International Journal of Banking, Risk and Insurance
10 (1) 2022, 29-45
http://publishingindia.com/ijbri/

Submitted: 22 November, 2021
Accepted: 06 December, 2021

Mergers and Acquisitions in the Indian Banking Sector

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Abstract

This study aims to understand mergers and acquisitions activities in the Indian banking industry in the post-liberalisation period. The Indian banking industry witnessed a massive transformation in the post-liberalisation period, and triggered by economic development, the industry has emerged as one of the biggest drivers of economic growth. The industry has further undergone significant developments, with recognition of the importance of private and foreign players in the Indian market. In the light of the changing environment and ever-increasing competition, different strategies are adopted in the banking industry today. One such prominent strategy is mergers and acquisitions, which act as an important process for growth and expansion. This study analyses the impact of the mergers and acquisitions activities on the performance and profitability of banks. For the purpose of the study, five case studies of mergers/acquisitions in the post-liberalisation period have been analysed. The analysis includes comparision of financial statements, conducting ratio analysis using five-year pre- and post-merger data, and also examination of the effect of merger announcements on the share prices.

Keywords: Mergers and Acquisitions, Indian Banking Industry, Performance, Profitability

Introduction

The financial sector in India acts as the nervous system for the nation's economy and its economic development. It consists of many sub-systems, like banks, financial institutions, financial services, and so on. The Indian banking industry has its foundations in the 18th century, and has had a bumpy evolutionary growth path since then. The Indian banking sector has emerged as one of the strongest drivers of India's economic growth. India's economic development and financial sector liberalisation have led to a transformation of the Indian banking sector over the past two decades. The sector has undergone significant developments and investments, with recognition of the importance of private and foreign players in the Indian market. In the present competitive state, private sector banks are targeting the faster growing retail loans, whereas public sector banks are targeting to push for higher recoveries and upgrades in non-performing loans.

Mergers and acquisitions in the Indian banking industry caught momentum with the reforms process initiated by the Government of India since 1991, which influenced the functioning and governance of Indian enterprises and institutions, resulting in the adoption of different growth and expansion strategies. Indian institutions started refocusing along the lines of core competence, market share, global competitiveness, and consolidation. This process of refocusing was further hastened by the arrival of foreign competitors.

In the light of the changing environment and ever-increasing competition, different strategies are adopted in the banking sector today. One such prominent strategy is mergers and acquisitions. In the globalised economy, mergers and acquisitions act as an important process for the growth and expansion of companies. Table 1 presents the post-liberalisation mergers and acquisitions in the Indian banking industry.

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Table 1: Post-Liberalisation M&As in the Indian Banking Industry

Date	*Target Bank*	*Acquirer Bank*	*Merger Type*
04/09/93	New Bank of India	Punjab National Bank	Forced Merger
20/07/94	Bank of Karad Ltd.	Bank of India	Forced Merger
01/01/96	Kashi Nath Seth Bank Ltd.	State Bank of India	Forced Merger
08/04/97	Bari Doab Bank Ltd.	Oriental Bank of Commerce	Forced Merger
08/04/97	Punjab Co-operative Bank Ltd.	Oriental Bank of Commerce	Forced Merger
03/06/99	Bareilly Corporation Bank Ltd.	Bank of Baroda	Forced Merger
22/12/99	Sikkim Bank Ltd.	Union Bank of India	Forced Merger
26/02/00	Times Bank Ltd.	HDFC Bank Ltd.	Voluntary Merger
10/03/01	Bank of Madura Ltd.	ICICI Bank Ltd.	Voluntary Merger
03/05/02	ICICI Ltd.	ICICI Bank Ltd.	Voluntary Merger
20/06/02	Benares State Bank Ltd.	Bank of Baroda	Forced Merger
01/02/03	Nedungadi Bank Ltd.	Punjab National Bank	Forced Merger
25/06/04	South Gujarat Local Area Bank Ltd.	Bank of Baroda	Forced Merger
14/08/04	Global Trust Bank Ltd.	Oriental Bank of Commerce	Forced Merger
02/04/05	IDBI Bank Ltd.	IDBI Ltd.	Voluntary Merger
01/10/05	Bank of Punjab Ltd.	Centurion Bank Ltd.	Voluntary Merger
02/09/06	Ganesh Bank of Kurandwad Ltd.	Federal Bank Ltd.	Forced Merger
03/10/06	United Western Bank Ltd.	IDBI Ltd.	Forced Merger
31/03/07	Bharat Overseas Bank Ltd.	Indian Overseas Bank	Forced Merger
19/04/07	Sangli Bank Ltd.	ICICI Bank Ltd.	Voluntary Merger
29/08/07	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	Voluntary Merger
23/05/08	Centurion Bank of Punjab Ltd.	HDFC Bank Ltd.	Voluntary Merger
13/08/10	The Bank of Rajasthan	ICICI Bank Ltd.	Voluntary Merger

Source: Report on Trend and Progress, Various Issues, RBI publication.

Literature Review

There is a vast literature addressing mergers and acquisitions in general, and bank mergers and acquisitions in particular. The following is a review of selected research articles providing insight into various aspects of mergers and acquisitions activities in the Indian banking industry and its impact on the entities involved.

Hughes (1993) summarised evidence from a number of empirical studies to show that conglomerate mergers perform better than horizontal mergers. Poor corporate performance in post-merger period has been attributed to numerous reasons like manager's desire for position and influence, low productivity, reduced commitment, voluntary turnover, and related hidden costs. Kuriakose et al. (2009) focused on the valuation practices and adequacy of swap ratio fixed in voluntary amalgamation in the Indian banking sector, and used swap ratio for valuation of banks; however, in most cases, the final swap ratio was found to be unjustified to their financials. Mantravadi and Reddy (2007) evaluated the impact of mergers on the operating performance of acquiring firms in different industries, using pre- and post-merger financial ratios to examine the effect of mergers on firms. They selected all mergers involved in public limited and traded companies in India between 1991 and 2003. Their results suggested that some of the industries had a significant decline, both in terms of profitability and return on investment and assets after merger. Srivassan et al. (2009) discussed the financial implications and problems occurring in mergers and acquisitions. They discussed the case for consolidation and synergy-based merger, which emphasised that a merger is for enlarging the size of the firm, but with no guarantee of maximising profitability on a sustained basis, and there is always the risk of worse performance after the merger. Mehta and Kakani (2006) discussed the multiple reasons for mergers and acquisitions in the Indian banking industry. While a fragmented Indian banking structure may very well be beneficial to the customer because of competition between banks, it prevented Indian banks from competing at the global level. They concluded that mergers and acquisitions are imperative for the Government of India to create a few large banks. Kuriakose and Kumar (2010) assessed the strategic and financial similarities of merged banks, and relevant financial variables of respective banks were considered to assess their relatedness. Their results suggested that only private sector banks were in favour of the voluntary merger wave in the Indian banking industry, and public sector banks were reluctant to undergo this type of restructuring. Varghese and Thaha (2017) studied the effect of a merger of Kotak Mahindra Bank with ING Vyasa from April 1, 2015, and found that the merger had a significant impact in the performance of Kotak Mahindra Bank, in terms of improved asset diversification, enhanced product delivery systems, and reduction in operating and funding costs. Mall and Gupta (2019) used event study methodology to examine the impact of merger events on stock returns of acquiring firms, and found that merger deals do not bring any abnormal changes in stock returns pre- and post-event date. Gandhi et al. (2020) analysed the post-merger financial performance of private and public sector banks, and found no statistically significant improvement in the financial performance of the banks, post-merger, and no significant difference of post-merger financial performance of private sector banks and public sector banks.

The available literature is found to be based on motives behind mergers, suitability of merged entities, valuation of swap ratios, financial implications, trends, and so on. The cultural issues, share price fluctuations pre- and post-merger announcement, overall profitability, and financial analysis have not been given due importance. This study aims to cover some of the above parameters by comparing financial statements, conducting ratio analysis of banks pre- and post-merger, and by studying the impact of merger announcement on share prices.

Methodology

The objectives of the study were to examine the impact of mergers and acquisitions on profitability of banks pre- and post-merger, and on shareholders. The study adopts a case study approach. Five major mergers and acquisitions in the Indian banking sector have been chosen for the purpose of the study. They are as follows:

- Centurion Bank of Punjab with HDFC Bank Ltd. (2008): The biggest bank merger in Indian history, a voluntary merger.
- Bank of Madura with ICICI Bank Ltd. (2001): A voluntary merger.
- Nedungadi Bank with Punjab National Bank (2003): A forced merger – restructuring of a weak bank.
- Global Trust Bank with Oriental Bank of Commerce (2004): A forced merger – restructuring of a weak bank.
- IDBI Bank Ltd. with IDBI (2004): Merger of a financial institution with a bank.

The data for the study was collected entirely from secondary sources, including online sources, journals, and bank websites. The details of the mergers were collected from the National Stock Exchange (NSE) website.[1] The financial and accounting data of banks was collected from banks' annual reports, to examine the impact of merger on financial profitability of the banks.[2] The study uses financial ratio analysis of five-year pre-merger and post-merger data for comparison of the banks. The year of merger was considered as the base year, and was excluded from the evaluation. The ratios used for profitability comparisons were:

- Net Profit Margin = Net Profit / Total Income
- Return on Net Worth = Net Profit / (Equity Capital + Preference Capital + Reserves)
- Return on Assets = Net Profit / Total Assets
- Return on Equity = Net Profit / Equity Capital
- Return on Capital Employed = EBIT / (Total Net Worth + Total Debt Employed)

[1] the NSE website: www.nseindia.com.

[2] the bank websites include: www.hdfcbank.com; www.icicibank.com; www.pnbindia.in; www.obcindia.co.in; and www.idbi.com.

CASE 1: Merger of Centurion Bank of Punjab Ltd. and HDFC Bank Ltd.

Introduction

- *Centurion Bank of Punjab:* Centurion Bank (later Centurion Bank of Punjab) was incorporated on 30 June 1994. It was a joint venture between 20th Century Finance Corporation and its associates, and Keppel Group of Singapore through Kephinance Investment (Mauritius). In 1995, Centurion Bank amalgamated with 20th Century Finance Corporation. On June 29, 2005, the Boards of Directors of Centurion Bank and Bank of Punjab agreed to a merger of the two banks. The combined bank took as its name Centurion Bank of Punjab.

  Centurion Bank of Punjab was an Indian private sector bank that provided retail and corporate banking services. Its shares were listed on the major Indian stock exchanges and on the Luxembourg Stock Exchange. It served individual consumers, small and medium businesses, and large corporations with a full range of financial products and services for investing, lending, advice on financial planning, wealth management products, foreign exchange services, personal loans, mortgages, agricultural loans, and also NRI banking products to overseas Indians.
- HDFC Bank Ltd.: HDFC Bank Limited is an Indian financial services company based in Mumbai, Maharashtra. It was incorporated in 1994. Promoted by Housing Development Finance Corporation (HDFC), India's leading housing finance company, it is one of India's premier banks, providing a wide range of financial products and services. It was among the first companies to receive an approval from the RBI to set up a bank in the private sector. It started operations as a scheduled commercial bank in January 1995 under the RBI's liberalisation policies. Within a relatively short span of time, the bank has emerged as a leading player in retail banking, wholesale banking, and treasury operations, its three principal business segments.

Objectives

- *To Merge with a Bank that was a Right fit in Terms of Strategic Intent and Approach to Business*: Centurion Bank of Punjab had a fully computerised environment with ATM facility at every branch and computer networking between branches, and was among the first to adopt the concept of 'anywhere banking', which enabled customers to operate the account from any other branch of the bank.
- *To Increase Geographical Reach and Acquire a Pool of Skilled Manpower:* Centurion Bank of Punjab operated on a strong nationwide franchise of 403 branches and had over 5,000 employees.
- *To Gain Access to Rural Areas:* HDFC Bank had a weak rural presence, but Centurion Bank of Punjab had gained access to rural areas by acquiring Lord Krishna Bank. Thus, HDFC Bank strengthened its rural presence.
- To create a world-class bank in quality and scale, and enable it to compete with banks both locally as well as on a global level.

Details of the Merger

- *Effective Date:* The merger became effective on May 23, 2008, as per the order of the RBI dated May 20, 2008.
- *Share Swap Ratio:* The shareholders of the erstwhile Centurion Bank of Punjab were allotted 6,98,83,956 equity shares of Rs. 10 each, pursuant to the share swap ratio of one equity share of Rs. 10 each of HDFC Bank Ltd. for every 29 equity shares of Re. 1 each held in Centurion Bank of Punjab Ltd. by them as on June 16, 2008. The share exchange ratio approved by the respective boards was based on the recommendations made by M/s Dalal & Shah, Chartered Accountants, and Ernst & Young Private Ltd., who acted as independent joint valuers to the transaction.
- *Accounting Treatment:* All the assets and liabilities recorded in the books of Centurion Bank of Punjab were transferred to HDFC Bank and were recorded by HDFC Bank at their respective book values as appearing in the books of Centurion Bank of Punjab. The balance in the 'Statutory Reserve Account' of Centurion Bank of Punjab shall continue to be designated as Statutory Reserve Account in the books of HDFC Bank. The merger has been accounted for as per the pooling of interest meth-

od of accounting in accordance with the scheme of amalgamation. Adjustments have been made to the amalgamation reserve to harmonise accounting policies of Centurion Bank of Punjab with that of HDFC Bank principally relating to provisioning norms on impaired loans and depreciation policies on fixed assets. Merger related expenses have also been adjusted against the amalgamation reserve.

- *Treatment of Employees:* All the employees of Centurion Bank of Punjab in service on the Effective Date – including the Managing Director – became the employees of HDFC Bank on this date without any break or interruption in service. The employees of Centurion Bank of Punjab, on becoming employees of HDFC Bank, were given the same standing as the continuing employees of HDFC Bank. To facilitate efficient and equitable integration of the existing employees of HDFC Bank and Centurion Bank of Punjab employees, a HR Integration Committee was constituted by the Board of HDFC Bank, including representation from the senior management of Centurion Bank of Punjab and HDFC Bank.

Comparison of Financial Statements

As the merger took effect in 2008, the comparison of financial statements was made for the year 2007.

Table 2: Balance Sheets of Centurion Bank of Punjab and HDFC Bank

	Centurion Bank of Punjab	*HDFC Bank Ltd.*
Equity Capital	156.69	319.39
Reserves and Surplus	1239.41	6113.76
Deposits	14863.72	68297.94
Borrowings	930.89	2815.39
Other Liabilities and Provisions	1292.07	13689.13
Total Liabilities	18482.78	91235.61
Cash and Balances with RBI	1079.14	5182.48
Balance with Banks and Call Money	410.19	3971.40
Investments	4614.96	30564.80
Advances	11221.35	46944.78
Fixed Assets	337.31	966.67
Other Assets	819.83	3605.48
Total Assets	18482.78	91235.61

Source: Annual reports of the banks.
(all values are in Rs. crores).

Table 3: Income Statements of Centurion Bank of Punjab and HDFC Bank

	Centurion Bank of Punjab	*HDFC Bank Ltd.*
Interest Income	1268.53	6889.02
Other Income	440.66	1510.24
Total Income	1709.19	8399.26
Interest Expense	698.95	3179.45
Operating Expense	746.06	2590.66
Provision and Contingencies	142.80	1246.61
Total Expenses	1587.81	7016.72
Profit After Tax	121.38	1382.54

Source: Annual reports of the banks.
(all values are in Rs. crores).

Comparison of the balance sheets of Centurion Bank of Punjab and HDFC Bank Ltd. shows that HDFC Bank had a larger capital base at Rs. 319.39cr, in comparison to that of Centurion Bank of Punjab, which stood at Rs. 156.69cr. Furthermore, HDFC Bank had more assets (fixed and other) at Rs. 966.67cr and Rs. 3605.48cr, respectively, in comparision to Centurion Bank of Punjab (fixed assets at Rs. 337.31cr and other assets at Rs. 819.83cr). HDFC Bank also had more advances at Rs. 46994.78cr (Centurion Bank of Punjab at Rs. 11221.35cr) and had mobilised a higher amount of deposits at Rs. 68297.94cr (Centurion Bank of Punjab at Rs. 14863.72cr). Comparison of the income statements of Centurion Bank of Punjab and HDFC Bank Ltd. shows that HDFC Bank's interest income at Rs. 6889.02cr and total income at Rs. 8399.26cr were higher than that of Centurion Bank of Punjab at Rs. 1268.53cr and Rs. 1709.19cr, respectively. Profit after tax of HDFC Bank (Rs. 1382.54cr) was higher than that of Centurion Bank of Punjab (Rs. 121.38cr).

Profitability Analysis

- The base year is taken as 2008, the year of the merger.

Table 4: Pre- and Post-Merger Profitability Ratios of HDFC Bank Ltd.

	Pre-Merger						*Post-Merger*					
	2003	*2004*	*2005*	*2006*	*2007*	*Average*	*2009*	*2010*	*2011*	*2012*	*2013*	*Average*
NPM	15.53	16.81	17.77	15.55	13.57	15.85	11.35	14.76	16.18	15.88	16.04	14.84
RONW	20.84	24.38	23.67	22.73	23.57	23.04	15.32	13.70	15.47	17.26	18.57	16.06
ROA	79.59	94.52	145.86	169.24	201.42	138.13	344.44	470.19	545.46	127.52	152.20	327.96
ROE	155.31	211.64	275.47	356.37	432.87	286.33	527.75	644.19	843.97	1100.93	1413.44	906.05
ROCE	9.20	8.33	7.99	8.96	10.21	8.94	12.50	9.85	9.71	10.57	11.36	10.80

Source: Calculated from annual reports of the bank.
(all values are in percentages).

It can be observed that there has been tremendous increase in the Return on Assets ratio (from 138.13% to 327.96%) and in the Return on Equity ratio (from 286.33% to 906.05%) of HDFC Bank Ltd. post its merger with Centurion Bank of Punjab. Thus, the merger improved the profitability of the bank.

Share Price Fluctuations

- Date of merger announcement was February 25, 2008, and the merger became effective on May 23, 2008.
- Share price fluctuations pre-announcement and post-merger are displayed in Table 5.

Table 5: Closing Prices of Shares Pre-Announcement and Post-Merger

Pre-Announcement				*Post-Merger*			
	Centurion Bank of Punjab	*HDFC Bank Ltd.*	*Nifty*		*Centurion Bank of Punjab*	*HDFC Bank Ltd.*	*Nifty*
Jan 25, 2008	58.60	321.69	5383.35	Feb 29, 2008	49.15	291.35	5223.50
Feb 01, 2008	54.30	314.20	5317.25	Mar 07, 2008	41.65	256.45	4771.60
Feb 08, 2008	51.90	288.39	5120.35	Mar 14, 2008	42.50	263.09	4745.80
Feb 15, 2008	50.20	312.45	5302.90	Mar 21, 2008	40.45	254.52	4573.95
Feb 22, 2008	56.35	294.86	5110.75	Mar 28, 2008	45.95	281.40	4942.00

Source: www.nseindia.com

It can be observed that the share prices of Centurion Bank of Punjab declined from 58.6 to 45.95 due to fear in the minds of the shareholders about their stake in the bank, and the market reflects the same. Share prices of HDFC Bank Ltd. also declined in the period. However, as Nifty also declined considerably in the period, these could be a result of a downward trend in the market as a whole.

CASE 2: Merger of Bank of Madura and ICICI Bank Ltd.

Introduction

- *Bank of Madura:* Bank of Madura was a private sector bank established in 1943 by Karumuttu Thiagarajan Chettiar. It acquired Chettinad Mercantile Bank and Illanji Bank in the 1960s. Bank of Madura was a Chettiar bank with a large customer base of two million plus customers, and a network of more than 280 branches and more than 40 ATM centres spread across about 100 cities in India. It offered a comprehensive range of financial services, including foreign exchange, merchant banking, and investment management services. It also had strategic alliances with Tata Consultancy Services, Western Union, and ANZ Grindlays Bank for providing better services to its customers.
- *ICICI Bank Ltd.:* ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, as its wholly-owned subsidiary. It is now an Indian multinational banking and financial services company headquartered in Mumbai. It offers a wide range of banking products and financial services to corporate and retail customers, through a

variety of delivery channels and through its specialised subsidiaries in the areas of investment banking, life and non-life insurance, venture capital, and asset management. Its equity shares are listed in India on the Bombay Stock Exchange and the National Stock Exchange of India Limited, and its American Depositary Receipts (ADRs) are listed on the New York Stock Exchange (NYSE).

Objectives

- *To acquire trained manpower, attain immediate asset creation, and to gain presence in South India:* As of March 2000, Bank of Madura had a staff strength of 2,623 in its rank (with 955 officers, 1,340 clerks, and 328 subordinate staff), while that of ICICI was 1,134. This was due to the fact that ICICI had technological support when it started the bank, an advantage not available to Bank of Madura. ICICI Bank thus saved huge training costs by acquiring skilled manpower. The bank also had a weak presence in the south, and thus Bank of Madura helped achieved this objective.
- To create a world-class bank in quality and scale, and set the stage to compete with banks both locally as well as on a global level.
- To improve the franchise and customer proposition offered by the individual banks.

Details of the Merger

- *Effective Date:* The bank merged with ICICI Bank Limited, under Section 44A of the Banking Regulation Act, 1949. The RBI approved the merger effective on March 10, 2001.
- *Swap Ratio:* The swap ratio for the merger of Bank of Madura with ICICI Bank was pegged at 1:2, i.e. two shares of ICICI Bank for every one share of Bank of Madura.
- *Accounting Treatment:* All the assets and liabilities recorded in the books of Bank of Madura were transferred to ICICI Bank and were recorded by ICICI Bank at their respective book values as appearing in the books of the Bank of Madura.
- *Treatment of Employees:* All the employees of Bank of Madura in service on the effective date have become the employees of ICICI Bank on such date without any break or interruption in service. The employees of Bank of Madura, on becoming employees of ICICI Bank, were given the same standing as the continuing employees of ICICI Bank.

Comparison of Financial Statements

As the merger took effect in 2001, the comparison of financial statements was made for the year 2000.

Table 6: Balance Sheets of Bank of Madura and ICICI Bank

	Bank of Madura	*ICICI Bank Ltd.*
Equity Capital	11.77	196.82
Reserves and Surplus	203.94	952.69
Deposits	3631.04	9866.02
Borrowings	183.56	491.47
Other Liabilities and Provisions	381.25	565.63
Total Liabilities	4443.69	12072.63
Cash and Balances with RBI	456.11	721.89
Balance with Banks and Call Money	307.21	2693.27
Investments	1712.89	4416.68
Advances	1665.42	3657.34
Fixed Assets	178.70	227.30
Other Assets	123.35	356.14
Total Assets	4443.69	12072.63

Source: Annual reports of the banks.
(all values are in Rs. crores).

Table 7: Income Statements of Bank of Madura and ICICI Bank

	Bank of Madura	*ICICI Bank Ltd.*
Interest Income	370.21	852.87
Other Income	98.72	194.05
Total Income	468.93	1046.92
Interest Expense	266.09	666.95
Operating Expense	131.33	153.30
Provision and Contingencies	25.93	121.37
Total Expenses	423.35	941.62
Profit After Tax	45.58	105.30

Source: Annual reports of the banks.
(all values are in Rs. crores).

Comparison of the balance sheets of Bank of Madura and ICICI Bank Ltd. shows that ICICI Bank had a larger capital base at Rs. 196.82cr, in comparison to that of Bank of Madura, which stood at Rs. 11.77cr. Furthermore, ICICI Bank had more assets (fixed and other) at Rs. 227.30cr and Rs. 356.14cr, respectively, in comparison to Bank of Madura (fixed assets at Rs. 178.70cr and other assets at Rs. 123.35cr). ICICI Bank also had more advances at Rs. 3657.34cr (Bank of Madura at Rs. 1665.42cr) and had mobilised a higher amount of deposits at Rs. 9866.02cr (Bank of Madura at Rs. 3631.04cr). Comparison of the income statements of Bank of Madura and ICICI Bank Ltd. shows that ICICI Bank's interest income at Rs. 852.87cr and total income at Rs. 1046.92cr were higher than that of Bank of Madura at Rs. 370.21cr and Rs. 468.93cr, respectively. Profit after tax of ICICI Bank (Rs. 105.30cr) was higher than that of Bank of Madura (Rs. 45.58cr).

Profitability Analysis

- The base year is taken as 2001, the year of the merger.

Table 8: Pre- and Post-Merger Profitability Ratios of ICICI Bank Ltd.

	Pre-Merger						*Post-Merger*					
	1996	*1997*	*1998*	*1999*	*2000*	*Average*	*2002*	*2003*	*2004*	*2005*	*2006*	*average*
NPM	11.71	16.88	14.57	10.01	10.05	12.64	9.47	9.86	13.67	16.32	14.12	12.69
RONW	12.52	23.70	20.77	20.55	14.45	17.28	6.76	17.38	20.93	18.86	14.33	15.65
ROA	31.85	33.78	48.67	55.23	58.40	45.59	265.74	113.10	130.67	170.35	249.55	185.88
ROE	11.00	26.75	30.44	38.40	53.50	12.01	121.37	196.88	265.60	272.17	285.46	8.66
ROCE	12.87	14.65	11.91	9.62	10.99	32.02	4.40	11.59	10.32	8.39	8.58	228.29

Source: Calculated from annual reports of the bank.
(all values are in percentages).

It can be observed that there has been substantial increase in the Return on Assets ratio (from 45.59% to 185.88%) and in the Return on Capital Employed ratio (from 32.02% to 228.29%) of ICICI Bank Ltd. post its merger with Bank of Madura. Thus, the merger improved the profitability of the bank.

Share Price Fluctuations

- Date of merger announcement was December 11, 2000, and the merger became effective on March 10, 2001.
- Share price fluctuations pre-announcement and post-merger are displayed in Table 9.

Table 9: Closing Prices of Shares Pre-Announcement and Post-Merger

Pre-Announcement				*Post-Merger*			
	Bank of Madura	*ICICI Bank Ltd.*	*Nifty*		*Bank of Madura*	*ICICI Bank Ltd.*	*Nifty*
Nov 11, 2000	80.00	123.50	1239.55	Dec 18, 2000	209.95	157.05	1317.60
Nov 18, 2000	79.20	147.20	1236.00	Dec 25, 2000	250.00	155.25	1242.00
Nov 25, 2000	84.25	143.15	1225.20	Jan 01, 2001	224.45	148.75	1254.30
Dec 02, 2000	89.95	142.00	1276.20	Jan 08, 2001	232.60	158.90	1309.25
Dec 10, 2000	132.25	168.95	1313.70	Jan 15, 2001	224.35	147.65	1286.75

Source**:** www.nseindia.com

It can be observed that both the share prices of Bank of Madura and ICICI Bank Ltd. had increased post-merger announcement from 80.00 to 224.35 and from 123.50 to 147.65, respectively. This is due to the increase in demand for both the banks' shares as the swap ratio allowed shareholders to swap one share of Bank of Madura for two shares of ICICI Bank Ltd. In the same period, Nifty fluctuated considerably, with overall gains.

CASE 3: Merger of Nedungadi Bank with Punjab National Bank

Introduction

- *Nedungadi Bank:* Nedungadi Bank was established in 1899 at Calicut in Kerala. It was the first private sector commercial bank to be set up in South India. The bank was incorporated in 1913. Over time, Nedungadi established some 174 branches, including branches at all major metropolitan cities such as New Delhi, Kolkata, Chennai, Mumbai, and Ahmedabad. In 2003, Punjab National Bank took over. At the time of the merger with PNB, Nedungadi Bank's shares had zero value, with the result that its shareholders received no payment for their shares.
- *Punjab National Bank:* Punjab National Bank (PNB) is an Indian financial services company based in New Delhi, India. Founded in 1895, the bank has over 6,081 branches, five foreign branches, and over 6,698 ATMs across 764 cities. It serves over 87 million customers. PNB has a banking subsidiary in the UK, as well as branches in Hong Kong, Dubai, and Kabul. It is one of the largest nationalised banks in India and has been providing prudent and trustworthy services to its customers.

Objectives

- *To Gain Presence in South India:* Nedungadi Bank was a Kerala-based bank with operations spread across South India. Punjab National Bank's acquisition of Nedungadi Bank helped expand its operations in South India.
- *To Increase Geographical Reach and Acquire a Pool of Skilled Manpower:* At the time, Nedungadi Bank operated on a strong franchise of 174 branches and skilled employees.
- To create a world-class bank in quality and scale, and enable it to compete with banks both locally as well as on a global level.
- *To Improve the Franchise and Customer Proposition Offered by the Individual Banks:* The quality and volume of the products and services offered by the acquirer bank increases significantly. Also, the brand image of the bank is strengthened.

Details of the Merger

- *Effective Date:* RBI had finalised the date of amalgamation as February 01, 2003.
- *Moratorium Period:* In 2002, the Joint Parliamentary Committee probing a stock scam pointed out discrepancies in the conduct of business by Nedungadi Bank. The RBI then put the bank under moratorium up to February 1, 2003, and restricted depositors of Nedungadi from withdrawing more than Rs. 5,000 during the moratorium.
- *Swap Ratio:* At the time of merger, Nedungadi Bank's shares had zero value; thus, shareholders of Nedungadi Bank Ltd. were not allotted any shares of Punjab National Bank after the amalgamation. The RBI had stated that the draft scheme of amalgamation of the two banks did not envisage allotment of shares of Punjab National Bank to the shareholders of Nedungadi Bank Ltd. The shareholders of Nedungadi Bank Ltd. were entitled to payment of just the pro-rata value of shares out of the surplus left after paying off the creditors and depositors.
- *Accounting Treatment:* The entire amount of the paid-up capital and reserves of Nedungadi Bank Ltd. would be treated as provision for bad and doubtful debts and depreciation and other assets of Punjab National Bank.
- *Treatment of Employees:* All employees of the Nedungadi Bank became the employees of Punjab National Bank under the same remuneration and terms and conditions.

Comparison of Financial Statements

As the merger took effect in 2003, the comparison of financial statements was made for the year 2002.

Table 10: Balance Sheets of Nedungadi Bank and Punjab National Bank

	Nedungadi Bank	*Punjab National Bank*
Equity Capital	10.20	212.24
Reserves and Surplus	50.28	2665.82
Deposits	1438.06	64128.48
Borrowings	6.22	408.57
Other Liabilities and Provisions	72.33	5001.93
Total Liabilities	1577.09	72914.66
Cash and Balances with RBI	74.04	5101.43
Balance with Banks and Call Money	59.27	1296.89
Investments	527.94	28207.17
Advances	769.88	34369.42
Fixed Assets	31.12	758.46
Other Assets	114.83	3181.28
Total Assets	1577.09	72914.66

Source: Annual reports of the banks.
(all values are in Rs. crores).

Table 11: Income Statements of Nedungadi Bank and Punjab National Bank

	Nedungadi Bank	*Punjab National Bank*
Interest Income	155.34	6647.87
Other Income	70.04	1035.89
Total Income	225.38	7683.76
Interest Expense	145.34	4352.58
Operating Expense	45.39	1316.32
Provision and Contingencies	33.39	1799.22
Total Expenses	224.12	7121.38
Profit After Tax	1.27	562.39

Source: Annual reports of the banks.
(all values are in Rs. crores).

Comparison of the balance sheets of Nedungadi Bank and Punjab National Bank shows that Punjab National Bank had a larger capital base at Rs. 212.24cr, in comparison to that of Nedungadi Bank, which stood at Rs. 10.2cr. Furthermore, Punjab National Bank had more assets (fixed and other) at Rs. 758.46cr and Rs. 3181.28cr, respectively, in comparison to Nedungadi Bank (fixed assets at Rs. 31.12cr and other assets at Rs. 114.83cr). Punjab National Bank also had more advances at Rs. 34369.42cr (Nedungadi Bank at Rs. 769.88cr) and had mobilised a higher amount of deposits at Rs. 64128.48cr (Nedungadi Bank at Rs. 1438.06cr). Comparison of the income statements of Nedungadi Bank and Punjab National Bank shows that Punjab National Bank's interest income at Rs. 6647.87cr and total income at Rs. 7683.76cr were higher than that of Nedungadi Bank at Rs. 155.34cr and Rs. 225.38cr, respectively. Profit after tax of Punjab National Bank (Rs. 562.39cr) was higher than that of Nedungadi Bank (Rs. 1.27cr).

Profitability Analysis

- The base year is taken as 2003, the year of the merger.

Table 12: Pre- and Post-Merger Profitability Ratios of Punjab National Bank

	Pre-Merger						*Post-Merger*					
	1998	*1999*	*2000*	*2001*	*2002*	*average*	*2004*	*2005*	*2006*	*2007*	*2008*	*average*
NPM	5.87	6.82	6.93	6.98	7.37	6.79	12.04	13.64	15.09	13.02	13.31	13.42
RONW	21.11	23.13	23.43	21.62	20.96	22.05	21.95	16.93	15.95	15.15	19.09	17.81
ROA	23.86	25.82	25.96	25.96	135.60	47.44	205.69	262.11	304.50	341.20	365.88	295.88
ROE	180.75	186.02	192.30	215.90	264.98	11.26	417.90	447.23	456.49	488.45	649.78	8.54
ROCE	10.67	11.23	11.79	11.36	11.24	207.99	9.51	8.83	7.37	7.97	7.00	491.97

Source: Calculated from annual reports of the bank.
(all values are in percentages).

It can be observed that there has been significant increase in the Return on Assets ratio (from 47.44% to 295.88%) and in the Return on Capital Employed ratio (from 207.99 to 491.97) of Punjab National Bank post its merger with Nedungadi Bank. Thus, the merger improved the profitability of the bank.

Share Price Fluctuations

- Date of merger announcement was November 13, 2002, and the merger became effective on February 01, 2003.
- Share price fluctuations pre-announcement and post-merger are displayed in Table 13.

Table 13: Closing Prices of Shares Pre-Announcement and Post-Merger

Pre-Announcement			*Post-Merger*		
	Punjab National Bank	*Nifty*		*Punjab National Bank*	*Nifty*
Oct 13, 2002	40.70	971.05	Nov 17, 2002	41.70	990.35
Oct 20, 2002	41.40	971.65	Nov 24, 2002	41.85	1020.15
Oct 27, 2002	41.45	932.20	Dec 01, 2002	45.25	1050.15
Nov 03, 2002	42.25	951.45	Dec 08, 2002	50.95	1069.80
Nov 10, 2002	42.60	956.95	Dec 15, 2002	62.45	1086.20

Source: www.nseindia.com

The share price of Nedungadi Bank was last recorded at 27.70 and was slowly reduced to zero till the time the merger became effective, due to difficulties surrounding the bank's operations. The share price of Punjab National Bank increased with the expansion in the bank's reach in the south due to its merger with Nedungadi Bank, and it indicated good prospects for increase in shareholder wealth. In the same period, Nifty initially declined, and then recovered, with overall gains.

CASE 4: Merger of Global Trust Bank and Oriental Bank of Commerce

Introduction

- *Global Trust Bank:* Global Trust Bank commenced operations in 1994. Although the banking licence was granted to Jayanta Madhab, who was associated with the Asian Development Bank, the public image of the bank was always associated with Ramesh Gelli. Gelli, a former executive at Vysya Bank, is reported to have played a key role in mobilising funds when the bank started its operations. In particular, reports indicated that diamond traders contributed substantially to the Rs. 100 crores that was mobilised at the time the Secunderabad-based bank started operations.
- *Global Trust Bank Crisis:* To gain increased returns for its promoters, the bank entered into practices that bordered on the illegal. The increased returns were at the expense of minority shareholders, depositors, and borrowers. The dressing up of its accounts was detected by the RBI as far back as March 2002, and the role of the management in propping up the share price were indicative of the permissive regime that the private bank was manipulating to suit the interests of a few.

The bank had been hit by periodic bouts of reckless lending. The initial problems surfaced in 1997-98 when it was revealed that its advances made to small- and medium-sized corporates were highly risky. The bank, instead of adopting a more conservative approach to banking, actively fuelled the Ketan Parekh-led bull run in the stock market between December 2000 and March 2001. It lent heavily to players in the capital market, and when the market crashed, the bank's balance sheet suffered a gaping hole because share prices had dropped dramatically. In 2001, when it was attempting a merger with UTI Bank, which also attracted controversy, Global Trust Bank lent more than Rs. 800 crores. Much of the lending proved injudicious.

Gelli and other promoters of the bank colluded with Ketan Parekh to push up its share price. The promoters benefited directly from this, because the price of the Global Trust Bank share would have been a key variable determining the terms of the proposed merger.

In September 2001, the bank was found guilty of not monitoring the end-use of the funds that it lent and no action was taken even when there was evidence of misappropriation of funds. Its lending to corporate groups was dictated by the logic of the stock market and not the business potential in their sectors of operation. Diversion of funds lent by Global Trust Bank to several companies took place, among them Ketan Parekh-linked companies, Zee Telefilms, and Himachal Futuristic Communications Ltd.

- *Oriental Bank of Commerce:* Oriental Bank of Commerce made a beginning under its Founding Father, Late Rai Bahadur Lala Sohan Lal, the first Chairman of the Bank. Within four years of coming into existence, the bank had to face partition. Branches in the newly-formed Pakistan had to be closed down and the Registered Office had to be shifted from Lahore to Amritsar. The bank has witnessed many ups and downs since its establishment. The period 1970-76 is said to be the most challenging phase in the history of the bank. Then employees and leaders of the bank came forward to rescue it. The owners were moved by this, and changed their decision to sell the bank, and in turn, they decided to improve the position of the bank with the active cooperation and support of all the employees. Their efforts bore fruit and the performance of the bank improved significantly. This was the turning point in the history of the bank. The bank was nationalised on April 15, 1980. Within a decade, the bank turned into one of the most efficient and best performing banks in India.

Objectives

- *To Gain Synergy in Terms of Geographical Coverage*: Global Trust Bank was a South India-based bank with 104 branches, whereas Oriental Bank of Commerce then comprised of 689 branches spread across North India. Thus, with this merger, Oriental Bank of Commerce gained presence in the south.
- *To Benefit in Terms of Technology and ATM Network:* GTB had sound technology-based branches and a network of 235 ATMs, whereas OBC had a network of only 100 ATMs at the time.
- To create a world-class bank in quality and scale, and enable it to compete with banks both locally as well as on a global level.

Details of the Merger

- *Effective Date:* On August 14, 2004, Global Trust Bank was amalgamated into Oriental Bank of Commerce.
- *Moratorium Period:* Global Trust Bank was a leading private sector bank in India that was associated with various financial discrepancies, leading to a three-month moratorium being imposed by RBI shortly before being merged into Oriental Bank of Commerce. The Central Bank agreed to provide support for permitted cash withdrawals, maximum upto Rs. 10,000 for savings depositors, and allowed operation of safe deposit lockers and demat accounts as usual, even as depositors rushed to withdraw funds from branches across the country.
- *Swap Ratio:* According to the Scheme of Amalgamation, the shareholders of Global Trust Bank did not get any new shares of Oriental Bank of Commerce in lieu of the Global Trust Bank shares held by them, as no swap ratio was fixed in the scheme.
- *Accounting Treatment:* Pursuant to the Scheme of Amalgamation framed by RBI/GOI, the entire amount of the paid-up capital and reserves of Global Trust Bank were treated as provision for bad and doubtful debts and depreciation in other assets of the bank. In terms of the scheme, the aggregate amount representing the value of the assets, determined as readily realisable assets of Global Trust Bank, were credited to the Asset Account. The surplus amount, if any, after appropriating towards the liabilities of the Global Trust Bank, was to be distributed prorata among the shareholders of Global Trust Bank after the expiry of 12 years from the prescribed date (14-08-2004) or such earlier period as the Central Govt. may specify for this purpose. Accordingly, 31st August 2004 was fixed as the Record Date to determine the shareholders of Global Trust Bank for this purpose.

Comparison of Financial Data

As the merger took effect in 2004, the comparison of financial statements was made for the year 2003.

Table 14: Balance Sheets of Global Trust Bank and Oriental Bank of Commerce

	Global Trust Bank	Oriental Bank of Commerce
Equity Capital	121.36	192.54
Reserves and Surplus	−118.92	1916.80
Deposits	6920.92	29809.09
Borrowings	26.42	766.02
Other Liabilities and Provisions	489.74	1303.09
Total Liabilities	7439.52	33987.64
Cash and Balances with RBI	727.03	1895.90
Balance with Banks and Call Money	77.81	628.31
Investments	2498.74	14780.54
Advances	3275.00	15677.24
Fixed Assets	300.80	145.28
Other Assets	334.37	860.36
Total Assets	7439.52	33987.64

Source: Annual reports of the banks.
(all values are in Rs. crores).

Table 15: Income Statements of Global Trust Bank and Oriental Bank of Commerce

	Global Trust Bank	Oriental Bank of Commerce
Interest Income	539.60	3294.69
Other Income	192.58	566.81
Total Income	732.18	3861.50
Interest Expense	517.41	2089.93
Operating Expense	64.74	1015.12
Provision and Contingencies	336.07	299.51
Total Expenses	1004.88	3404.56
Profit After Tax	−266.63	456.95

Source: Annual reports of the banks.
(all values are in Rs. crores).

Comparison of the financial data of Global Trust Bank and Oriental Bank of Commerce shows that Oriental Bank of Commerce has a larger capital base at Rs. 192.54cr, in comparison to that of Global Trust Bank, which stood at Rs. 121.36cr. Furthermore, Oriental Bank of Commerce had more other assets at Rs. 860.86cr, in comparison to Global Trust Bank at Rs. 334.37cr. Oriental Bank of Commerce also had more advances at Rs. 15677.24cr (Global Trust Bank at Rs. 3215.00cr) and had mobilised a higher amount of deposits at Rs. 29809.09cr (Global Trust Bank at Rs. 6920.92cr). Oriental Bank of Commerce had a Profit after Tax of Rs. 456.95cr, while Global Trust Bank suffered losses of Rs. 266.63cr.

Profitability Analysis

- The base year is taken as 2004, the year of the merger.

Table 16: Pre- and Post-Merger Profitability Ratios of Oriental Bank of Commerce

	Pre-Merger						Post-Merger					
	1999	2000	2001	2002	2003	Average	2005	2006	2007	2008	2009	Average
NPM	9.26	10.39	6.70	9.12	11.89	9.47	19.44	12.54	15.35	11.38	9.33	13.61
RONW	20.18	20.95	13.63	20.23	24.51	19.90	24.19	13.11	10.78	14.55	14.03	15.33
ROA	72.33	74.19	80.43	84.12	109.55	84.12	172.80	206.39	223.53	230.54	257.54	218.16
ROE	132.63	144.71	105.38	166.48	237.33	157.31	377.10	222.38	231.82	140.98	361.39	266.74
ROCE	12.15	12.37	11.73	11.85	11.60	11.94	8.23	7.86	8.10	8.97	9.58	8.55

Source: Calculated from annual reports of the bank.
(all values are in percentages).

It can be observed that there has been a significant increase in the Return on Assets ratio (from 84.12% to 218.16%) and in the Return on Equity ratio (from 157.31% to 266.74%) of Oriental Bank of Commerce post its merger with Global Trust Bank. Thus, the merger improved the profitability of the bank.

Share Price Fluctuations

- Date of merger announcement is July 16, 2004, and the merger became effective on August 14, 2004.
- Share price fluctuations pre-announcement and post-merger are displayed in Table 17.

Table 17: Closing Prices of Shares Pre-Announcement and Post-Merger

Pre-Announcement				*Post-Merger*			
	Global Trust Bank	*Oriental Bank of Commerce*	*Nifty*		*Global Trust Bank*	*Oriental Bank of Commerce*	*Nifty*
June 26, 2004	12.35	230.05	1488.50	July 27, 2004	3.25	247.20	1600.75
July 03, 2004	13.70	245.65	1537.50	August 03, 2004	2.35	236.65	1630.60
July 10, 2004	11.45	224.35	1553.20	August 10, 2004	2.50	241.05	1652.15
July 17, 2004	11.30	247.35	1558.80	August 13, 2004	2.05	231.95	1598.20
July 24, 2004	13.15	262.70	1601.60				

Source: www.nseindia.com

It can be observed that the share prices of Global Trust Bank fell drastically pre- and post-merger announcement. There was unusual trading activity in Global Trust Bank shares in the stock market after the announcement. Meanwhile, reports from the market indicated that large entities, including promoters, foreign institutional investors, and overseas corporate bodies and non-resident Indians, had offloaded their holdings in the Global Trust Bank scrip in the weeks before the moratorium was declared by the RBI. Nearly 16% of Global Trust Bank shares were off-loaded by these investors between June 14 and July 24. As a result, the holdings of smaller investors increased from 44% to 51% by the time the bank was declared dead. Ordinary investors were being told by the management of its new proposal of offering a stake to a foreign investing entity, New Bridge Capital, and that the investor was agreeable to investing Rs. 1,500 crores in Global Trust Bank. Obviously, those who were in the inside track knew where the bank was headed and quickly dumped their stock and those outside the loop lost.

CASE 5: Merger of IDBI Bank Ltd. and IDBI

Introduction

- *IDBI:* Industrial Development Bank of India (IDBI) was constituted under Industrial Development Bank of India Act, 1964, as a development financial institution, and came into being on July 01, 1964, vide GoI notification dated June 22, 1964. It was regarded as a public financial institution in terms of the provisions of Section 4A of the Companies Act, 1956. It continued to serve as a development financial institution for 40 years, till 2004, when it was transformed into a bank.

  In response to the felt need and on commercial prudence, it was decided to transform IDBI into a bank. For the purpose, Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003 [Repeal Act], was passed repealing the Industrial Development Bank of India Act, 1964. In terms of the provisions of the Repeal Act, a new company under the name of Industrial Development Bank of India Ltd. (IDBI Ltd.) was incorporated as a government company under the Companies Act, 1956, on September 27, 2004. Thereafter, the undertaking of IDBI was transferred to and vested in IDBI Ltd. with effect from October 01, 2004. In terms of the provisions of the Repeal Act, IDBI Ltd. has been functioning as a bank in addition to its earlier role of a financial institution.
- *IDBI Bank Ltd.:* IDBI Bank Limited is an Indian financial service company headquartered in Mumbai, India. RBI has categorised IDBI as an "other public sector bank". It is currently the tenth largest development bank in the world in terms of reach, with 2,413 ATMs, 1,413 branches, including one overseas branch at Dubai, and 996 centres, including two overseas centres in Singapore and Beijing. IDBI Bank Ltd. is a universal bank with its operations driven by a cutting-edge core banking IT platform. It offers personalised banking and financial solutions to its clients in the retail and corporate banking arena through its large network of branches and ATMs, spread across the length and breadth of India.

Objectives

- To become commercially viable and meet the increasing demands.

- To create a world-class bank in quality and scale, and enable it to compete with banks both locally as well as on a global level.
- *To Improve the Franchise and Customer Proposition Offered by the Individual Banks:* The quality and volume of the products and services offered by the acquirer bank increases significantly. Also, the brand image of the bank is strengthened.

Details of the Merger

- *Effective Date:* Towards achieving the faster inorganic growth of the bank, IDBI Bank Ltd., a wholly owned subsidiary of IDBI Ltd., was amalgamated with IDBI Ltd. in terms of the provisions of Section 44A of the Banking Regulation Act, 1949, providing for voluntary amalgamation of two banking companies. The merger became effective from April 02, 2005.
- *Change in Name:* In order that the name of the bank truly reflects the functions it is carrying on, the name of the bank was changed to IDBI Bank Limited and the new name became effective from May 07, 2008, upon issue of the fresh Certificate of Incorporation by Registrar of Companies, Maharashtra. The bank has been accordingly functioning in its present name of IDBI Bank Limited.
- *Swap Ratio:* On April 2, 2005, the merger of IDBI Bank Ltd., the banking subsidiary of Industrial Development Bank of India, with its parent company (IDBI held 57% stake in IDBI Bank) was announced. However, the merger was to be effective retrospectively, from October 1, 2004. The swap ratio was established at 1:1.42, that is, IDBI issued 100 equity shares for every 142 equity shares held by the shareholders in IDBI Bank.

Comparison of Financial Data

As the merger took effect in 2005, the comparison of financial statements was made for the year 2004.

Table 18: Balance Sheets of IDBI and IDBI Bank

	IDBI	*IDBI Bank Ltd.*
Equity Capital	721.78	652.83
Reserves and Surplus	5561.99	5182.07
Deposits	15102.64	47613.87
Borrowings	51190.93	4635.08
Other liabilities and provisions	10422.09	5762.60
Total Liabilities	82999.43	63846.45
Cash and Balances with RBI	2376.43	12.27
Balance with Banks and Call Money	3313.22	1926.81
Investments	24728.11	24243.13
Advances	46326.89	33033.98
Fixed Assets	914.17	906.65
Other Assets	5340.61	3723.60
Total Assets	82999.43	63846.45

Source: Annual reports of the banks.
(all values are in Rs. crores).

Table 19: Income Statements of IDBI and IDBI Bank

	IDBI	*IDBI Bank Ltd.*
Interest Income	2720.50	6842.97
Other Income	638.55	1379.52
Total Income	3359.05	8222.49
Interest Expense	2509.73	7109.80
Operating Expense	468.74	545.32
Provision and Contingencies	62.01	-3.52
Total Expenses	3040.48	7651.60
Profit After Tax	318.57	570.90

Source: Annual reports of the banks.
(all values are in Rs. crores).

Comparison of the balance sheets of IDBI and IDBI Bank Ltd. shows that IDBI Bank had a smaller capital base at Rs. 652.83cr, in comparison to that of its holding institution IDBI, which stood at Rs. 721.78cr. Furthermore, IDBI Bank had less assets (fixed and other), at Rs. 906.65cr and Rs. 3723.60cr, respectively, in comparison to IDBI (fixed assets at Rs. 914.17cr and other assets at Rs. 5340.61cr). IDBI Bank also had lesser advances at Rs. 33033.98cr (IDBI at Rs. 46326.89cr), but had mobilised a higher amount of deposits at Rs. 47613.87cr (IDBI at Rs. 15102.64cr). Comparison of the income statements of IDBI and IDBI Bank Ltd. shows that IDBI Bank's interest income at Rs. 6842.97cr and total income at Rs. 8222.49cr were higher than that of IDBI at Rs. 2720.50cr and Rs. 3359.05cr, respectively. Profit after tax of IDBI Bank (Rs. 570.90cr) was higher than that of IDBI (Rs. 318.57cr).

Profitability Analysis

- The base year is taken as 2005, the year of the merger.

Table 20: Pre- and Post-Merger Profitability Ratios of IDBI Bank Ltd.

	Pre-Merger						*Post-Merger*					
	2000	*2001*	*2002*	*2003*	*2004*	*Average*	*2006*	*2007*	*2008*	*2009*	*2010*	*Average*
NPM	13.06	8.81	5.91	6.3	5.65	7.95	8.47	8.74	7.84	6.71	5.95	7.54
RONW	9.96	7.52	5.35	6.93	8.91	7.73	9.12	10.00	10.72	11.53	12.53	10.78
ROA	133.30	140.34	102.56	106.89	89.38	114.49	88.04	86.09	93.82	102.71	113.5	96.82
ROE	137.24	105.84	64.99	72.54	87.45	93.61	77.49	87.02	100.65	118.46	142.25	105.17
ROCE	50.45	18.06	10.37	16.79	12.95	21.72	7.79	7.57	8.07	8.55	8.61	8.12

Source: Calculated from annual reports of the bank.
(all values are in percentages).

It can be observed that there has been a significant increase in the Return on Equity ratio (from 93.61% to 105.17%) of IDBI Bank post its merger with its parent company. Thus, the merger improved the profitability of the bank.

Share Price Fluctuations

- Date of merger announcement is October 01, 2004, and the merger became effective on April 02, 2005.
- Share price fluctuations pre-announcement and post-merger are displayed in Table 21.

Table 21: Closing Prices of Shares Pre-Announcement and Post-Merger

Pre-Announcement			*Post-Merger*		
	IDBI Bank Ltd.	*Nifty*		*IDBI Bank Ltd.*	*Nifty*
Sept 01, 2004	75.10	1635.45	Oct 07, 2004	90.85	1815.70
Sept 08, 2004	81.15	1656.25	Oct 14, 2004	83.10	1794.75
Sept 15, 2004	78.90	1683.20	Oct 21, 2004	83.85	1779.75
Sept 22, 2004	89.55	1753.90	Oct 28, 2004	84.75	1800.10
Sept 29, 2004	91.70	1727.95	Nov 04, 2004	89.35	1834.85

Source: www.nseindia.com

It can be observed that there has been an increase in the share price of IDBI Bank Ltd. (from 75.10 to 89.35) since its merger with its parent institution. This increase was due to the decision of the management to meet the universal banking needs of its customers and due to the swap ratio offering 100 shares of the new entity for 142 shares of IDBI Bank Ltd. In the same period, Nifty initially gained, and then fluctuated, with overall gains.

Recommendations and Conclusions

In light of the ever-increasing competition today, mergers and acquisitions have emerged as a strategic tool for growth and expansion. Efforts have been taken by the RBI to adopt and refine regulatory and supervisory standards on par with international best practices to encourage mergers and acquisitions activities in India.

It is not possible for a bank to achieve all the objectives it had set out before going for a merger or acquisition. With every merger/acquisition there is growth in the size of the bank; however, profitability depends on a lot of factors, like managerial efficiency, integration of cultures, and employee productivity, to name a few. Sustaining increased profitability over longer periods of time is the real challenge.

This study has considered five post-liberalisation bank mergers. The study has adopted the use of ratio analysis to determine the profitability of the merger/acquisition on the acquirer bank, with five-year pre- and post-merger data. It has been found that all the mergers have improved the profitability of the acquirer bank. For some there has been tremendous increase in profitability, and for others there has only been a marginal increase in profitability.

Based on the cases discussed in this study, and after reviewing trends, some recommendations are given:

- Mergers and acquisitions result in increase in the size of the acquirer bank, but may not necessarily lead to profitability. Thus, the management should conduct a thorough analysis and define clearly the objectives it wishes to achieve from the merger.
- Sustaining profitability for longer periods of time post merger can be a challenge for the management of the acquirer bank; thus, the thrust should be on improving risk management capabilities, corporate governance, and strategic business planning.
- Mergers and acquisitions can adversely affect employee productivity. It is recommended that integration committees be set up and human resource personnel be included in all major decisions relating to the merger and its impact on the current and future employees of the entity.
- Mergers and acquisitions result in large-sized entities. However, this should not affect the agility of the entity. The aim should be to create a nimble giant, rather than a clumsy dinosaur. Sound risk management practices should be put in place to respond to unexpected changes in the environment.

The study has several limitations. The study has employed case study methodology, so that the results may be specific to the peculiarities of each case. In addition, as the study is based on secondary data, the limitations inherent in secondary data sources will persist in this study. Further, the study ignores the impact of possible differences in the accounting methods adopted by different companies, and the compensation given to the merged/acquired entity has been ignored for the purpose of the analysis. There is vast scope for further study, to understand the long-run impact of mergers and acquisitions in the banking industry.

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