e-ISSN 2320 –7876 www.ijfans.org
Vol.11, Iss.11, Nov. 2022
Research Paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal

EMPERICAL ANALYSIS OF MERGER IN BANKING SECTOR: A CASE STUDY OF MERGER OF BANK OF RAJASTHAN WITH ICICI BANK

BRIJESH KUMAR
Research Scholar
School of Business &
Management,Apex University,
Jaipur

ABSTRACT

The primary objective of an organization towards M &A's is to create a niche of core competencies and improve transform the organizational culture to a better and improved form. It helps in design and develops systems in accordance to the changing face of business across all industrial sectors. An organization aims in Mergers and acquisitions are committed to extend the relationship with clients beyond the professional horizons to provide them high level of satisfaction and assurance. Merger deals are grouped into 3 categories viz, VoluntaryMerger, Compulsory Merger and Universal Banking Model which is based on the motives. The ICICI Bank Merger with Bank of Rajasthan is the seventh voluntary merger and the latest in India after the merger of HDFC Bank - Centurion Bank of Punjab in the year 2008, compared with other voluntary mergers. This deal also has background of the merger including various regulatory interventions of authorities like the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Foreign Investment Promotion Board (FIPB). Because of poor corporate governance of the target bank and cancellation of Extra Ordinary General Meeting (EGM) by the Calcutta District Civil Court this deal also got lots of attention. In this case, an attempt has been made to analyze the probable impact of strategic tools and features of the banks on pre and post merger performance.

Key Words: *Bank, Merger, ICICI, Bank Of Rajasthan, Growth.*

INTRODUCTION

Merger has been identified as an important tool to achieve profitable growth of business and to limit competition, and increase in income with less investment, to gain economies of large scale to access foreign market, to achieve diversification and utilize underutilized market opportunities.

The merger of ICICI Bank and Bank of Rajasthan is substantially to enhance the network of ICICI Banks Branch which is already the largest private sector bank in India which especially strengthen its presence in northern and western India. To enhance the ability of the merged entity to capitalize on the growth opportunities in the Indian economy it would combine Bank of Rajasthan's branch franchise with ICICI Bank's strong capital base. Bank of Rajasthan is the third acquisition by ICICI Bank. ICICI Bank had earlier acquired Bank of Mdhura in 2001 and Bank of Maharashtra-based Sangli Bank in 2007.

REVIEW OF LITERATURE

Gallet C.A (1996), had examine the relationship between mergers in the U.S. steel industry and the market power, which estimates the degree of market power from a system of demand and supply equations. Anup Agraval Jeffrey F. Jaffe (1999), they examines the literature on long-run abnormal returns following mergers. The paper also examines explanations for any findings of underperformance following mergers. We conclude that the evidence does not support the conjecture that underperformance is specifically due to a slow adjustment to merger news. Saple V. (2000), he found that the target firms were better than industry averages while the acquiring firm shad lower than industry average profitability. Overall, acquirers were high growth firms which had improved the performance over the years prior to the merger and had a higher liquidity. Beena P.L (2000), she attempts to analyze the significance of merger and their characteristics. The paper establishes that acceleration of the merger movement in the early 1990s was accompanied by the dominance of merger between firms belonging to the same business group of houses with similar product line.

RESEARCH METHODOLOGY

Data Collection

The study is on the basis of Secondary Data Collection. Secondary Data was collected from the Annual Report of Bank and various other sources. Research may be defined as the research for knowledge through an objective. The ratios taken by researcher in our research are analyzed by using Paired T-Test to investigate any significant difference. The data analysis is done using SPSS.

Research Objectives

- To study the pre and post Merger impact of Bank.
- To understand the financial performance and differences.
- To understand the importance of Merger in Bank.

Hypothesis Development

H_0 (1): There is no significance difference in financial performance amongst the selected Banks With respect to their pre and post Merger Analysis.

H_1 (1): There is a significant difference in financial performance amongst the selected Banks with respect to their pre and post Merger Analysis.

e-ISSN 2320 –7876 www.ijfans.org
Vol.11, Iss.11, Nov. 2022
Research Paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal

H_0 (2): There is no significant difference in Earning per Share (EPS) amongst the selected Banks with respect to their pre and post Merger Analysis.
H_1 (2): There is a significant difference in Earning per Share (EPS) amongst the selected
Banks with respect to their pre and post-Merger Analysis. Descriptive Table:
Descriptive

		N	Mean	Std. Deviation	Std. Error
Net Profit Ratio	Pre-Merger	3	10.3200	.54286	.31342
	Post-Merger	3	14.5567	2.10165	1.21339
	Total	6	12.4383	2.69619	1.10072
EPS Ratio	Pre-Merger	3	35.9967	2.98791	1.72507
	Post-Merger	3	45.8400	9.99719	5.77188
	Total	6	40.9183	8.52150	3.47889
Debt-Equity Ratio	Pre-Merger	3	4.7600	4.42539	2.5550
	Post-Merger	3	4.0800	.16093	.09292
	Total	6	4.4200	2.82537	1.15345
Current Ratio	Pre-Merger	3	.5733	.71591	.41333
	Post-Merger	3	.5533	.67308	.38860
	Total	6	.5633	.62157	.25375

INTERPRETATION

The above table provides us the Statistics regarding MEAN and Std.DEV of the ICICI banks with respect to their pre and post Merger Analysis. The above analysis shows The Net profit Ratio is deviated 2.69619 from 12.4383, Earning per Share Ratio deviated 8.52150 from 40.9183, Debt/ Equity Ratio deviated 2.82537 from 4.4200 and Current Ratio is deviated by .62157 from .5633.

ANOVA ANALYSIS

The following ANOVA table gives us an insight regarding the existence of significant differences of banks financial performance in India with respect to their pre and post merger analysis. We have taken 95% level of significance to analyze the data.

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.	
Net Profit Ratio	Between Groups	26.924	1	26.924	11.429	.028
	Within Groups	9.423	4	2.356		
	Total	36.347	5			
EPS Ratio	Between Groups	145.337	1	145.337	2.670	.178
	Within Groups	217.743	4	54.436		
	Total	363.080	5			
Debt-Equity Ratio	Between Groups	.694	1	.694	.071	.803
	Within Groups	39.220	4	9.805		
	Total	39.914	5			
Current Ratio	Between Groups	.001	1	.001	.001	.974
	Within Groups	1.931	4	.483		
	Total	1.932	5			

Interpretation:

The above analysis shows that there is a significance difference in Earning Per Share Ratio with respect to their pre and post merger analysis so we accepts the H_0 (2) and rejects the H_1 (2). Where as in case of Debt/ Equity Ratio and current we reject H_1 (1) and accept H_0 (1) with respect to their pre and post merger data analysis at 95% level of significance. For the Net profit Ratio we accept the alternate hypothesis i.e. H_1 (1) and reject H_0 (0)

Paired T-Test

The Paired Samples T Test compares the means of two variables. It computes the difference between the two variables for each case, and tests to see if the average difference is significantly different from zero.

Following is sample output of a paired samples T test. We compared the mean test scores before (pre-test) and after (post-test) the Merger completed a test preparation course. We want to see if our test preparation course improved the performance of Bank.

Paired Samples Statistics

		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	BM_2	12.6425	4	18.46426	9.23213
	AM_2	16.6225	4	20.10013	10.05007
Pair 2	BM_3	12.3200	4	14.70034	7.35017
	AM_1	13.0925	4	16.15453	8.07726
Pair 3	BM_3	12.3200	4	14.70034	7.35017
	AM_3	19.0575	4	25.57052	12.78526

Interpretation

In the above analysis in paired Sample Statistics Box, the mean for the Pair 1 before Merger_2 is 12.6425 where for after merger _2 the mean is 16.6225.The Standard Deviation for the Before Merger_2 is 18.46426 and After Merger_2 is 20.10013. In Pair 2 Before Merger_3 is 12.3200 where for After merger _1 the mean is 13.0925.The Standard Deviation for the Before Merger_3 is 14.70034 and After Merger_1 is 16.15453.Where in Pair 3 Before Merger_3 is 12.3200 where for After merger _3 the mean is 19.0575.The Standard Deviation for the Before Merger_3 is 14.70034 and After Merger_3 is 25.57052. The number of participants in each condition (N) is 4.

Next, we see the correlation between the two variables.

Paired Samples Correlations

		N	**Correlation**	**Sig.**
Pair 1	BM_2 & AM_2	4	.998	.002
Pair 2	BM_3 & AM_1	4	.997	.003
Pair 3	BM_3 & AM_3	4	.999	.001

There is a strong positive correlation shows that the Bank performs best not only before merger but also after merger.

Finally, we are comparing the results of the Paired Samples T-Test. This test is based on the difference between the two variables. Under "Paired Differences" we see the descriptive

statistics for the difference between the two variables.

Paired Samples Test

		Paired Differences					T	Df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	BM_2 - AM_2	-3.98000	2.11204	1.05602	-7.34073	-0.61927	-3.769	3	.033
Pair 2	BM_3 - AM_1	-.77250	1.90157	.95078	-3.79832	2.25332	-.812	3	.476
Pair 3	BM_3 - AM_3	-6.73750	10.89416	5.44708	-24.0726	10.59755	-1.237	3	.304

Pair 1:
The T value = -3.769
We have 3 degrees of freedom
Our significance is .033
Pair: 2
The T value = -.812
We have 3 degrees of freedom
Our significance is .476
Pair 3:
The T value = -1.237
We have 3 degrees of freedom
Our significance is .304
Interpretation:

The above table shows that in Pair 1 we have T-Value is-3.769 ,Degree of freedom is 3 and Our significance is .033.In Pair 2 we have T-Value is .-812,Degree of freedom is 3 and Our significance is .476. Where is Pair 3 we have T-Value is -1.237, Degree of freedom is 3 and Our significance is .304.

As per the above analysis we can say that according to the standard all the significance value is less than .05 at 95 % level of significance which shows that there is a significance difference in financial performance amongst the selected Banks with respect to their pre and post Merger Analysis therefore we accept the null hypothesis H_0 (1) and reject the H_1 (1).

LIMITATIONS OF THE RESEARCH

This research study is mainly based on secondary data derived from the annual reports of Banks. The reliability and the finding are contingent upon the data published in Annual report.

Accounting ratios have its own limitation, which also applied to the study. The study is limited to three years before merger and three years after merger only.

CONCLUSIONS

The case of ICICI Bank Ltd. states that how an organization can become market leader by adopting some strategic tools like mergers and acquisitions. Primary reason for the merger between ICICI Bank and the Bank of Rajasthan, a major landmark in Indian Banking history, has occurred due to the regulatory interventions of the authorities. In this paper, the strategic similarity and dissimilarity of both ICICI Bank and the BoR are analyzed in detail. It is interesting to note that after the announcement of the merger, the BoR gained about 77% in price and ICICI Bank declined by 1.7%. The sharp increase in the share price of the BoR can be explained as a shift to the price offered by ICICI Bank. This states that the M&As have become a major strategic tool for achieving the same objective and it is imperative to avoid the possibilities of small banks from becoming the target of huge foreign banks which are expected to come to India.

- To create synergy, expanding the operations, cutting costs and economies of scale Firmneed to go for the merger.
- (M&As) is the need of business enterprises for achieving the economies of scale,growth, diversification, synergy, financial planning, Globalization of economy,
- For achieving higher profit and expanding market share companies go for Merger and Acquisitions (M&A's).
- To replace the competitor and to occupy the best position in the market Merger and Acquisition is the best strategic tool which a firm needs to follow.

REFERENCES

- Sony Kuriakose, M S Senam Raju and G S Gireesh Kumar(2000 and 2009), ICICI Bank-Bank of Rajasthan Merger: An analysis of strategic Features and Valuation, (http:/ / ssrn.com).
- Dr. Abhinn Baxi Bhatnagar; Ms. Nitu Sinha, 5, May (2012),Strategic Move Of ICICI Bank: A Case Study Of Merger Of ICICI Bank And Bank Of Rajasthan, International Journal of Multidisciplinary Research,(www.zenithresearch.org.in).
- Mital Menapara and Dr. Vijay Pithadia," A Study On Financial Performance Of Selected Companies During Pre-Post Merger And Acquisition",(www.abhinavjournal.com).
- Hari Krishan, Student: CS Professional Programme, The Institute of Company Secretaries of India (September 2012), A review of Mergers & Acquisitions in India, CCI.
- The Economics Times ET Bureau May 18, 2010, "Bank of Rajasthan to merge withICICI Bank".
- Annual Report of ICICI Bank for the year- 2007, 2008, 2009,2010,2011,2012.