A Major Project Report
On

STRATEGIC MOVE OF ICICI BANK:
A STUDY ON MERGER OF ICICI BANK AND BANK OF RAJASTHAN

Submitted for the award of the degree of Executive MBA

By

SUMIT KUMAR
2K13/MBA/523

Under the supervision of

Dr. PK GUPTA

Delhi School of Management
Delhi Technological University

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With regards

(SUMIT KUMAR)

2K13/MBA/523

Executive MBA

CERTIFICATE

This is to certify that **Sumit Kumar**, a student of Executive MBA, fourth semester, has worked upon the Project Report **"STRATEGIC MOVE OF ICICI BANK: A STUDY ON MERGER OF ICICI BANK AND BANK OF RAJASTHAN"** and has successfully completed the said project under my supervision and guidance. This project has been examined and approved by me. It is worthy of presentation of Delhi School of Management, Delhi in partial fulfillment of the requirement of MBA Course.

Under the Guidance of: **Signature of Head (DSM)**

Dr. PK Gupta
(Guest Faculty)
DSM, Delhi

Prof. PK Suri
HOD, DSM, Delhi

Place:

Date:

DECLARATION

I hereby declare that the project entitled **"STRATEGIC MOVE OF ICICI BANK: A STUDY ON MERGER OF ICICI BANK AND BANK OF RAJASTHAN"** submitted by me to DELHI TECHNOLOGICAL UNIVERSITY, in partial fulfillment of the requirement for the award of degree of Executive MBA. This project has been carried out by me under the guidance of Shri PK Gupta. I further declare that the work reported in this project has not been submitted and will not be submitted either in part or in full for the award of any other degree in this institute or any other institute or university.

Signature of Candidate

Sumit Kumar
2K13/MBA/523

ABSTRACT

Changing is the regulation of nature. Any business organization undergoes change on a continuous basis, technically termed as Corporate Restructuring. It can be defined as a strategy to achieve faster growth, desired capital structure and change in the ownership and control of company. In the present scenario, business organization undertakes changes to increase their cutting edge over the competition and enhance their leadership positions

The International Banking scenario has shown major changes in the past few years in terms of the Mergers and Acquisitions. Due to the financial system deregulation, entry of new players and products with advanced technology, globalization of the financial markets, changing customer behavior, wider services at cheaper rates, shareholder wealth demands etc., have been on rise. Mergers and Acquisition is a useful tool for the growth and expansion in any Industry and the Indian Banking Sector is no exception. It is helpful for the survival of the weak banks by merging into the larger bank. This study shows the impact of Mergers and Acquisitions in the Indian Banking sector and this cases have been taken for the study as sample to examine as to whether the merger has led to a profitable situation or not. For this purpose, data from the financial statements of both the banks for the year 2008-2009-2010 for pre-merger and 2011-2012-2013 is taken and the profitability ratios are calculated, for a comparison between pre and post-merger performance in terms of Operating Profit Margin, Net Profit Margin, and Return on Assets, Return on Equity, Earning per Share, Debt Equity Ratio, Dividend Payout Ratio and Market Share Price. In case of, ICICI Bank Net Profit and Return on Assets have showed a considerable improvement after the merger except others which shows an improvement but not considerable. But as per the “t” test carried out on the means of the above data/ratios for a 95% confidence limit, it is found that there is a significant difference between the pre and post-merger value of Net Profit and the Return on Assets. Whereas in case of other values of ratios no significant difference observed.

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INTRODUCTION

Business environment of business is changing so rapidly, the present corporate scenario has totally changed; during this changing scenario it is very difficult for every business organization to achieve its objectives like as maximize its profit and improve growth and development of the entity. Association along with the changing scenario of the business is a primary activity of every concern to achieve its goal. Growth potentiality drives every business organization for internal and external changes. With internal changes an organization go for new product development or expand the market of existing product, but it's not much sufficient way to run business organization with market for a long time. Today's business world is just like a global village, therefore external changes are the main requirement to maintain and improve the position of the business it can be possible through mergers, acquisitions, amalgamations and takeovers activities. These are the basic growth and improvement strategies which eliminate the weak points of businesses and make them attainable many benefits "synergy effect" is one of them. This study concerned with merger activity of managing the business environmental in changes scenario. Merger activities full with a great history of more than 100 years. It's also full with a lot of research works which provides a huge quantum suggestion for this subject matter. Mergers are increasing in every section of the corporate sector. Financial sector i.e. banks mergers activities are also one of them. Merger is the combination of two or more firms, in other words it can be state that when two or more firms which are in same or in different product or service line decide to carry their work simultaneously in future. It is also resulted from a various number of studies, although mergers also having some failure results in some of industries. But now a days it is very popular growth oriented strategy especially in developing countries like as India. There are various motives behind Mergers, which force this activity very rapidly, these courses of actions done to expand business, to get synergic advantages, to minimize costs, to maintain strong distribution chain, Tax planning, new product development and to face rapid competition, etc. The news of Mergers are very sensitive, it influence the companies involved as well as customers, investors, share prices and other part of an economy in positive or Negative way, in form of financial as well as non-financial point of view.

PROFILE OF ICICI BANK

1. HISTORY

In 1955, ICICI Limited was incorporated with the collective efforts of the major 3, named World Bank, Government of India and Indian Industry's representatives. The establishment has been taken place with a view to aid Indian businesses by acting as a source of finance to medium and long term projects. In 1990's, the ICICI institution started diversifying its operations, and end up at the wholly owned subsidiary called ICICI Bank. The Bank was established in 1994 and became the first bank listed on NYSE (New York Stock Exchange).

Few merger related details:-

Years	Particulars
2001	Bank of Madura (est. 1943) was acquired by ICICI , an all-stock
	Amalgamation
2002	Integration of banking operations and group's financing of ICICI in to
	Individual entity, consisting both wholesale and retail.
2007	ICICI amalgamated Sangli Bank, the deal costing Rs. 302 crore.

www.icici.com

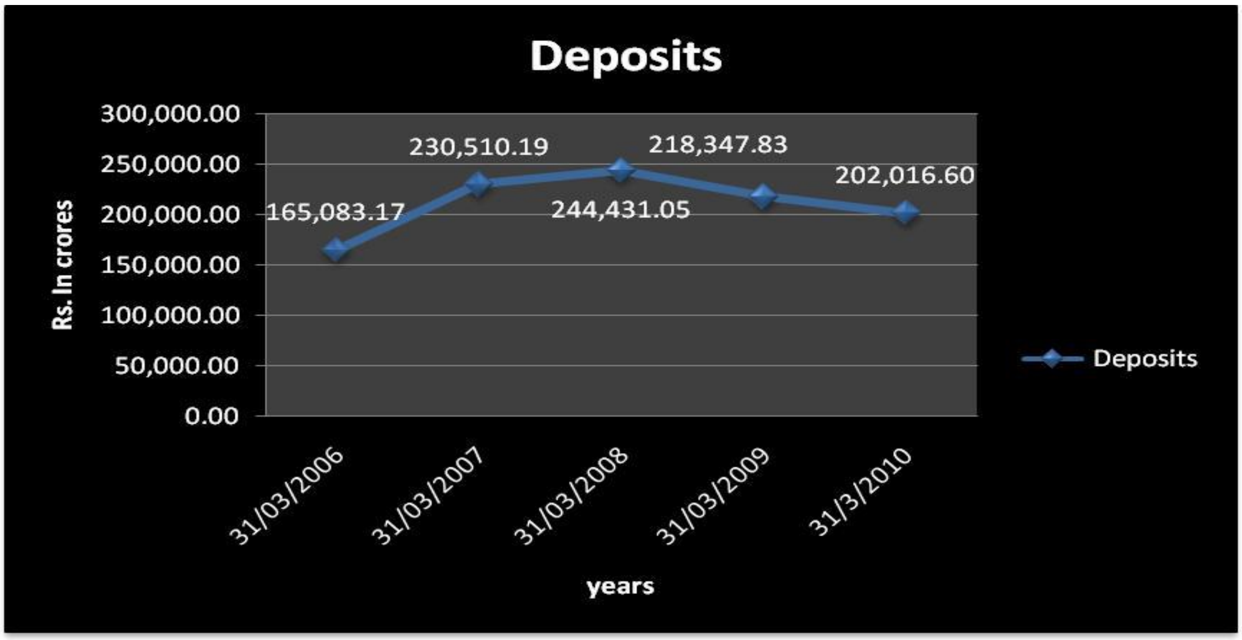
2. CORPORATE PROFILE

ICICI bank with the asset base of Rs. 363,399.71 crore (US $ 81 Billion) and net profit after tax Rs. 4,024.98 crore (US $ 896 million) turned out to be the second largest bank in Indian Territory for the year ended 31st Mach 2010. The Bank has its spread over 19 countries with 2530 branches and approx. 6102 ATMs in India.

An extensive range of Product and services offered by ICICI though diverse delivery channels are personal banking, corporate banking, NRI banking, finance and insurance, retail banking, commercial banking, mortgages, credit cards, asset management, investment banking.

FINANCIAL STATUS OF ICICI Bank (2010)

With the beefed up in deposit franchise at the end March 31, 2010, the CASA ratio has been increased due to strong growth in savings and current account deposits. The bank's branch network has been in expansion mode in order to enhance its deposit franchise and create an integrated distribution network for both asset and liability products.



Source: Company's official site (www.icicibank.com)

Total deposits of the bank have not been showing growing trend since from past 5 years as per data, instead of CASA deposits which has increased by 34% to Rs. 84,216 crore (US$ 18.8 billion) at March 31, 2010 from Rs. 62,668 crore (US$ 14.0 billion) at March 31, 2009.

The bank has also established widely through its distribution reach by way of branch network that is increased to 1,741 at April 24, 2010. The loan book (Advances) of the Bank decreased primarily due to the repayments from the retail loan portfolio and the loan portfolio of overseas branches. Currently, the loan book.

CAPITAL ADEQUACY RATIO

The Bank is subject to the capital adequacy norms stipulated by the RBI guidelines on Basel II which became applicable with effect from March 31, 2008. The guidelines require the Bank to maintain a minimum ratio of total capital to risk adjusted assets (CRAR) of 9.0%, with a minimum Tier I capital ratio of 6.0%. Prior to March 31, 2008, the Bank was subject to the capital adequacy norms as stipulated by the RBI guidelines on Basel I.

The ratio depicts strong position in the area of Capital adequacy which infers less default risk for ICICI Bank.

PROFILE OF BANK OF RAJASTHAN

1. HISTORY

The bank of Rajasthan was established as Joint Stock Bank by Mansingka brothers at Udaipur on 8th May, 1943.The Bank served The Government of Rajasthan as Scheduled bank for more than 14 years starting from 1948. The founder Chairman of Bank of Rajasthan was an industrialist. Named Late Seth Shri Govind Ram Seksaria who started the bank with initial investment of Rs. 10 lacs.

Year	Particulars
2000	Bind off with Infosys Technology in order to get fully automated
2002	MOU signed by Bank of Rajasthan with Bajaj Allianz General Insurance
	Company and Birla Sun Life Insurance
2003	MOU signed with Bank of Baroda to issue co-branded international Visa
	Electron Debit Card
2005-06	Termination of ties up with Bajaj Allianz General Insurance Company and
	Birla Sun Life Insurance
2008	The Bank signed an MOU with ICRA Ltd. in September

www.google.com

2. CORPORATE PROFILE

The Bank of Rajasthan with the asset base of Rs. 17,300.06 crore incurred the net loss after provisions and taxes remained at Rs. 102.13 crore for the year ended 31st Mar 2010. The bank operates through all over India as a private sector bank with 463 branches works as network. It includes 67 onsite and 29 offsite ATMs in 230 cities along with specialized Industrial and forex branches.

The bank provided a broad range of products and services includes commercial banking, Personal banking, merchant banking, auxiliary services, consumer banking, deposit and money placement services, trusts and custodial services, international banking, private sector banking and depository, Credit facilities to SMEs, gold facilities internet banking mobile banking, life insurance, mutual fund services, western union money transfer services and many more. The above mentioned products and services can be divided into 3 segments called treasury operations, Banking operations and residuals.

FINANCIAL STATUS OF Bank OF Rajasthan (2010)

The Bank of Rajasthan has been facing the problem of deteriorated market conditions due to bank's substantial exposure in sectors like textiles and real estates. It was the key sensitive area for Bank of Rajasthan to maintain its assets quality.

The bank had the opportunity to build a good deposit base as it was the established franchise in the state of Rajasthan, but due to low cost Current Accounts and Saving Accounts (CASA) deposits the bank faced declining trend from past 4 years. With the decline in CASA and side by side high interest rate heated up the cost of deposits.

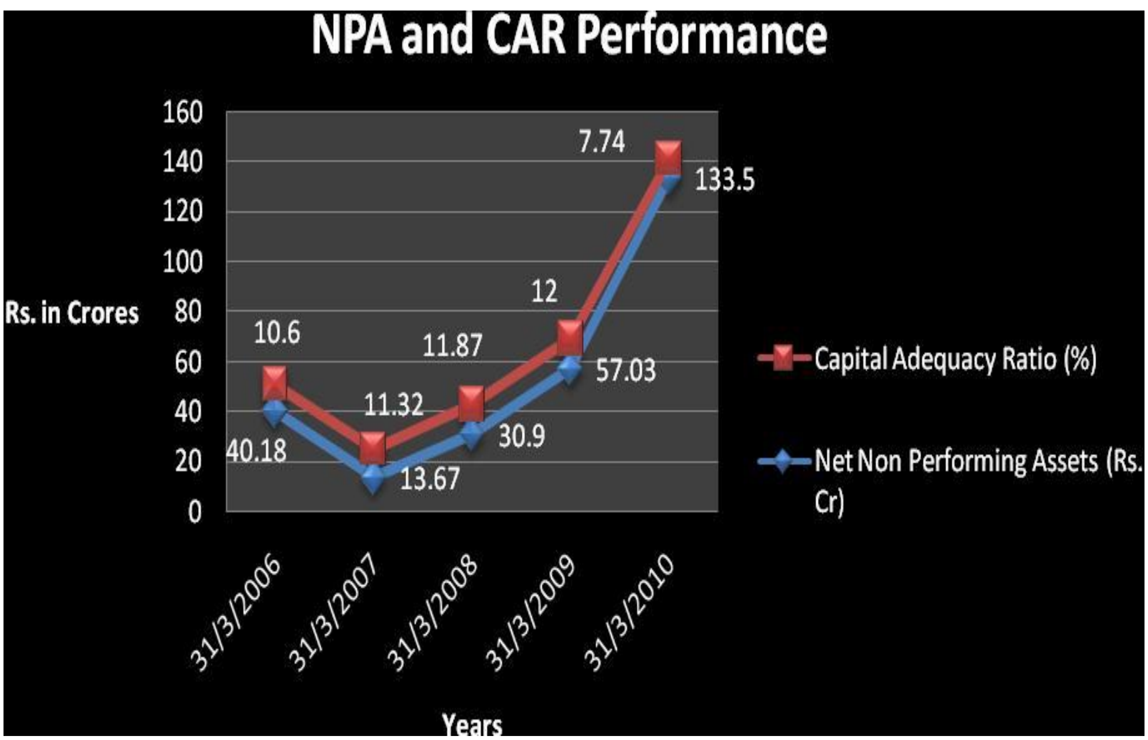
Due to lack of capital Bank of Rajasthan has facing low credit growth of 4.69% due to lower disbursement and large prepayments by some of its clients. The credit growth was remain stable with advances during FY 2010.

CAPITAL ADEQUACY RATIO (CAR)

As per Basel I, the Bank of Rajasthan's CAR stood at 7.74% as on year ended 2010 as compared to 12% of previous financial year. The below mentioned graph depicts the trend lines of Non-Performing assets and CAR. Tier 1 CAR was marginally above the prescribed regulatory requirement of 6% but had declined in March 31st 2010 stood at 3.87%.

The overall condition of Bank of Rajasthan was seen continuously deteriorating due to various legal issues. Some of those were:-

1. Notice from Jaipur Stock exchange limited for alleged violation of clause 36 of the listing agreement.
2. Penalty by RBI on Bank of Rajasthan of Rs. 25 lakhs.
3. Union strike by 3 major employee union of Bank of Rajasthan i.e., AIBOREF, AIBOROA and ABBOR.
4. Notice by Rajasthan high court.



www.zenithresearch.org.in Source: Asian CERC (Amount in Crores)

6.

A GLIMPSE OF THE BANKS

S. No.	Key Rationale	ICICI Bank	Bank of Rajasthan
1	Type	Private sector	Private sector
2	Industry	Banking financial services	Banking, Loan, Capital
3	Year of Incorporation	1994 (promoted by ICICI)	1943, Udaipur
4	Traded as	NSE: ICICIBANK	NSE: BANKRAJAS
		BSE: 532174	
		NYSE: IBN	BSE: 500019
		NASDAQ: IBN	
5	Products	1. Finance and insurance 2. Banking, Retail Banking 3. Commercial Banking 4. Mortgages 5. Credit Cards 6. Private Banking 7. Asset Management 8. Investment Banking	1. Corporate 2. Commercial banking, 3. Retail banking, 4. Finance 5. Insurance 6. Investment Banking 7. Auxiliary services 8. Merchant banking 9. Trust and custodial
6	Business presence	19 countries	All over India
7	Number of offices	1717*	478*
8	Number of employees	35256*	3983*
9	Total Income	32,999.36**	1,489.48**
10	Profit	4,024.98**	(102.13)**
11	Total Assets	363,399.71**	17,300.06**
12	CRAR (Capital to Risk Asset	19.41*	7.52*
	Ratio)		
13	Net NPA Ratio	2.12*	1.60*

* http://www.rbi.org.in/scripts/AnnualPublications.aspx

** Source: Asian CERC (Amount in Crores)

7.

Theory on Mergers and Acquisitions

An entrepreneur may grow its business either by internal expansion or by external expansion. In the case of internal expansion, a firm grows gradually over time in the normal course of the business, through acquisition of new assets, replacement of the technologically obsolete equipment's and the establishment of new lines of products. But in external expansion, a firm acquires a running business and grows overnight through corporate combinations. These combinations are in the form of mergers, acquisitions, amalgamations and takeovers and have now become important features of corporate restructuring. They have been playing an important role in the external growth of a number of leading companies the world over. They have become popular because of the enhanced competition, breaking of trade barriers, free flow of capital across countries and globalization of businesses. In the wake of economic reforms, Indian industries have also started restructuring their operations around their core business activities through merger, acquisition and takeovers because of their increasing exposure to competition both domestically and internationally.

Mergers and acquisitions (M & As) have been a very important market entry strategy as well as expansion strategy. This present era is known as competition era. In this era companies, to avoid the competition, go for merger, and enjoy sometimes monopoly. Corporate India is waking up to the new millennium imperative of mergers and acquisitions in a desperate search for a panacea for facing the global competition. This is hardly surprising as stiff competition is, in a sense, implicit in any bid to integrate the national economy with the global economy. The ongoing process of liberalization has exposed the unproductive use of capital by the Indian corporate both in public and private sectors. Consolidation through mergers and acquisitions (M & As) is considered one of the best ways of restructuring structure of corporate units.

The concept of mergers and acquisitions is very much popular in the current scenario, so it is significantly popular concept, after 1990s, where India entered in to the Liberalization, Privatization and Globalization (LPG) era. The winds of LPG are blowing over all the sectors of the Indian economy but its maximum impact is seen in the industrial sector. It caused the

market to become hyper-competitive. As competition increased in the economy, so to avoid unhealthy competition and to face international and multinational companies, Indian companies are going for mergers and acquisitions.

Basically, a merger involves a marriage of two or more entities. Merger is defined as blending of two or more entity into a single entity. The shareholders of each blending entity will become the substantially the shareholders in the entity which is to carry on the blended entity.

CONCEPT AND DEFINITION:

Merger is defined as combination of two or more companies into a single company where one survives and the other lose their corporate existence. The survivor acquires the assets as well as liabilities of the merged company or companies.

A merger is a combination of two companies where one corporation is completely absorbed by another corporation. The less important company losses its identity and becomes part of the more important corporation, which retains its identity. A merger extinguishes the merged corporation and the surviving corporation assumes all the right, privileges, and liabilities of the merged corporation. A merger is not the same as a consolidation in which two corporations lose their separate identities and unite to form a completely new corporation.

A merger is a combination of two or more businesses into one business. Laws in India use the term 'amalgamation' for merger. The Income Tax Act, 1961 [Section 2(1A)] defines amalgamation as the merger of one or more companies with another or the merger of two or more companies to form a new company, in such a way that all assets and liabilities of the amalgamating companies become assets and liabilities of the amalgamated company and shareholders not less than nine-tenths in value of the shares in the amalgamating company or companies become shareholders of the amalgamated company.

According to the Oxford Dictionary: the expression merger or amalgamation means "Combining of two commercial companies into one" and "Merging of two or more business concerns into one" respectively. A merger is just one type of acquisition. One company can acquire another in several other ways including purchasing some or all of the company's assets or buying up its outstanding share of stock.

To end up the word "MERGER" may be taken as an abbreviation which means:

M ➔ Mixing
E ➔ Entities
R ➔ Recourses for
G ➔ Growth
E ➔ Enrichment and
R ➔ Renovation.

ACQUISITION: Acquisition in general sense is acquiring the ownership in the property. Acquisition is the purchase by one company of controlling interest in the share capital of another existing company. This means that even after the takeover although there is change in the management of both the firms retain their separate legal identity.

HISTORY OF MERGER AND ACQUISITION:

Merger and acquisition activity in the United States has typically run in cycles, with peaks coinciding with periods of strong business growth. U. S. merger activity has been marked by five prominent waves: One around the turn of the twentieth century, the second peaking in 1929 the third in the latter half of the 1960s the fourth in the first half of 1980s and the fifth in the latter half of the 1990s. This last peak, in the final years of the twentieth century, brought very high levels of merger activity.

TYPES OF MERGER

There are mainly four types of mergers based on the competitive relationships between the merging parties:

1) Horizontal Mergers
2) Vertical Mergers
3) Conglomerate Mergers
4) Reverse Mergers

1) HORIZONTAL MERGER:

Horizontal Merger is a combination of two or more firms in the same area of business. Horizontal merger is a merger of two companies which are essentially operating in the same business. The main purpose of this merger is to obtain economy of scale in production by eliminating duplication of facilities, reduction of competition, reduction of cost, increase in share price and market segments. For example, the merger of ICICI Bank and Bank of Madura is a horizontal merger. But the merger of ICICI bank and Mahindra Tractor is not a horizontal merger. Horizontal mergers raise three basic competitive issues. The first is the elimination of competition between the merging firms, which, depending on their size, may be significant. The second is that the unification of the merging firm's operations may create substantial market power and could enable the merged entity to raise prices by reducing output unilaterally. The third problem is that by increasing concentration in the relevant market, the transaction may strengthen the ability of the markets remaining participants to co-ordinate their pricing and output decisions. The fear is not that the entities will engage in secret collaboration but that the reduction in the number of industry members will enhance co-ordination of behavior.

2) VERTICAL MERGERS:

Vertical merger is a combination of two or more firms involved in different stages of production or distribution of the same product. It is a merger of one company with another having different stages of production / distribution process of the same product / service. In short the

merging companies are engaged in different stages of production or distribution. The main objective is to increase profitability by the previous distributors. For example, ICICI Ltd With ICICI Bank is an example of vertical merger with backward linkage as far as ICICI Bank is concerned. Vertical merger may take the form of forward or backward merger. When a company combines with the supplier of material, it is called backward merger and when it combines with the customer, it is known as forward merger. And their two benefits: first, the vertical merger internalizes all transactions between manufacturer and its supplier or dealer thus converting a potentially adversarial relationship into something more like a partnership. Second, internalization can give the management more effective ways to monitor and improve performance. Vertical mergers may also be anticompetitive because their entrenched market power may impede new business from entering the market. Vertical integration by merger does not reduce the total number of economic entities operating at one level of the market, but it may change patterns of industrial behavior. Whether a forward or backward integration, the newly acquired firm may decide to deal only with the acquiring firm, thereby altering competition among the acquiring firm's suppliers, customers, or competitors. Suppliers may lose a market for their goods, retail outlets may be deprived of supplies, or competitors may find that both supplies and outlets are blocked. This raises the concern that vertical integration will foreclose competitors by limiting their access to sources of supply or to customers. Vertical mergers may also be anticompetitive because their entrenched market power may impede new businesses from entering the market.

3) CONGLOMERATE MERGER:

Conglomerate merger is an amalgamation of two companies engaged in different line of business, in other words, the merging companies are engaged in diverse business activities. For example, ICICI Ltd merger with Mahindra tractor and Reliance Industries Ltd. merged with

Reliance Petroleum Ltd. Conglomerate transactions take many forms, ranging from short term joint ventures to complete mergers. Whether a conglomerate merger is pure, geographical or a product line extension it involves firms that operate in separate market. Conglomerate transactions ordinarily have no direct effect on competition. Conglomerate merger can supply a market or demand for firms thus giving entrepreneurs liquidity at an open market price and with a key inducement to form new enterprises. Conglomerate merger also provide opportunity for firms to reduce capital cost and overhead and achieve other efficiencies. This type of merger may also reduce the number of smaller firms and increase the merged firm's political power, thereby impairing the social and political goal of retaining independent decision making center guaranteeing small business opportunities and preserving democratic processes.

4) REVERSE MERGER:

Reverse merger is a merger of an ordinary merger, achieved the same general industry but in the same line of business. In case of a reverse merger a healthy company merges into a financially weak company and the former company is dissolved. For example the merger of machine tool manufacturer with the manufacturer of industrial conveyor system. The principal change the name of the company to the name of their company and elect their nominees to the board of directors. A private company merged with an existing public company or a subsidiary of a public company. In a reverse merger an operating private company merges with a public company which has no assets or known liabilities.

5. DEMERGER:

It has been defined as a split or division. As the same suggests, it denotes a situation opposite to that of merger. Demerger or spin-off, as called in US involves splitting up of conglomerate (multi-division) of company into separate companies This occurs in cases where dissimilar business are carried on within the same company, thus becoming unwieldy and cyclical almost resulting in a loss situation. Corporate restructuring in such situation in the form of demerger

becomes inevitable. Merger of SG chemical and Dyes Ltd. with Ambalal Sarabhai enterprises Ltd. (ASE) has made ASE big conglomerate which had become unwieldy and cyclic, so demerger of ASE was done.

DIFFERENCE BETWEEN MERGER AND ACQUISITION:

It is true that the terms Mergers and Acquisitions are used in a way that it seems, both are synonymous. But, the fact is that, there is a slight difference in the two concepts. In case of a Merger, two firms, together, form a new company. After merger, the separately owned companies become jointly owned and get a new single identity. When two firms get merged, stocks of both the concerns are surrendered and new stocks in the name of new merged company are issued. Generally, Mergers take place between two companies of more or less of same size. In these cases, the process is called Merger of Equals. But, in case of Acquisition, one firm takes over another and establishes its power as the single owner. Here, generally, the firm which takes over is the bigger and stronger one. The relatively less powerful smaller firm loses its existence after Acquisition and the firm which takes over, runs the whole business by its' own identity. Unlike Merger, in case of Acquisition, the stocks of the acquired firm are not surrendered. The stocks of the firm that are bought by the public earlier continue to be traded in the stock market. But, often Mergers and Acquisitions become synonymous, because in many cases, the big firm may buy out a relatively less powerful one and thus compels the acquired firm to announce the process as a Merger. Although, in reality an Acquisition takes place, the firms declare it as a Merger to avoid any negative impression.

Another difference between Merger and Acquisition is that, when a deal is made between two companies in friendly terms, it is proclaimed as Merger, even in case of a buy-out. But, if it is an unfriendly deal, where the stronger firm swallows the target firm, even when the target company is not willing to be purchased, then it is called an Acquisition. An acquisition may be defined as an act of acquiring effective control by one company over assets or management of another company without any combination of companies. Thus, in an acquisition two or more companies may remain independent, separate legal entities, but there

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may be a change in control of the companies. When an acquisition is 'forced' or 'unwilling', it is called a takeover. In an unwilling acquisition, the management of the 'target' company would oppose a move of being taken over. But, when managements of acquiring and target companies mutually and willingly agree for the takeover, it is called acquisition or friendly takeover.

Under the Monopolies and Restrictive Practices Act, takeover means acquisition of not less than 25 percent of the voting power in a company. While in the Companies Act (Section 372), a company's investment in the shares of another company in excess of 10 percent of the subscribed capital can result in takeovers. An acquisition or takeover does not necessarily entail full legal control. A company can also have effective control over another company by holding a minority ownership.

SIGNIFICANCE OF MERGER AND ACQUISITION:

2+2=5: This equation is the special alchemy of a merger or acquisition. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. Two companies together are more valuable than two separate companies this is the main reason behind merger and acquisition. Sometimes organization can produce goods or services more efficiency if they combine their efforts and facilities. These efficiency gains may come simply of the size of the combined company. Collaborating or sharing expertise may be achieve gains in efficiency or a company might have underutilized assets, the other company can better use. Also a change in management may take the company more profitable. The management of an acquiring company may be motivated more by the desire to manage large companies than by any possible gains in efficiency

Accelerating a company's growth particularly when its internal growth is constrained due to paucity of resources, internal growth requires that a company should develop its operating facilities- manufacturing, research, marketing, etc. But, lack or inadequacy of resources and time needed for internal development may constrain a company's pace of growth. Hence, a company can acquire production facilities as well as other resources from outside through mergers and acquisitions. Specially, for entering in new products/markets, the

company may lack technical skills and may require special marketing skills and a wide distribution network to access different segments of markets. The company can acquire existing company or companies with requisite infrastructure and skills and grow quickly.

This may happen because of:

1. ECONOMIES OF SCALE :

Arise when increase in the volume of production leads to a reduction in the cost of production per unit. This is because, with merger, fixed costs are distributed over a large volume of production causing the unit cost of production to decline. Economies of scale may also arise from other indivisibilities such as production facilities, management functions and management resources and systems. This is because a given function, facility or resource is utilized for a large scale of operations by the combined firm.

2. OPERATING ECONOMIES:

Arise because a combination of two or more firms may result in cost reduction due to operating economies. In other words, a combined firm may avoid or reduce over-lapping functions and consolidate its management functions such as manufacturing, marketing, R&D and thus reduce operating costs. For example, a combined firm may eliminate duplicate channels of distribution, or crate a centralized training center, or introduce an integrated planning and control system.

3. SYNERGY:

Implies a situation where the combined firm is more valuable than the sum of the individual combining firms. It refers to benefits other than those related to economies of scale. Operating economies are one form of synergy benefits. But apart from operating economies, synergy may also arise from enhanced managerial capabilities, creativity, innovativeness, R&D and market coverage capacity due to the complementarily of resources and skills and a widened horizon of opportunities.

4. CROSS SELLING:

For example a bank buying a stockbroker could than sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for broker's accounts.

5. TAXES SAVINGS:

Profitable company can buy a loss making unit to use the targets tax write offs. In the U.S. and many countries, rules are in place to limit the ability of profitable companies to shop for loss making companies limiting the tax motive of an acquiring company.

6. GREATER VALUE GENERATION:

Companies go for Mergers and Acquisition from the idea that, the joint company will be able to generate more value than the separate firms. When a company buys out another, it expects that the newly generated shareholder value will be higher than the value of the sum of the shares of the two separate companies.

7. GAIN IN MARKET SHARE:

Mergers and Acquisitions can prove to be really beneficial to the companies when they are weathering through the tough times. If the company which is suffering from various problems in the market and is not able to overcome the difficulties, it can go for an acquisition deal. If a company, which has a strong market presence, buys out the weak firm, then a more competitive and cost efficient company can be generated. Here, the target company benefits as it gets out of the difficult situation and after being acquired by the large firm, the joint company accumulates larger market share. This is because of these benefits that the small and less powerful firms agree to be acquired by the large firms.

8. RESOURCE TRANSFER:

Resource are unevenly distributed across firms and the interaction of target and acquiring firm resources can create value through either overcoming information or combining scarce resources.

LIMITATION OF MERGER:

1. Elimination of healthy competition.
2. Concentration of economic power.
3. Monopoly affecting the customer and suppliers.
4. Striving for bigness.
5. Adverse effects on national economy.

WHY MERGER FAILS:

The main reasons for mergers failure are:

1. Mergers fail in providing economies of scale.
2. Un-utilization or minimum utilization of staff and working hours.
3. Desire towards authority but not to responsibility.
4. The inability of the leader in bridging the cultures within the merged organization.
5. Paying too much.
6. Swallowing something too big.
7. Assuming a boom market won't crash.
8. Lack of leadership qualities of merged organizations' directors and partners.

IMPACT OF MERGER AND ACQUISITION:

1. ON SHAREHOLDERS OF THE ACQUIRED FIRM:

The shareholders of the acquired company benefit the most. The reason being, it is seen in majority of the cases that the acquiring company usually pays a little excess than it what should. Unless a man lives in a house he has recently bought, he will not be able to know its drawbacks. So that the shareholders forgo their shares, the company has to offer an

amount more than the actual price, which is prevailing in the market. Buying a company at a higher price can actually prove to be beneficial for the local economy. They are most affected. If we measure the benefits enjoyed by the shareholders of the acquired company in degrees, the degree to which they were benefited, by the same degree, these shareholders are harmed. This can be attributed to debt load, which accompanies an acquisition.

2. ON EMPLOYEES :

In the process of consolidation of corporate sector human resource is also considered to be vital and sensitive issue. The UNI Europe estimated that around 13000 jobs have been lost in 10 years as a result of merger and acquisition process. It is a well-known fact that whenever there is a merger or an acquisition, there are bound to be layoffs. In the event when a new resulting company is efficient business wise, it would require less number of people to perform the same task. Under such circumstances, the company would attempt to downsize the labor force. If the employees who have been laid off possess sufficient skills, they may in fact benefit from the lay off and move on for greener pastures. But it is usually seen that the employees, those who are laid off, would not have played a significant role under the new organizational set up. This accounts for their removal from the new organization set up. These workers in turn would look for re-employment and may have to be satisfied with a much lesser pay package than the previous one. Even though this may not lead to drastic unemployment levels, nevertheless, the workers will have to compromise for the same. If not drastically, the mild undulations created in the local economy cannot be ignored fully.

3. ON CUSTOMERS:

The impact of merger and acquisitions has brought a win situation for the customers; this is because the customers are left with a high range of products with a low range of price. This has become possible because the cost of the production which has been reduced due to the cost reduction process adopted by the banks. Thus, offering a wide range of services at a lower rate. All this has become possible due to the advent of information and technology, which allows them to save cost by operating with fewer branches or without a traditional branches network.

4. On THE NEW ORGANIZATION:

Mergers and acquisitions immediately impact organizations with changes in ownership, in ideology, and eventually, in practice. Of the three root strategic assets noted above, cultural cohesion is most often the critical asset in the eventual success or failure of the overall deal and the one that impacts the extent to which qualitative talent retention can be attained. Despite the fact that it is increasingly common these days for companies to publish their cultural traits or values, what is listed does not always reflect the actual culture of the place. Anthropologists have long known that the task of learning about a specific group's culture does not start by asking members themselves to identify the specific traits. In fact, cultural traits are not readily identified by the members of a social group. Understanding the depth of cultural influences that are practiced over time within a specific group or organization requires long periods of reflective observation and the formation of key questions about beliefs, disciplines and innovative problem solving strategies.

5. ON TOP LEVEL MANAGEMENT:

Impact of mergers and acquisitions on top level management may actually involve a "clash of the egos". There might be variations in the cultures of the two organizations. Under the new set up the manager may be asked to implement such policies or strategies, which may not be quite approved by him. When such a situation arises, the main focus of the organization gets diverted and executives become busy either settling matters among themselves or moving on. If however, the manager is well equipped with a degree or has sufficient qualification, the migration to another company may not be troublesome at all.

THE TOP 10 ACQUISITIONS MADE BY INDIAN COMPANIES WORLDWIDE:

ACQUIRER	TARGET COMPANY	COUNTRY TARGETED	DEAL VALUE ($Ml)
Tata steel	**Corus group Plc.**	**UK**	**12,000**
Hindalco	**Novelis**	**CANADA**	**5,982**
Videocon	**Daewoo Electronics Corp.**	**KOREA**	**729**
Dr. Reddy's Lab	**Beta pharm**	**GERMANY**	**597**
Suzlon energy	**Hansen group**	**BELGIUM**	**565**
HPCL	**Kenya Petroleum Refinery Ltd.**	**KENYA**	**500**
Ranbaxy Labs	**Terapia SA**	**ROMANIA**	**324**
Tata Steel	**Natsteel**	**SINGAPORE**	**293**
Videocon	**Thompson SA**	**FRANCE**	**290**
VSNL	**Teleglobe**	**CANADA**	**239**

OBJECTIVES OF THE STUDY

The study has been undertaken to contribute towards the following broad Objectives:

1. To analyze the impact of merger on financial performance of ICICI Bank.
2. To understand the financial performance and differences.
3. To understand the importance of Merger in Bank.

Literature Review

1 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.

2 Goyal K.A. & Joshi Vijay (2011) in their paper, gave an overview 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&As in the banking sector in terms of financial, human resource & legal aspects. It also described the benefits come out through M&As and examined that M&As 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.

3 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. Target Banks are more leverage (dissimilarity) than bidder Banks, so the merger lead to attain optimum capital Structure for the bidders and asset quality of target firms is very poor except the cases of the HDFC Vs the CBOP merger in 2007. The factors behind voluntary amalgamation are synergies, efficiency, cost saving, economies of scale. The merging partners strategically similarities and relatedness are very important in the synergy creation because the relatedness of the strategic variable have a significant impact on the Bank performance and the effect of merger on the stock market.

4 Mantravadi Pramod & 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. They selected all mergers involved in public limited and traded companies in India between 1991 and 2003, result 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 on pharmaceutical, textiles and electrical equipment’s sector and showed the marginal negative impact on operative performance. Some of the industries had a significant decline both in terms of profitability and return on investment and assets after merger.

RESEARCH METHODOLOGY

❖ Hypothesis of study

1. ***H_0 (Null Hypothesis)*** – There is no significant difference between the pre and post-merger Operating Profit Margin of ICICI Bank.

   H_1 (Alternative Hypothesis) - There is a significant difference between the pre and post- merger Operating Profit Margin of ICICI Bank.

2. ***H_0 (Null Hypothesis)*** – There is no significant difference between the pre and post-Merger Earning Per Share of ICICI Bank.

   H_1 (Alternative Hypothesis) - There is a significant difference between the pre and post-merger Earning Per Share of ICICI Bank.

3. ***H_0 (Null Hypothesis)*** – There is no significance difference between the pre and post-Merger Debt Equity Ratio of ICICI Bank.

   H_1 (Alternative Hypothesis) - There is a significant difference between the pre and post-merger Debt Equity Ratio of ICICI Bank.

4. ***H_0 (Null Hypothesis)*** – There is no significant difference between the pre and post-merger Dividend Payout Ratio of ICICI Bank.
   H_1 (Alternative Hypothesis) - There is a significant difference between the pre and post-merger Dividend Payout Ratio of ICICI Bank.

5. ***H_0 (Null Hypothesis)*** – There is no significant difference between the pre and post-merger Market share Price of ICICI Bank.

   H_1 (Alternative Hypothesis) - There is a significant difference between the pre and post-merger market Share Price.

❖ Sample size and sample selection

Acquirer Company	Target Company	Year	Deal value
ICICI Bank	Bank of Rajasthan	2009-2010	667Mn USD

❖ Tools and Techniques

It involves application of accounting comparative ratio analysis using six major financial ratios for analyzing the financial performance of the sample case.

1. Operating Profit Ratio
2. Net Profit Ratio
3. Earnings Per Share (EPS)
4. Debt - Equity Ratio
5. Return on Investment (ROI)
6. Dividend Payout Ratio

The average of ratios are compared using Paired Sample‘t’ Test. A confidence interval of 95% is set for difference of means.

Data Analysis and Interpretation.

Calculation of Ratios

Operating Profit Margin Ratio = Operating Profit/Sales × 100

Net Profit Ratio = Net Profit (after tax)/Net Sales × 100

Return on Assets = Net Profit after Tax/Total Assets × 100

Return on Equity (ROE) = Net Profit/Equity Share Holder’s Funds × 100

Debt Equity Ratio (Pure Ratio) = Total Debt/ Share Holder Equity

Dividend Payout Ratio = Dividend / Net Income X 100

Financial Performance of ICICI Bank										
	PRE- MERGER				POST – MERGER					
	2007 - 08	2008 - 09	2009 - 10	Avg.	2010 – 11	2011 - 12	2012 -13	Avg.	t value	sig.
Operating Profit Ratio	**20.11**	**23.07**	**29.16**	**24.11**	**25.4**	**27.27**	**30.39**	**27.68**	**-2.98**	**0.09**
Net Profit Ratio	**10.51**	**9.72**	**12.07**	**10.76**	**15.76**	**17.20**	**17.97**	**16.97**	**-9.40**	**0.01**
Return on Assets	**1.11**	**1.10**	**1.11**	**1.10**	**1.45**	**1.67**	**1.65**	**1.59**	**-5.51**	**0.03**
Return on Equity	**11.11**	**7.71**	**7.91**	**8.91**	**11.10**	**12.95**	**7.04**	**10.36**	**-0.77**	**0.52**
Earnings per Share	**39.40**	**33.77**	**36.15**	**36.44**	**56.12**	**72.21**	**84.91**	**71.08**	**-3.68**	**0.06**
Debt Equity Ratio	**5.28**	**4.43**	**3.92**	**4.54**	**4.25**	**4.40**	**4.32**	**4.32**	**0.53**	**0.64**
Dividend Payout Ratio	**33.13**	**36.61**	**37.32**	**35.68**	**32.83**	**27.72**	**30.19**	**30.24**	**2.09**	**0.16**
Share Price (NSE/BSE)	**770**	**333**	**953**	**685**	**887**	**1045**	**1245**	**1059**	**-2.12**	**0.17**

(Source: Compiled from the Financial Statements of Banks)

Net Profit Ratio

Is a useful tool to measure the overall profitability of the business? A high ratio indicates the efficient management of the affairs of the business.

“Net Profit (NP) Ratio = Net profit after Tax/ Net Sales” = PAT/GROSS SALES-DISCOUNTS, RETURNS, ALLOWANCES.

Net profit = Gross Profit – operating expenses and income tax

Operating Profit Margin Ratio

It is a ratio used to measure a company’s pricing strategy and operating strategy. It gives an idea as of how much a company makes on each dollar of sales. If a company’s margin is increasing, it is earning more. The higher the margin, the better. It is given by:

Operating Profit Margin Ratio = Operating Income/Net sales.

= EBIT/Net Sales

Return on Assets (ROA)

It is the ratio of annual net profit after tax (PAT) to average total assets of a business during a financial year. It measures the efficiency of the business in using its assets to generate net income. It is a profitability ratio. An increasing trend of ROA indicates that the profitability of the company is improving.

ROA = Annual Profit after tax/Average total assets. = PAT/TOTAL ASSETS.

Return on Equity (ROE)

The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investment in the company. It is also an indicator of how effective management is at using equity financing to fund operations and grow the company.

Return on Equity Ratio = Net Profit after Tax/Shareholders Equity Fund=PAT/TOTAL EQUITY.

Debt to Equity Ratio

The debt to equity ratio is a financial liquidity ratio that compares a company's total debt to total equity. It shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing 9Bank loans) is used than investor financing. A lower debt to equity ratio usually implies a more financially stable business. Companies with a higher debt to equity ratio are considered more risky to creditors and investors than companies with lower ratio.

Debt to Equity Ratio = Total Liabilities/Total Equity

Earnings per Share (EPS)

Is also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. Earnings per share are the same as any profitability or market prospect ratio. Higher earnings per share are always better than a lower ratio because this means the company is more profitable and the company has more profits to distribute to its shareholders.

EPS = Net Income – Preferred Dividend's/Weighted average common shares outstanding

Dividend Payout Ratio

It measures the percentage of net income that is distributed to shareholders in the form of dividends during the year. This ratio shows the portion of profit the company decides to keep to fund operations and the portion of profit that is given to its shareholders. A consistent trend in this ratio is usually more important than high or low ratio. A company that has a downwards trend of payouts is alarming to investors.

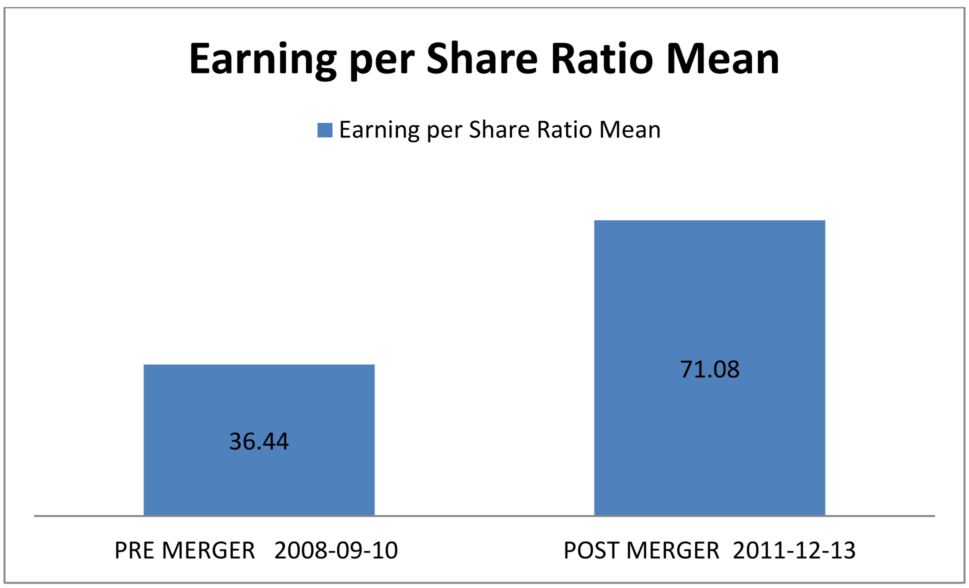
Dividend Payout Ratio = Total Dividend/Net Income

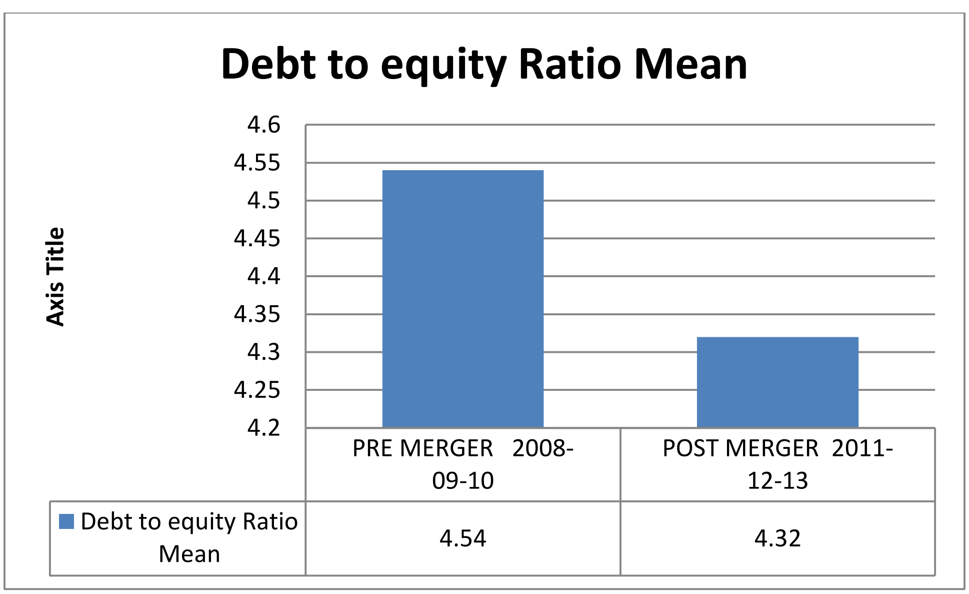
Analysis of Financial Data

Table 1 shows the analysis of the financial performance of ICICI Bank before and after the merger of Bank of Rajasthan with ICICI. The evaluation is made on the basis of the financial ratios. It is found that there is a difference in the performance after the merger. There is an increase in the average Operating Profit Margin (24.11 % to 27.68%), Net Profit Margin (10.76% to 16.97%), Return on Assets (1.10 % to 1.59%), Return on Equity (8.91 % to 10.36%) and Earnings per Share were (36.44% to 71.08%) in the post-merger period. It is only in the case of Debt Equity Ratio and Dividend Payout Ratios, there is a decline in the post-merger period. Market Price of the Share has continuously increased during the post-merger period and the Average Share Price has risen from Rs. 685 to Rs. 1,059 reflecting upon a favorable impact of Merger.

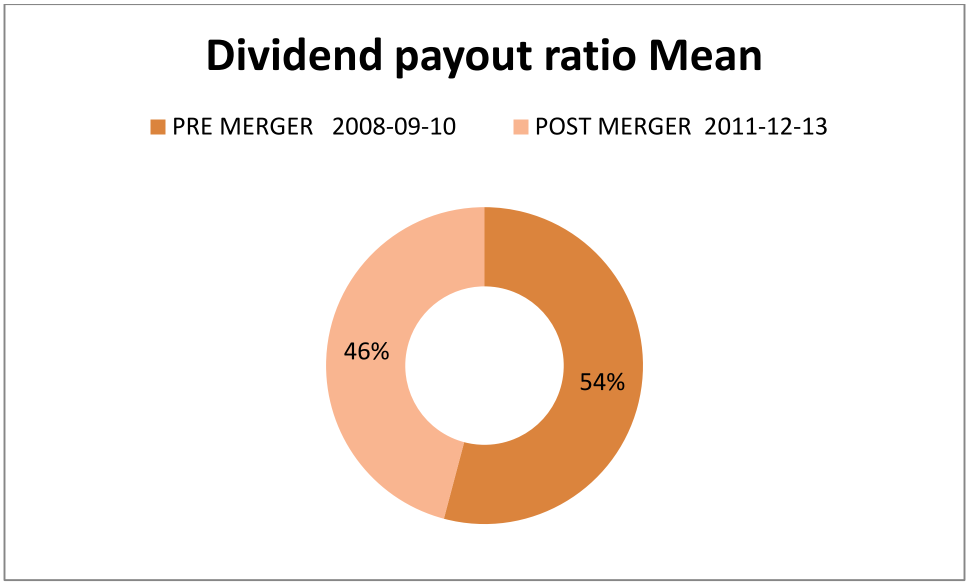
The result of the `t' test states that the difference in the Operating Profit Margin, Return on Equity, Earning per Share, Debt Equity Ratio, Dividend Payout Ratio and Market Price of the Share; is statistically not significant therefore, the ***H_0* is accepted,** which says that there is no significant difference between the pre and post-merger in case of the ICICI Bank, though there is a difference in absolute terms. Whereas the performance of ICICI bank in terms of the Net Profit Margin and Return on Assets has improved significantly after the merger - ***H_1 is* accepted.**

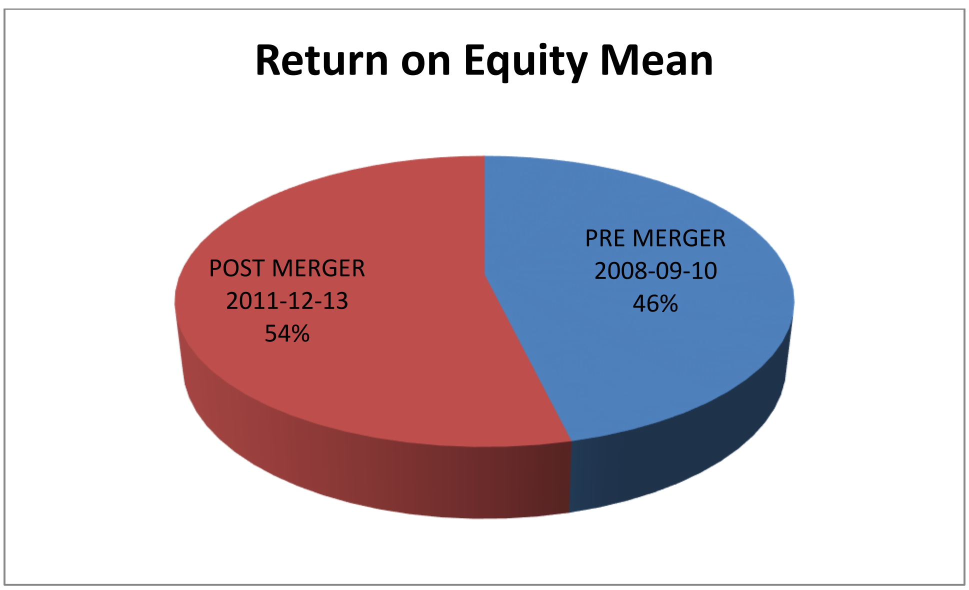
GRAPHICAL OUTPUT



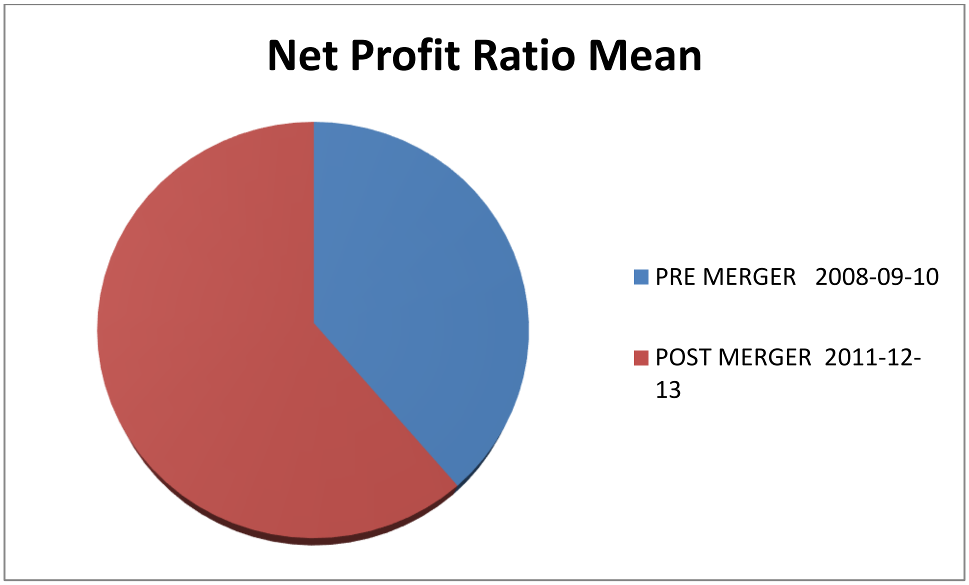


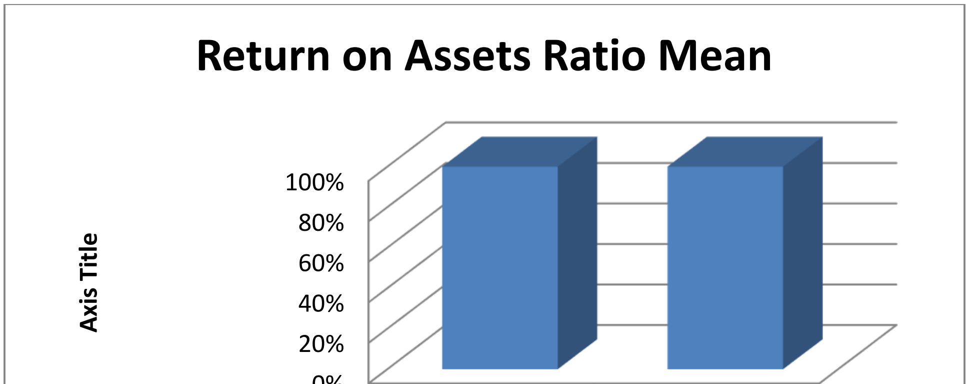
30


Dividend payout ratio Mean
PRE MERGER 2008-09-10
POST MERGER 2011-12-13
46%
54%

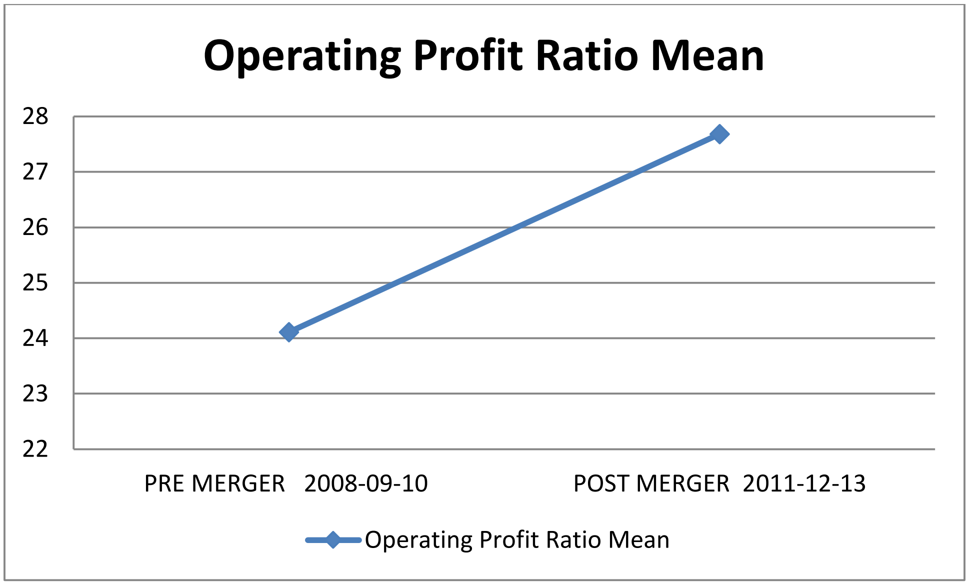

Return on Equity Mean
POST MERGER
2011-12-13
54%
PRE MERGER
2008-09-10
46%

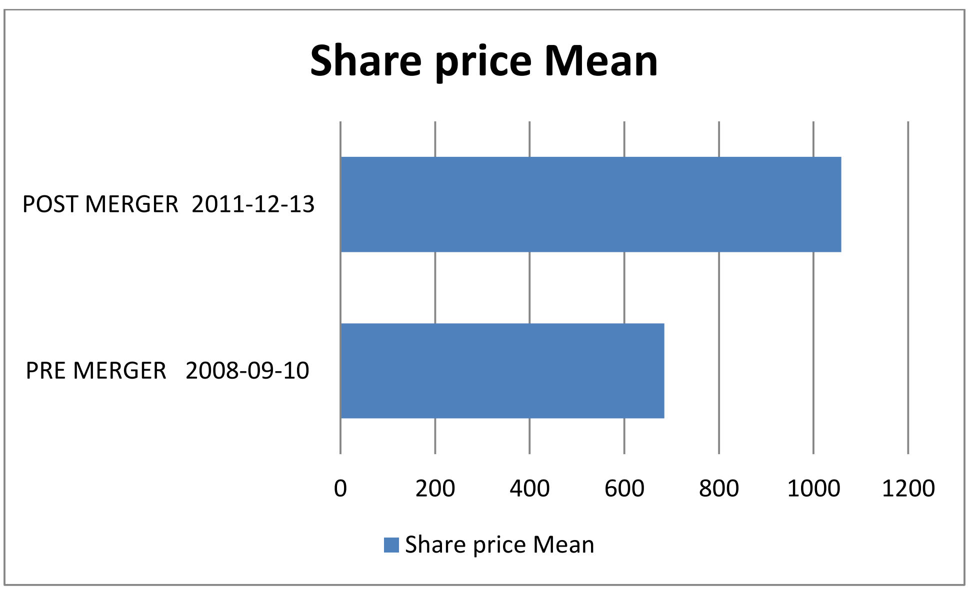
31





	PRE MERGER 2008-09-10	POST MERGER 2011-12-13
Return on Assets Ratio Mean	1.1	1.59


Operating Profit Ratio Mean
28
27
26
25
24
23
22
PRE MERGER 2008-09-10
POST MERGER 2011-12-13
Operating Profit Ratio Mean


Share price Mean
POST MERGER 2011-12-13
PRE MERGER 2008-09-10
0
200
400
600
800
1000
1200
Share price Mean

❖ LIMITATIONS OF THE STUDY

1. The study is based purely on secondary data which are taken from the financial statements of the case through internet only and therefore cannot be denied for any ambiguity in data used for the study.
2. Though study have made a humble attempt to encompass the pre and post-merger performance of the selected sample merger case, it is to narrate all incidents and changes brought up due to mergers and acquisitions.

Conclusions

Mergers and Acquisition is a useful tool for the growth and expansion in any Industry and the Indian Banking Sector is no exception. It is helpful for the survival of the weak banks by merging into the larger bank. This study shows the impact of Mergers and Acquisitions in the Indian Banking sector and two cases have been taken for the study as sample to examine as to whether the merger has led to a profitable situation or not. For this purpose, a comparison between pre and post-merger performance in terms of Operating Profit Margin, Net Profit Margin, Return on Assets, Return on Equity, Earning per Share, Debt Equity Ratio, Dividend Payout Ratio and Market Share Price has been made in case of ICICI Bank. In this case, Net Profit and Return on Assets have showed an improvement after the merger but in case of the other parameters there is no significant improvement in the performance.

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