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FINANCIAL PERFORMANCE ANALYSIS OF POST-MERGER AND ACQUISITION (A CASE STUDY OF ICICI BANK)

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Abstract
Mergers and acquisition are important corporate strategy actions that aid the firm in external growth and provide it competitive advantage. In todays globalized economy, mergers and acquisition 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 market and geographic, and capitalizing on economies of scale etc. The corporate sector all over the world is restructuring its operations through mergers and acquisitions in an unprecedented manner in order to successfully overcome the challenges posed by turbulence caused in the world relating to business cycles.

This study has focused on the financial performance of Merger and Acquisition of ICICI Bank.The main objectives of the study are to evaluate financial performance of post- acquisition of ICICI bank from Bank of Rajasthan using Investment Ratios,Management Efficiency Ratios, Debt Coverage Ratios, Leverage Ratios,Profitability Ratiosand Profit And Loss Account Ratios and to provide findings based on analysis. In view of the objectives of the study, exploratory research design has been adopted. The study is based on secondary data covering ten years annual data of pre-merger and post-merger period.Data have been collected from official websites of moneycontrol.com, and various other reports like magazines, journals, published books are also referred to for the present study.The statistical tools applied for data analysis is descriptive and inferential statistics. Based on the objectives, the hypotheses formed for analysis have been tested on the financial performance of M&A of ICICI bank by considering pre and post M&A financial ratios.

To sum up, post-merger profitability has increased not from effective utilisation of assets and loans but reduction of operating expenses and increase in non-interest income. Primary business of accepting deposits and lending of the sameis indispensiblefor survival and sustenance of the banks. Hence, it is focussing its business from aggressive policy to conservative policy of lending.

Introduction
Mergers and acquisition are important corporate strategy actions that aid the firm in external growth and provide it competitive advantage. In todays globalized economy, mergers and acquisition 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 market and geographic, and capitalizing on economies of scale etc. The corporate sector all over the world is restructuring its operations through mergers and acquisitions in an unprecedented manner in order to successfully overcome the challenges posed by turbulence caused in the world relating to business cycles.

Financial performance metrics provide a relative basis for comparing a company with itself over time or with a company verses competitors within its industry financial performance metrics and are useful in assessing company performance throughout the world. It has often been said that financial statement are the language of business. The value of this approach is that quantitative relations can be used to diagnose strengths and weakness in a firm’s performance.

Financial performance analysis must also include consideration of strategic and economic developments for the firm’s long-run success. Financial mangers as well as general senior managers are demanding evaluative standards by which they can rapidly measure the firm’s performance and chart an appropriate course. These metrics should immediately provide actionable feedback to improve the operations of the firm. Management’s intense interest in financial performance metrics has dramatically risen as more and more annual long-term incentives compensation is tied to attaining acceptable levels of performance as measured by financial performance metrics.

Objectives of the Study
The main objectives of the study are:
1. To evaluate financial performance of post-acquisition of ICICI bank from Bank of Rajasthan using Investment Ratios,Management Efficiency Ratios, Debt Coverage Ratios, Leverage Ratios,Profitability RatiosandProfit And Loss Account Ratios and

2. To provide findings based on analysis.

Research Design: In view of the objectives of the study, exploratory research design has been adopted. Exploratory research is one, which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of the existing and available information and it makes use of secondary data.

Research Methodology

The study is based on secondary data covering ten years annual data of pre-merger and post-merger period.Pre-merger period of five years from 2005-06 to 2009-10 and post-merger period of five years from 2010-11 to 2014-15 have been collected from official websites of moneycontrol.com, nseindia.com, bseindia.com. and various other reports like magazines, journals, published books are also referred to for the present study.

Tools of analysis

The data collected for the study is analysed logically and meaningfully to arrive at meaningful conclusions. The statistical tools applied for data analysis is descriptive and inferential statistics. Based on the objectives, the hypotheses formed for analysis have been tested on the financial performance of M&A by considering pre and post M&A financial ratios.

Research Hypothesis

1. H1: There is no significant improvement in profitability standards between pre-merger and post-merger period of ICICI bank
2. H2: there is no significant increase in management efficiency standards between pre-merger and post-merger period of ICICI bank
3. H3: there is no significant difference in Debt Coverage Ratiosbetween pre-merger and post-merger period of ICICI bank
4. H4: There is same in leverage ratios between pre-merger and post-merger period of ICICI bank
5. H5: There is no difference in profit and Loss Ratios between pre-merger and post-merger period of ICICI bank
6. H6:There is no significant improvement in investment standards between pre-merger and post-merger period of ICICI bank

Scope of the Study

The study has focused on acquisition of Bank of Rajasthan in Indian context with special reference to ICICI Bank in particular to analyse post-merger and acquisition financial performance based on case study methodology.

Results / Findings

1. Investment Ratio

Parameters	Mean		Standard Deviation		Mean Difference	t-value	p-value (two tailed)
	Pre	Post	Pre	Post			
Operating Profit per Share (Rs.)	**45.72**	**46.15**	**6.10**	**19.02**	**0.43**	**-0.066**	**0.95**
Net Operating Profit Per Share (Rs.)	**301.07**	**333.97**	**62.91**	**77.70**	**32.90**	**-1.224**	**0.29**
Earnings per Share	34.07	70.87	3.39	20.94	36.79	-4.362	0.01
Book value per share	369.10	581.6	101.20	81.54	212.51	-12.78	0.00

Source:moneycontrol.com database

- Operating Profit and net Operating profit per share has increased from pre-merger to post-merger gradually. This has resulted into increase in operating efficiency of business. Profit available to contributors of capital per share has brought cheerfulness from their investment.
- Earnings per share to equity shareholder have doubled their money from pre-merger to post-merger. This is consequent to the fruits form the event of merger.
- Book value per share has maximised their wealth recording the growth of 57.57% over the study period of event.

- On examination of paired sample t-test at 95% confidence level,Null hypothesis of Earnings per Share and Book value per share are denied since they are significantly different and reveals reliable differences between pre-merger and post-merger.

2. Management Efficiency Ratios

Parameters	Mean		Standard Deviation		Mean Difference	t-value	p-value (two tailed)
	Pre	Post	Pre	Post			
Interest Income/ Total Funds	9.43	7.60	0.9	0.3	-4.5	6.371	0.0
Net Interest Income / Total Funds	4.0	2.7	0.2	0.3	-1.3	10.780	0.0
Non-Interest Income / Total Funds	0.1	1.8	0.1	0.1	1.7	-26.09	0.0
Interest Expended / Total Funds	5.4	4.9	0.7	0.3	-0.5	2.097	0.1
Operating Expense / Total Funds	2.6	1.7	0.2	0.1	-0.9	10.782	0.0
Profit Before Provisions / Total Funds	1.4	2.7	0.1	0.4	1.3	-8.048	0.0
Net Profit / Total Funds	1.1	1.6	0.1	0.2	0.5	-4.502	0.0
Loans Turnover	0.2	0.1	0.0	0.0	0.0	6.667	0.0
Total Income / Capital Employed (%)	**9.5**	**9.4**	**0.8**	**0.5**	**-0.1**	**0.449**	**0.7**
Interest Expended / Capital Employed (%)	5.4	4.9	0.7	0.3	-0.5	2.097	0.1
Total Assets Turnover Ratios	0.1	0.1	0.0	0.0	0.0	4.810	0.0
Asset Turnover Ratio	0.1	0.1	0.0	0.0	0.0	7.483	0.0

Source: moneycontrol.com database

- Interest Income to Total Funds and Net Interest Income to Total Funds have dropped from 9.43 and 5.00 to 7.6 and 2.7 respectively from pre-merger period to post-merger. This may be due to faulty sanctioning of loans,failure in recovery of loans and non-arresting of Non-performing Assets etc.
- Non-interest Income to Total Funds has increased from 0.1 to 1.8 times. This may be because of availability of multi-services, quick and easy accessibility of services, and cheaper affordability of services.
- Interest Expended to Total Funds and Operating Expense to Total Funds have reduced marginally. This speaks about acceleration of cost-cutting and cost control mechanism.
- In consequent to increase of Net profit to total funds Profit before Provisions to Total Funds from 1.1 and 1.4 to 1.6 and 2.7 folds respectively depicts increase in efficiency of management respectively.
- Total Income to Capital Employed is more or less breakeven during the study period.
- Interest Expended to Capital Employed has slightly decreased indicating mobilization of deposits at cheaper rate.
- Loans Turnover, Total Assets Turnover and Asset Turnover Ratio almost remain same for pre and post-merger period. It denotes ineffective utilization of them.
- Paired sample t-test at 5% significance level has found that all parameters/variables/ measures of management efficiency are significant except Interest Expended to Total Funds Total Income to Capital Employed and Interest Expended to Capital Employed.

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3.Debt Coverage Ratios

Parameters	Mean		Standard Deviation		Mean Difference	t-value	p-value (two tailed)
	Pre	Post	Pre	Post			
Credit Deposit Ratio	87.578	98.568	3.23	5.23	10.99	-4.873	0.008
Investment Deposit Ratio	45.91	57.91	4.68	3.70	12.00	**-3.258**	0.03
Cash Deposit Ratio	8.748	8.104	2.217	1.962	0.644	0.349	0.744
Total Debt to Owners Fund	6.11	4.35	2.33	0.18	-1.76	**1.585**	0.19
Financial Charges Coverage Ratio	**0.89**	**0.57**	**0.56**	**0.08**	**-0.32**	**1.151**	**0.31**

Source: moneycontrol.com database

- Credit Deposit Ratio has risen by 9.12% from pre-merger to post-merger period. This reveals that it is more aggressive than conservative for making profits. Hence there is a loss of NPAs
- Investment Deposit Ratio has also lifted up registering growth of 25% to get rid of idle funds.
- Cash Deposit Ratio is hardly 8% to maintain liquidity and meet out emergency requirements. It has been brought down moderately by 7.36% for effective utilization of funds.
- Total Debt to Owners Fund has been declined incorporating decline of 28.8% from 6.11 times of pre-merger to 4.35 times of post-merger period. This discloses reduction of financial risk to avoid from the loss of NPAs and shifting from the aggressive policy to conservative policy.
- Financial Charges Coverage Ratio is reducing drastically from 0.89 to 0.57. This has increased the risk of payment of debt obligation.
- On testing of paired sample t-test at 5% significance level, there are significant difference with respect to Credit Deposit Ratio and Investment Deposit Ratio and insignificance about Cash Deposit Ratio, Total Debt to Owners Fund and Financial Charges Coverage Ratio.

4. Leverage Ratios

Parameters	Mean		Standard Deviation		Mean Difference	t-value	p-value (two tailed)
	Pre	Post	Pre	Post			
Current Ratio	0.1	0.1	0.0	0.0	0.0	2.8	0.1
Quick Ratio	7.9	13.6	3.8	2.7	5.7	2.8	0.0

Source: moneycontrol.com database.

- Current Ratio remains intact during the study period.
- Quick Ratio has improved its liquidity position from 7.9 to 13.6 times and by growth of 72.15%. This clearly indicates that there is no problem of short- term insolvency.
- Quick ratio rejects null hypothesis of indifference at 5% level of significance.

5.Profitability Ratios

Parameters	Mean		Standard Deviation		Mean Difference	t-value	p-value (two tailed)
	Pre	Post	Pre	Post			
Interest Spread	3.79	7.32	1.12	0.35	3.54	2.78	0.00
Net Profit Margin	11.49	20.97	1.74	1.50	9.47	2.78	0.00
Return on Long Term Fund (%)	60.50	53.14	13.85	5.96	-7.36	2.78	0.36
Return on Net Worth (%)	10.36	11.96	3.16	1.90	1.60	2.78	0.52

Source: moneycontrol.com database

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- Net profit margin has considerably increased by 9.48% from 11.49% in pre-merger period to 20.97% in post-merger period. This is as a result of decrease in operating cost, increase in non-interest income and income from investment of conservative policy.
- Return on Long Term Fund has moderately reduced, for pursuing policy of conservatism.
- Increased in Return on Net Worth slightly contributing towards shareholders wealth.
- Interest spread has almost double increased.
- Based on the results of the paired sample t-test at 5% significance level, null hypotheses of no significant improvement on Return on Long Term Fund and Return on Net Worth has been accepted. It reveals statistically reliable difference between pre-merger and post-merger of Net Profit margin and Interest Spread.

6. Profit And Loss Account Ratios

Parameters	Mean		Standard Deviation		Mean Difference	t-value	p-value (two tailed)
	Pre	Post	Pre	Post			
Interest Expended/Interest Earned	71.71	64.52	3.09	2.63	-7.19	2.78	0.01
Other Income / Total Income	1.12	18.97	0.89	1.25	17.85	2.78	0.00
Operating Expense / Total Income	27.20	17.90	1.61	0.38	-9.30	2.78	0.00

Source: moneycontrol.com database

- There is greater reduction of Interest Expended to Interest earned by about 7.19%. This is for reduction in operating cost and increase in non-interest income.
- Other Income to Total Income has substantially increased from 1.12 in pre-merger period to 18.97 in post-merger period. This shows a diversification of investment.
- Operating Expense to Total Income has also reduced sharply recording decline of 34.19% during the study period.
- Paired sample t-test at 95% confidence level has disclosed that there are significant differences among measures of profit and loss ratios. Hence, alternative hypotheses have been accepted.

Conclusions

To sum up, profitability has increased not from effective utilisation of assets and loans but reduction of operating expenses and increase in non-interest income. Primary business of accepting deposits and lending of the sameis indispensible for survival and sustenance of the banks Hence, it is focussing its business from aggressive policy to conservative policy of lending. It is not a good sign of growing.