking sector and this kind of merger may result in monopoly and job cuts. Deregulation in the financial market, market liberalization, economic reforms, and a number of other factors have played an important function behind the growth of mergers and acquisitions in the banking sector.

The Banking system of India was started in 1770 and the first Bank was the Indian Bank known as the Bank of Hindustan. Later on some more banks like the Bank of Bombay-1840, the Bank ofMadras-1843 and the Bank of Calcutta-1840 were established under the charter of British East India Company. These Banks were merged in 1921 and took the form of a new bank known as the Imperial Bank of India. For the development of banking facilities in the rural areas the Imperial Bank of India partially nationalized on 1 July 1955, and named as the State Bank of India along with its 8 associate banks (at present 7). Later on, the State Bank of Bikaner and the State Bank of Jaipur merged and formed the State Bank of Bikaner and Jaipur.

The Indian banking sector can be divided into two eras, the pre liberalization era and the post liberalization era. In pre liberalization era government of India nationalized 14 Banks on 19 July1969 and later on 6 more commercial Banks were nationalized on 15 April 1980. In the year 1993government merged The New Bank of India and The Punjab National Bank and this was the only merger between nationalized Banks, after that the numbers of nationalized Banks reduced from20 to 19. In post liberalization regime, government had initiated the policy of liberalization and licenses were issued to the private banks which lead to the growth of Indian Banking sector.

The Indian Banking Industry shows a sign of improvement in performance and efficiency after the global crisis in 2008-09. The Indian Banking Industry is having far better position than it was at the time of crisis. Government has taken various initiatives to strengthen the financial system. The economic recovery gained strength on the back of a variety of monetary policy initiatives taken by the Reserve Bank of India. Recently, on 13th August 2010, the process of M&A’s in the Indian banking sector passes through the Bank of Rajasthan and the ICICI Bank. Moreover, the HDFC Bank acquired the Centurion Bank of Punjab on 23 May 2008. The Reserve Bank of India sanctions the scheme of mergers of the ICICI Bank and the Bank of Rajasthan. After the merger the ICICI Bank replaced many banks to occupy the second position after the State Bank of India (SBI) in terms of assets in the Indian Banking Sector. In the last ten years, the ICICI Bank, the HDFC bank in the private sector, the Bank of Baroda (BOB) and the Oriental Bank of Commerce (OBC) in the public sector involved themselves as a bidder Banks in the M&A’s in the Indian Banking Sector. Table 1 gives a detailed account of all Merger and Acquisitions took place in the Indian banking sector.

Table 1: List of Merger and Acquisitions in Indian Banking Industry.

Sl No.	Name of the Transferor Bank	Name of the Transferee Bank	Date of Merger/Amalgamation
1.	Bank of Bihar Ltd.	State Bank of India	November 8, 1969
2.	National Bank of Lahore Ltd.	State Bank of India	February 20, 1970
3.	Miraj State Bank Ltd.	Union Bank of India	July 29, 1985
4.	Lakshmi Commercial Bank Ltd.	Canara Bank	August 24, 1985
5.	Bank of Cochin Ltd.	State Bank of India	5 August 26, 1985
6.	Hindustan Commercial Bank Ltd.	Punjab National Bank	December 19, 1986
7.	Traders Bank Ltd.	Bank of Baroda	May 13, 1988
8.	United Industrial Bank Ltd.	Allahabad Bank	October 31, 1989
9.	Bank of Tamilnadu Ltd.	Indian Overseas Bank	February 20, 1990
10.	Bank of Thanjavur Ltd.	Indian Bank	February 20, 1990
11.	Parur Central Bank Ltd.	Bank of India	February 20, 1990
12.	Purbanchal Bank Ltd.	Central Bank of India	August 29, 1990
13.	New Bank of India	Punjab National Bank	September 4, 1993

14.	Bank of Karad Ltd	Bank of India	1993-1994
15.	Kashi Nath Seth Bank Ltd.	State Bank of India	January 1, 1996
16.	Bari Doab Bank Ltd	Oriental Bank of Commerce	April 8, 1997
17.	Punjab Co-operative Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
18.	Bareilly Corporation Bank Ltd	Bank of Baroda	June 3, 1999
19.	Sikkim Bank Ltd	Union Bank of India	December 22, 1999
20.	Times Bank Ltd.	HDFC Bank Ltd	February 26, 2000
21.	Bank of Madura Ltd.	ICICI Bank Ltd.	March 10, 2001
22.	ICICI Ltd	ICICI Bank Ltd	May 3, 2002
23.	Benares State Bank Ltd	Bank of Baroda	June 20, 2002
24.	Nedungadi Bank Ltd.	Punjab National Bank	February 1, 2003
25.	South Gujarat Local Area Bank Ltd.	Bank of Baroda	June 25, 2004
26.	Global Trust Bank Ltd.	Oriental Bank of Commerce	August 14, 2004
27.	IDBI Bank Ltd.	IDBI Ltd	April 2, 2005
28.	Bank of Punjab Ltd.	Centurion Bank Ltd	October 1, 2005
29.	Ganesh Bank of Kurundwad Ltd	Federal Bank Ltd	September 2, 2006
30.	United Western Bank Ltd.	IDBI Ltd.	October 3, 2006
31.	Bharat Overseas Bank Ltd.	Indian Overseas Bank	March 31, 2007
32.	Sangli Bank Ltd.	ICICI Bank Ltd.	April 19, 2007
33.	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	August 29, 2007
34.	Centurion Bank of Punjab Ltd.	HDFC Bank Ltd.	May 23, 2008
35.	The Bank of Rajasthan	ICICI Bank Ltd	August 13, 2010

Source: *Report on Trend and Progress, RBI, Various Issues, VIII competition and consolidation**,** 04 Sep 2011.*

Review of Literature

For this study past researches in M&A's were reviewed and it comes to know that most of the work done high lightened the impact of M&As on different aspects of the companies. A firm can achieve growth both internally and externally. Internal growth may be achieved by expanding its operation or by establishing new units, and external growth may be in the form of M&A's, Takeover, Joint venture, Amalgamation etc. Many studies have investigated the various reasons for M&A's to take place, Just to look the effects of Merger and Acquisitions on Indian financial services sector. Followings were some of the literatures which are reviewed under the light of M&A's in Indian banks.

Dr. Konstantin's Agorastos et al (2012) applied examined the effects of M&A's of acquiring firms in Greece among different industries using accounting data (financial ratios). The main objective of this paper is to evaluate the post merger performance of Greek listed firms in the Athens Stock Exchange. The results revealed for the examined banking firms that there is after their M&A's in general, a worsening at the post-merger performance.

Goyal K.A. & Joshi Vijay (2011) gave an over view on Indian banking industry and highlighted the changes occurred in the banking sector after post liberalization and defined the Merger and Acquisitions as per AS-14. The need of Merger and Acquisition in India has been examined under this study. It also gave the idea of changes that occurred after M&A's in the banking sector in terms of financial, human resource & legal aspects. It also described the benefits come out through M&A's and examined that M&A's is a strategic tools for expanding their horizon and companies like the ICICI Bank has used merger as their expansion strategy in rural market to improve customers base and market share. This study lightened the role of media in M&As.

SinhaPankaj& Gupta Sushant (2011) studied a pre and post analysis of firms and concluded that it had positive effect as their profitability, in most of the cases deteriorated liquidity. This study showed the comparison of pre and post analysis of the firms. It also indicated the positive effects on the basis of some financial parameter like

Earnings before Interest and Tax (EBIT), Return on share holder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency etc.

Kuriakose Sony &Gireesh Kumar G. S (2010) in their paper, they assessed the strategic and financial similarities of merged Banks, and relevant financial variables of respective Banks were considered to assess their relatedness. The result of the study found that only private sector banks are in favor of the voluntary merger wave in the Indian Banking Sector and public sector Bank are reluctant toward their type of restructuring.

Aharon David Y et al., (2010), analyzed the stock market bubble effect on Merger and Acquisitions and followed by the reduction of pre bubble and subsequent, the bursting of bubble seems to have led to further consciousness by the investors and provide evidence which suggests that during the euphoric bubble period investor take more risk. Merger of banks through consolidation is the significant force of change took place in the Indian Banking sector.

Okpanachi Joshua (2010) evaluated the Mergers and acquisitions in the Nigerian banking sector. This study used gross earnings, profit after tax and net assets of the selected banks as indices to determine financial efficiency by comparing the pre-mergers and acquisitions' indices with the post mergers and acquisitions indices for the period. It was found that the post mergers and acquisitions' period was more financially efficient than the pre-mergers and acquisitions period. However, to increase banks financial efficiency, the study recommend that banks should be more aggressive in their profit drive for improved financial position to reap the benefit of post mergers and acquisitions bid.

Bhaskar A Uday et al., (2009) in their study it was found that banking sector witness of Merger activities in India when banks facing the problem of loosing old customer and failed to attract the new customers. It described that the acquiring firms mainly focuses on the economies of scale, efficiency gain and address the need of communication and employee concern, and described the integration process was handled by professional and joint integration committee.

AnandManoj& Singh Jagandeep (2008) studied the impact of merger announcements of five banks in the Indian Banking Sector on the shareholder wealth. And it is concluded by them that the announcement of merger of those banks had positive and significant impact on shareholder's wealth.

MantravadiPramod& Reddy A Vidyadhar (2007) evaluated that the impact of merger on the operating performance of acquiring firms in different industries by using pre and post financial ratio to examine the effect of merger on firms. Result of this study suggested that there were little variation in terms of impact as operating performance after mergers. In different industries in India particularly banking and finance industry had a slightly positive impact of profitability.

Mehta Jay &Kakani Ram Kumar (2006) stated that there were multiple reasons for Merger and Acquisitions in the Indian Banking Sector and states many reason for merger in the Indian Banking sector. While a fragmented Indian banking structure may be very well beneficial to the customer because of competition in banks, but at the same time not to the level of global Banking Industry, and concluded that merger and Acquisition is an imperative for the state to create few large Banks.

Research Gap

It has been observed from the above review of literature that researches previously conducted with an intention to know the trends, policies & human aspects involved in M&A's but only few studies are conducted in the area of profitability and financial analysis in M&A's particularly in banking industry that too with respect to pre and post mergers and acquisitions. Therefore we in our opinion felt a necessity to conduct further investigation in this area by selecting two mergers and acquisitions in private and public banks.

Objectives of the Study

1. To Study the performance of Mergers on profitability on acquiring banks.
2. To analyze the financial performance of banks before and after merger in terms of return on capital employed, return on equity.
3. To Study the effects of merger and acquisitions on equity shareholder's wealth.

Limitations of the Study

1. This study ignores the impact of possible differences in the accounting methods adopted by different banks.
2. The cost of acquisition for M&A's was not considered in the methodology.
3. The factors which driven the M&A's in banks were not considered.

Research Methodology

Hypotheses

To test the above objectives and also to validate and previous works in the field of banking M&A's following two Hypothesis were formed.

1. To test the financial performance in terms of Gross Profit and Net Profitability of Banks.

H_0:*(Null Hypothesis) There is no significant difference between the pre and post-merger Gross Profit Margin and Net Profit Margin.*

H_1: *(Alternative Hypothesis) There is a significant difference between the pre and post-merger Gross Profit Margin and Net Profit Margin.*

2. To test the significant difference between pre and post mergers Return on equity and return on capital employed.

H_0:*(Null Hypothesis) There is no significant difference between the pre and post-merger Return on Equity and Return on Capital Employed.*

H_1:*(Alternative Hypothesis) There is a significant difference between the pre and post-merger Return on Equity and Return on Capital Employed.*

Sample for the Study

For this study, two cases of M&A's were randomly selected considering one from private and another from public sector undertakings.

Selected banks for the study

Following two banks with different dates were selected randomly from Table 1 for the study, one from the Public sector and another from private sector.

SL. No	Bidder Bank	Target Bank	Date of Announcement
Case 1	Bank of Baroda	Benares State Bank Ltd	June 20, 2002
Case 2	ICICI Bank Ltd	The Bank of Rajasthan	August 13, 2010

Data Collection

Mergers and Acquisition data is collected from RBI's data source on report and trends. The financial and accounting data of banks is collected from banks Annual Report and to examine the impact of M&A's on the performance of sample banks financial data has been collected from Bombay Stock Exchange, National Stock Exchange, Securities and Exchange Board of India& money control.com for this study.

Methodology Adopted

To test the hypothesis, pre and post performances of banks after Merger and Acquisitions has been compared, by using different financial parameters such as Gross profit ratio (*Gross Profit/Sales × 100)*, Net profit ratio (*Net Profit/Sales × 100),* Return on capital employed (*Net Profit/Total Assets × 100)* and Return on equity (*Net Profit/Equity Share Holder's Funds × 100)*. Such ratios are taken for the 3yeras prior to merger and 3 years after the mergers for comparison. The observation of each case in the sample is considered as an independent variable.

Before merger two different banks carried out operating business activities in the market and after the merger the bidder bank carrying business of both the banks. Keeping in view the purpose & objectives of the study independent t- test is being employed under this study. The year of merger was considered as a base year and denoted as 0 and it is excluded from the evaluation. For the premerger (3 years before) the combined ratios of both banks are considered and for the post-merger (after 3 years) the ratios of acquiring bank were used. The Student's t- distribution is

$$t = \frac{\bar{x}_1 - \bar{x}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

Where in., $\bar{x}_1 = \frac{\sum x_1}{n_1} \bar{x}_2 = \frac{\sum x_2}{n_2}$

$$S = \sqrt{\frac{\sum(x_1 - A_1)^2 + \sum(x_2 - A_2)^2 - n_1(\bar{x}_1 - A_1)^2 - n_2(\bar{x}_2 - A_2)^2}{(n_1 + n_2 - 2)}}$$

Where $\bar{x}_1$ is the mean of combined pre merger ratios of both of the banks $\bar{x}_2$ is the mean of acquiring bank post merger n_1 and n_2 are the number of observations of 1st and 2nd series respectively .
S is the combined Standard Deviation.
$(n_1 + n_2 - 2)$ Degree of freedom
Where A^1 and A^2 are the assumed means of 1st and 2nd series.

Analysis and Interpretations

In order to analyze the financial performance of selected banks before and after M&A's. The financial and accounting ratio like Gross profit margin, Net profit margin, Return on capital employed, and Return on equity ratios have been calculated. Followings are list of tables which depicts such information.

Table 2:- Financial Performance of Benares State Bank Ltd and Bank of Baroda for the last three financial years ending before the merger announcement.

	Benares State Bank Ltd (Target Bank)			**Bank of Baroda (Bidder Bank)**		
	As on 31 Mar'1999	As on 31 Mar'2000	As on 31 Mar'2001	As on 31 Mar'1999	As on 31 Mar'2000	As on 31 Mar'2001
Gross Profit Margin	66.4568	69.1573	82.4564	85.9241	76.4310	77.4112
Net profit Margin	7.1821	6.2814	9.1432	8.9781	5.1221	7.7945
Return on Equity	28.32	29.14	33.81	35.42	27.72	28.15
Return on Capital Employed	0.9214	1.0014	1.1387	1.2453	0.6452	0.7912

Source: *Compiled ratios from* financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/

Table 3:- Financial Performance of Bank of Baroda(Bidder Bank) for the next three financial years ending AFTER the merger announcement.

	Bank of Baroda (Bidder Bank)		
	As on 31 Mar'2003	As on 31 Mar'2004	As on 31 Mar'2005
Gross Profit Margin	58.1574	67.8435	71.8241
Net profit Margin	11.4245	13.8366	14.6017
Return on Equity	32.04	34.2	33.35
Return on Capital Employed	0.8172	1.0182	1.2134

Source: *Compiled ratios from financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/*

Table 4:- Combined Financial Performance of Benares State Bank Ltd and Bank of Baroda for the last three financial years ending before the merger announcement.

Benares State Bank Ltd and Bank of Baroda			
	As on 31 Mar'1999	As on 31 Mar'2000	As on 31 Mar'2001
Gross Profit Margin	76.19045	72.79415	79.9338
Net profit Margin	8.0801	5.70175	8.46885
Return on Equity	31.87	28.43	30.98
Return on Capital Employed	1.08335	0.8233	0.96495

Source: *Compiled ratios from financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/*

Table 5:- Financial Performance of The Bank of Rajasthan and ICICI Bank Ltd for the last three financial years ending before the merger announcement.

	Bank of Rajasthan (Target Bank)			ICICI Bank Ltd(Bidder Bank)		
	As on 31 Mar'2007	As on 31 Mar'2008	As on 31 Mar'2009	As on 31 Mar'2007	As on 31 Mar'2008	As on 31 Mar'2009
Gross Profit Margin	62.7610	63.8015	55.4681	84.1671	79.1843	78.1844
Net profit Margin	10.0018	12.1844	8.2224	9.2848	7.4294	9.7432
Return on Equity	32.14	33.87	28.72	34.18	31.28	30.42
Return on Capital Employed	1.281	1.324	0.894	5.521	5.341	7.58

Source: *Compiled ratios from* financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/

Table 6:- Financial Performance of ICICI Bank Ltd(Bidder Bank) for the next three financial years ending AFTER the merger announcement.

	ICICI Bank Ltd(Bidder Bank)		
	As on 31 Mar'2011	As on 31 Mar'2012	As on 31 Mar'2013
Gross Profit Margin	76.16037	75.1635	72.53872
Net profit Margin	15.79	15.75	17.19
Return on Equity	1.34	1.44	1.62
Return on Capital Employed	9.35	10.70	12.48

Source: *Compiled ratios from financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/*

Table 7:- Combined Financial Performance of Bank of Rajasthan and ICICI Bank Ltd for the last three financial years ending BEFORE the merger announcement.

Bank of Rajasthan and ICICI Bank Ltd			
	As on 31 Mar'2007	As on 31 Mar'2008	As on 31 Mar'2009
Gross Profit Margin	73.46405	71.4929	66.8262
Net profit Margin	9.6433	9.8069	8.9828
Return on Equity	33.16	32.575	29.57
Return on Capital Employed	3.401	3.3325	4.237

Source: *Compiled ratios from financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/*

Table 8:- Mean and Standard Deviation of Pre-merger and Post-merger Ratios of combined Banks (Benares State Bank Ltd and Bank of Baroda) and Acquiring Bank (Bank of Baroda).

		Mean	Std. Deviation	t-value	Sig.
Gross Profit Margin	Pre	76.3061	1.2352	1.027	0.245
	Post	65.9416	1.7632		
Net profit Margin	Pre	7.4169	1.0253	-6.421	0.042
	Post	13.2876	1.3324		
Return on Equity	Pre	30.4266	1.9836	2.432	0.008
	Post	33.1966	0.0354		
Return on Capital Employed	Pre	0.9572	0.2534	1.241	0.004
	Post	1.016267	0.0243		

Source: *Compiled calculations based on tables 3&4, 5% level of significance*

Table 9:- Mean and Standard Deviation of Pre-merger and Post-merger Ratios of combined (Bank of Rajasthan and ICICI Bank Ltd) and Acquiring Bank (ICICI Bank Ltd)

		Mean	Std. Deviation	t-value	Sig.
Gross Profit Margin	Pre	70.59438	1.7832	-3.117	0.686
	Post	74.6208	1.9007		
Net profit Margin	Pre	9.4776	1.1126	-0.482	0.174
	Post	16.2433	1.0007		
Return on Equity	Pre	31.7683	0.0527	-2.167	0.007
	Post	32.4666	0.0983		
Return on Capital Employed	Pre	3.6568	1.1359	-6.782	0.024
	Post	10.8433	1.5622		

Source: *Compiled calculations based on tables 6&7, 5% level of significance*

Findings and Discussions

By using four important ratios to analyse the financial performance of the banks before and after mergers, it is found that In first case, the merger of the Benares State Bank Ltd with the Bank of Baroda is shown and then the financial performance between the Pre & Post merger has been compared on the basis of key ratios. It is found that there is no difference in the mean of gross profit margin (76.3061 percent Vs. 65.9416 percent) and t-value 1.027. It is seen that the mean value of gross profit margin has decline so it is considered that it does not effect by merger, so it is not shows significance, however the net profit margin statistically confirmed highly significance with mean value (7.4169 percent Vs. 13.2876 percent) and t- value -6.421. The mean of net profit margin increased after the merger so the performance of the bank has improved in post-merger, the mean value of return on equity of bank has been increased after merger and indicated that bank give more return on equity after merger to the equity share holders and the mean value of return on equity (30.4266 percent Vs. 33.1966 percent) and t-value 2.432 and shows significance, result also shows that the mean difference on return on capital employed (0.9572 percent Vs. 1.01626 percent) and t-value 1.241 which is conformed significant statically, this shows there turn on capital employed has increase after the merger and bank has shown positive impact of merger on investment. Through analyzing this financial parameter we can conclude that bank performance has improved after merger.

In second case, the merger of the Bank of Rajastan with ICICI Bank, the comparison between pre and post-merger performance we seen that the mean value of gross profit margin(70.59438 percent Vs. 74.6208 percent) has increased with t-value -3.117 which shows significance improvement in the gross profit margin after merger and also an increase in net profit margin after merger and result shows that there is a significance with mean (9.4776 percent Vs. 16.2433 percent)and t-value -0.482 and the mean of return on equity shows improvement, and statically conformed significant to mean value (31.7683 percent Vs. 32.4666 percent) and t-value -2.167 and mean value of equity in post-merger has been increased so it increased the shareholder return so it also shows the improved performance of bank after merger. Mean return on capital employed (3.6568 percent Vs 10.8433 percent) and t-value -6.782 which is also significant statically and shows change has been seen in term of investment after the merger. So we conclude that all the ratios indicate the positive effect and increased the performance of banks after the merger and creation of wealth to the shareholders.

Results and Discussions

Case 1: Banaras Bank Vs. Bank of Baroda

1. The result suggest that the performance of the Bank of Baroda after Merger with Banaras Bank has been improved in terms of Gross Profit Margin and Net Profit Margin with t-value 1.027 and -6.421 which leads to the conclusion that the difference is statistically significant therefore, the **Alternative Hypothesis H_1 is accepted.**
2. The bank performance is improved after merger in relation to the Return on Equity and Return on Capital Employed as well with t- value 2.432 and 1.241 which leads to the conclusion that the difference is statistically significant therefore the **Alternative Hypothesis H1 is accepted**.

Case 2: Bank of Rajastan Vs. ICICI Bank Ltd

1. The case of Bank of Rajastan and the ICICI Bank, the Mean of Gross Profit as well as Net Profit Margin both shows an increased trend and after the merger with t-value -3.117 and -0.482 which is statistically significant therefore **Alternative Hypothesis H1 is accepted.**
2. The bank performance is drastically improved after merger in relation to the Return on Equity and Return on Capital Employed as well with t- value -2.167 and -6.782 which leads to the conclusion that the difference is statistically significant therefore the **Alternative Hypothesis H1 is accepted**.

From the above analysis it is clear that after the merger we can see that in various financial parameter of the bank performance have improved in both cases and the success of merger is dependent upon synergy gains created after the merger and overall performance of bank, the financial performance of both the Banks i.e., Bank of Baroda and ICICI banks have been improved after the merger and was affected positively, the reaction comes out in terms of Gross Profit, Net Profit Margin , Return on Equity and Return on Capital Employed. Finally the Indian Banking Sector has used Merger and Acquisitions as a tool to expand and global recognition. Sick bank survived after merger, enhanced branch network, rural reach, increase market share and improve infrastructure all achieved through Merger and Acquisitions.

Conclusion

The study highlights that the impact of M&As in the Indian banking sector with the help of two cases for the study as sample and examined that merger led to a profitable situation or not. For this a comparison between pre and post-merger performance in terms of gross profit margin, net profit margin, return on equity, and return on capital employed. The combined performance of both bank prior to three years of merger and the performance of acquiring bank after three years of merger have compared. And for the purpose of the study we applied independent t-test for analyse the pre and post-merger performance of the banks. And results suggest that after the merger the efficiency and performance of banks have increased. In both the cases it is seen that mergers have increased the profitability and return to the equity share holders, and it is justified.

Future Research

Because of time constraint and lack of data we restricted our study for only two samples and for three years before and after mergers, we suggest the future researchers in this area could study the impact of merger on acquiring of indian banks with more samples and concerning longer period before and after the mergers so that the results will give more realistic values.

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