A DISSERTATATION REPORT

ON

"ANALYSIS OF POST MEREGER EFECTS OF MEREGERS & ACQUISITIONS

IN

INDIAN BANKING SECTOR "

SUBMITTED TO

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CERTIFICATE

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I have completed the project and all other assignments as part of this **Dissertation Project**, assigned to me and have handed over all reports, material, files and books to the satisfaction of my project guide, departmental head .I have also discussed and submitted my final dissertation to the institution .

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In case of any remark on any of the above mentioned authorities wish to report a matter in a manner different from the certification above, the space provided below should be used.

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CONTENT

CHAPTER -1

PROJECT OBJECTIVE, INTRODUCTION

INTRODUCTION

Mergers and acquisitions are both aspects of strategic management's corporate finance and management dealing with the buying selling dividing and combining of different companies and similar entities.

A merger is an result that transact the owner ship and a control of a firm to other . M&A is defined as a restructuring of in that they result in some entity reorganization with an aim to provide growth or positive value. Consolidation of an industry or sector occurs when wide spread M&A activity concentrates the resources of many small companies into a few larger ones such as occurred with automotive industry between 1910 to 1940.

PROJECT OBJECTIVE

Public sector banks in India require equity capital of 2.4 lakh crore by 2018 to meet global Bessel III norms on capital adequacy. As per the Hon.ble Finance minster of India Mr. Arun Jaitely the capital of all PSB will be raised by increasing of the share holding of people in a phased manner through the sale of share largely through retail to common citizen of this country.

- Presently Indian public sector banks are facing challenges like -:
- Man power planning
- Customer relation
- Talent management
- Nonperforming asset
- Employee training
- Finance
- Risk assessment

In this scenario mergers and acquisition is one of the widely used strategies by the banks to strengthen and maintain their position in the market. Companies and investors are believed that only big players can survive as there is a cut throat competition in the market. Banks will gate operating benefits by merging with each other and also helps to reduce cost by preventing the delicacy of so many operations. Banking sector all over the world using merger and acquisition to increase in size, achieve synergy and became more competitive in economies of scale.

The purpose of my report is to give insight to the Indian banking sector and to point out the effect of merger and acquisition on the consumer and the competition of such entities in market. Through this report I approached different possible solutions for Indian banking sector. I did different analysis to find out the effect of merger and acquisition on share price of banks in India . The rise and fall of share price can be determined by different analysis like fundamental analysis and technical analysis . Here we made a fundamental analysis of different merged banks to determine how merger and acquisition can help other banks to increase their share price.

CHAPTER-2

AN OVER VIEW OF INDIAN BANKING SECTOR

AN OVER VIEW OF INDIAN BANKING SECTOR

Indian Banking can be divided into three main phases: Phase I (1786 – 1969): Initial phase of Banking in India where many small banks were set up Phase II (1969 – 1991): Nationalization, Regularization and Growth marked this period Phase III (1991 onwards): Liberalization and its aftermath In post liberalization regime, Government had initiated the policy of liberalization and licenses were issued to the private banks which led to the growth of the Indian Banking Sector. In the recent times, Indian Banking Industry showed a tremendous growth because of an increase in the retail credit demand, proliferation of ATMs and debit cards, decreasing NPAs, improved macro economic conditions, diversification, interest rate spreads and regulatory and policy changes.

Narshimam committee report

The Narasimham Committee on Banking Sector Reform was set up in December, 1997. This Committee's terms of reference include; review of progress in reforms in the banking sector over the past six years, charting of a programme of banking sector reforms required making the Indian banking system more robust and internationally competitive and framing of detailed recommendations in regard to banking policy covering institutional, supervisory, legislative and technological dimensions. The Committee submitted its report on 23 April, 1998 with the following suggestions:

The Committee recommended for merger of large Indian banks to make them strong enough for supporting international trade. The Committee recommended the use of mergers to build the size and strength of operations for each bank.
large banks should merge only with banks of equivalent size and not with weaker banks

- Two or three banks with international orientation, eight to 10 national banks and a large number of local banks.
- Rehabilitate weak banks with the introduction of narrow banking.
- Confine small, local banks to States or a cluster of Districts.
- Review the RBI Act, the Banking Regulation Act, the Nationalization Act and the State Bank of India Act.
- Speed up computerization of public sector banks.
- Review the recruitment procedures, and the training and remuneration policies of PSU banks.
- Depoliticisation of appointments of the bank CEOs and professionalization of the bank Boards.
- Strengthen the legal framework to accelerate credit recovery.
- Increase capital adequacy to match the enhanced banking risk.
- Budgetary support non-viable for recapitalization.
- No alternative to the asset reconstruction fund. Hence, one of the major reasons for bank mergers was the Narasimham Committee report on Banking reforms.

REASONS OF MERGER AND AQUCITIONS OF INDIAN BANKS

- Growth with External Efforts: With the economic liberalization the competition in the banking sector has increased and hence there is a need for mega banks, which will be intensely competing for market share. In order to increase their market share and the market presence some of the powerful banks have started looking for banks which could be merged into the acquiring bank. They realized that they need to grow fast to capture the opportunities in the market. Since the internal growth is a time taking process, they started looking for target banks

- Deregulation: With the liberalization of entry barriers, many private banks came into existence. As a result of this there has been intense competition and banks have started looking for target banks which have market presence and branch network.

- Technology: The new banks which entered as a result of lifting of entry barriers have started many value added services with the help of their technological superiority. The older banks which cannot compete in this area may decide to go for mergers with these high-tech banks.

- New Products/Services: New generation private sector banks which have developed innovative products/services with the help of their technology may attract some old generation banks for merger due to their incapacity to face these challenges.

- Over Capacity: The new generation private sector banks have begun their operation with huge capacities. With the presence of many players in the market, these banks may not be able to capture the expected market share on its own. Therefore, in order to fully utilize their capacities these banks may look for target banks which may not have modern day facilities.

- Customer Base: In order to utilize the capacity of the new generation private sector banks, they need huge customer base. Creating huge customer base takes time. Therefore, these banks have started looking for target banks with good customer bases. Once there is a good customer base, the banks can sell other banking products like car loans, Housing loans, consumer loans, etc., to these customers as well.

- Merger of Weak Banks: There has been a practice of merging weak banks with a healthy bank in order to save the interest of customers of the weak Bank. Narasimham Committee–II discouraged this practice. Khan Group suggested that weak Developmental Financial Institutions (DFIs) may be allowed to merge with the healthy banks.

- In the Banking Sector of any economy, the most crucial concern is the Risk Management. Banks of every country are supposed to make a proper risk analysis in order to balance the deposit and credit portfolios. Mergers can diversify these risks to a significant extent.

- Drastic increase in market competition, innovation of new financial products and consolidation of regional financial systems and national financial systems are the other reasons, for which banks are going for mergers, around the world.

- As the banking markets are becoming more developed and competitive, increasing market share or margins is becoming difficult. In this environment it is becoming more likely that banks will seek to expand and cut costs by way of acquisitions and mergers.

- Merger can be proved really useful in fighting market competition, as merger has the capability to generate economies of scale. These Economies of scale can help the banks in lowering their servicing cost and in this way can provide a competitive edge to them .

- Moreover, when Mergers happen, Transfer of Skills takes place between the two banking organizations and this transfer of skills lead to higher efficiency on the part of the merged bank.

- Banking Sectors of every economy of the world are becoming global sooner or later. This globalization or economic liberalization has exerted a great impact on the Bank Mergers .

CHAPTER -3

LITERATURE REVIEW AND GAP ANALYSIS

Under this study the reviewed research papers are -:

- This paper evaluates the performance of the selected two banks based on the financial ratios from the perspective of pre and post merger. To analyze the impact of merger t-test was applied to the various financial ratios for before and after merger data, Based on the analysis of Indian overseas bank data. As per the paper Net profit margin, Operating profit margin, Return on equity, Return on capital employed and debt equity ratio there is significant difference between them but no significant difference between gross profit margin. Second analysis on HDFC bank shows that there is no significant difference between any financial parameter but there is a significant increase in gross profit margin. (***Sultana & Nag sai)***

- This paper evaluates the performance of ICICI BANK with Rajasthan bank and merger of State bank of India with state bank of Indore . The pre and post performance are evaluated with the help of different financial parameters like Net profit margin, Operating profit, Return on equity, Return on asset, Debt equity ratio and dividend payout ratio. Simple t-test analysis is done to check the significant level. The analysis reflects that the change in above financial parameters are not statically efficient for ICICI bank . The study on SBI shows that there is no increase in performance of SBI in any financial parameter after merger . ***(Anonymous)***

- The Objective of this paper is to find out whether the banks have achieved performance efficiency during the post merger period namely in the areas of Capital Adequacy Ratio, Management Efficiency Ratio, Earnings and Profitability Ratio, Leverage Ratio. Basically, two methods was employed to compare pre-post merger performance, First, comparison and analysis of ratios are used to compare the performance of local banks during the pre-merger period (2003-2006) and post-merger period (2008-2011). Second, paired sample t-test determines the significance differences in financial performance before and after the merger activity .(***Premalatha and Nedunchezan)***

- In this paper, author 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. The sample of 17 Merger of post liberalization and discussed about communication in M&As, the study lightened the role of media in M&As. 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 favour 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 factor behind voluntary amalgamation is synergies, efficiency, cost 4 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.(***Aharon David . et al)***
- Explained the relationship between bank reputation after Merger and Acquisitions and its effects on shareholder’s wealth. This study considered 285 European merger and Acquisition transaction announced between 1997 and 2002 and finds that on average wealth not significantly effect by Merger and Acquisitions. It is found in the study of Bhaskar A Uday et al., (2009) that Banking sector witness of Merger activities in India when banks facing the problem of loosing old customer and failed to attract the

new customers. It described that the acquiring firms mainly focuses on the economies of scale, efficiency gain and address the need of communication and employee concern, and described the integration process was handled by professional and joint integration committee. Road map is prepared and HR integration is done as per schedule and they took a case of the Bank of Punjab acquired the Lord Krishna Bank and later on the Centurion Bank of Punjab acquired by the HDFC Bank and gave the frame of integration. This study regulate the link between communication, HR integration, management action and consequent contribution of post merger success by conducted interview in a recent bank merger, in depth interviews work conducted in a recent mergers of a Indian Bank. It was inferred that proactive communication, changes in organizational structure, and appropriate human resource integration would smoothen the journey towards successful integration.(***Mantravadi & Reddy 2007)***

Research gap

As observed from the above studies, most of the works have been done on trends, policies and their framework but researchers was not focussed on mergers and acquisitions in the bank's share price sector. The present paper will focus on the rise of share price of banks after M&A with the help of technical analysis. The study will also discuss the pre and the post merger performance of banks with help of different financial parameters.

CHAPTETR-4
OBJECTIVE AND HYPOTHESIS

OBJECTIVE OF THE STUDY

The objectives of the paper are:

To evaluate the banks performance in terms of Liquidity ratio parameters.

To analyse the performance of the Banks after merger in terms of leverage ratios.

To find out the impact of merger on Banks operating profit ratios

To deter mine the effect of mergers on efficiency and activity ratios of banks .

HYPOTHESIS

1-H0 – There is no significant difference between the pre and post
Merger Liquidity ratios.

H1 - There is a significant difference between the pre and
Post merger Liquidity ratios.

2- H0 – There is no significant difference between the pre and post
Merger leverage ratios.

H1 - There is a significant difference between the pre and
Post merger leverage ratios.

3-H0 – There is no significance difference between the pre and post
Merger operating profit ratios.

H1 - There is a significant difference between the pre and
Post merger operating profit ratios.

4- H0 – There is no significant difference between the pre and post
Merger activity and efficiency ratios.

H1 - There is a significant difference between the pre and
Post activity and efficiency ratios.

CHAPTER -5
RESEARCH METHODOLOGY

RESEARCH METHODOLOGY

- Sources of Data: The study is based on secondary data. The financial and accounting data of banks is collected from the Annual report of the select Banks to examine the impact of Mergers and Acquisitions on the performance of the sample banks. Data are also collected from the Bombay Stock Exchange, National Stock Exchange, Securities and Exchange Board of India and Money Control for the study.

- Sample: Two banks, one from Public Sector and the other from Private Sector, are taken as the sample banks to evaluate the impact of mergers and acquisitions on the performance of the Banks.

- Period of the Study: To compare the performance of Banks, three years pre merger and three years' post merger financial ratios are being computed and compared. The year of merger was considered as a base year.

- Financial Parameters: The performance of the Banks is made in respect of the financial parameters such as Net Profit Margin, Operating Profit Margin, Return on Assets and Return on Equity. Debt Equity Ratio, Earning Per Share and Market Share Price.

Types of research

Here Descriptive research method is followed. The data used are derived from different secondary sources. Quantitative descriptive research is done with help of financial statements like

- Revenue account
- Profit and loss account
- Balance sheet
- Operational expenses
- Share capital
  Investment (share holder, policy holder, unit)
- Cash and bank balance.

SAMPLING

Sampling method- A judge mental sampling method is used .
Sample size – 3
-:

S.NO	Acquirer Bank	Target Bank	Date
1	ICICI Bank	Bank of Rajasthan	Aug -13 -2010
2	State bank of India	State bank of Indore	Aug -26- 2013
3	Mahindra Kotak	Ing - Vyasya	Dec- 05 -2015
4	Bharat overseas bank	Indian overseas bank	March- 31 -2007
5	ICICI Bank	Sangli Bank	April- 19 -2007
6	HDFC Bank	Centurion Bank of Punjab	October -01-2005
7	IDBI	United western bank	October-03-2006

DATA COLLECTION TECHNIQUE

All the dates are collected from the secondary sources from the banks announced financial statements. Dates are collected from websites like business standard, money controle.com etc.

ANALYSIS TECHNIQUE

A fundamental analysis is done as it reflects the real condition of the bank using all its financial parameters. Financial parameters are used to calculate the different financial ratios of Liquidity ratio, Leverage ratios, Operating profit ratios and activity ratios, to study the post merger performance of banks.

CHAPTER -6
DATA ANALYSIS AND INTERPRITATION

FINANACIAL STATE MENT ANA LYSAIS

The prosperity of a company depends upon its profitability and financial health. The financial statement s published by a company periodically helps us to access the profitability and financial health of the company. The two basic financial statement provided by the company are the balance sheet and the profit loss account .The first gives of a picture of asset and liabilities while the other gives us the picture of its earnings . The balance sheet indicates the financial position of a company on a particular date namely the last day of the accounting year. The profit loss account is called as the income statement reveals the revenue earned the cost incurred and the resulting profit and loss of the company for one accounting year. The profit after tax divided by the number of shares gives the earning per share which is a figure in which most investors are interested the PLA summarizes the activities of a company during an accounting year.

Analysis of financial statement after merger and acquisition

Different ratio measures different aspect of a company's performance or health .Four groups of ratios may be used for analyzing the performance of the company. Here we analyzed the pre and post merger condition of banks to find out the before and after merger condition financially.

Liquidity ratio

These measure the bank's ability to fulfil its short term obligation and reflect its short term financial strength or liquidity .The commonly used liquidity ratios are -:

1. Current ratio = Current asset/ Current liabilities
2. Quick ratio or Acid test ratio = (Current asset –Inventory –Prepaid expenses)/Current liabilities

A higher current ratio would enable a company to meet its short term obligation even if the value of current assets decline .The quick ratio represents the ratio between quick assets and current liabilities.

Leverage ratio

These ratios measure the company's ability to meet its long term debt obligations .They put light on the long term solvency of a bank.

1. Debt Equity ratio = Long term debt / Share holder's equity
2. Total Debt ratio = Total debt/ Total asset
3. Proprietary ratio = Share holders equity/Total asset
4. Interest coverage ratio = Earnings before interest and taxes (EBIT)/Interest

Profitability Ratios

1. Profitability related to sales
    a. Gross profit ratio = Gross profit / Sales
    b. Operating Profit ratio = EBIT/ Sales
    c. Net profit ratio = Earnings after tax (EAT)/Sales
    d. Administrative expenses ratio =Administrative expenses /Sales
    e. Selling expense ratio = Selling expenses /Sales
    f. Operating expenses ratio = (Administrative expenses + Selling expenses)/Sales
    g. Operating ratio = (Cost of goods sold + Operating expenses)/ Sales

2. Profitability related to Investment
    a. Return on asset s = Earnings after tax / Total assets
    b. Return on capital employed = EBIT /Total capital employed
    c. Return on equity = EAT / Share holder's equity

3. Profitability related to equity shares

    a. Earnings per share = Net profit availability to equity shareholders/ Number of equity shares
    b. Earnings yield = EPS /Market price per share
    c. Dividend Yield = DPS (Dividend per share)/Market price per share
    d. Dividend payout ratio = DPS /EPS
    e. Price earnings ratio (P/E ratios)

Overall Profitability

a. Return on investment (ROI) = EAT/ Total asset

Activity or Efficiency ratios

These are also performance ratio or turnover ratio.

1. Current assets turnover ratio = Sales /Current asset
2. Fixed assets turnover ratio = Sales/ Fixed assets
3. Total asset turn over = Sales /Total assets
4. Inventory ratio = Sales /Average inventory
5. Debtors turnover = Sales /Average ratios

Other Variable

A .Companies market share

B. Capacity utilization

C. Modernization and expansion plan

PRE-MERGER ANA LYSIS OF KOTAK MAHINDRA BANK (AS AT MARCH 2013)(RUPEES IN THOUSAND OF INDIAN CURRENCY .

Liquidity ratio

1. Current ratio = Current asset/ Current liabilities
   = 1634150/4699649 = 0.34
2. Quick ratio or Acid test ratio = (Current asset –Inventory –Prepaid expenses)/Current liabilities
   = 1634150-185317/4699649= 0.30

Leverage ratio

1 Debt Equity ratio = Long term debt / Share holder's equity
   = 95059143 /5102902 = 18.62

2. Total Debt ratio = Total debt/ Total asset

   = 99758792/8026700 = 12.42

5. Proprietary ratio = Share holders equity/Total asset
   = 5102902/8026700 = 0.63

6. Interest coverage ratio = Earnings before interest and taxes (EBIT)/Interest

= 15186611/6978218 = 2.17

Profitability Ratios

4. Profitability related to sales
   h. Gross profit ratio = Gross profit / Sales
      = 2344123/37282891 = 0.6287
   i. Operating Profit ratio = EBIT/ Sales
      = 15186611 / 37282891 = 0.40733
   j. Net profit ratio = Earnings after tax (EAT)/Sales
      = 30304673/37282891 =8.12

   k. Operating expenses ratio = (Administrative expenses + Selling expenses)/Sales

      = 5732751/37282891= 0.15

   m. Operating ratio = (Cost of goods sold + Operating expenses)/ Sales
      = 29230296/37282891 = 2.04

L.Return on asset s = Earnings after tax / Total assets

= 18 97383 / 80267000 = 1.82

   d. Return on capital employed = EBIT /Total capital employed
      = 15186611/ 22612172 =15.65
   e. Return on equity = EAT / Share holder's equity = 1897383 / 8026700 = 12.72

Overall Profitability

   b. Return on investment (ROI) = EAT/ Total asset
      = 1897383 / 12821034 =0.14

.Activity or Efficiency ratios

These are also performance ratio or turnover ratio.

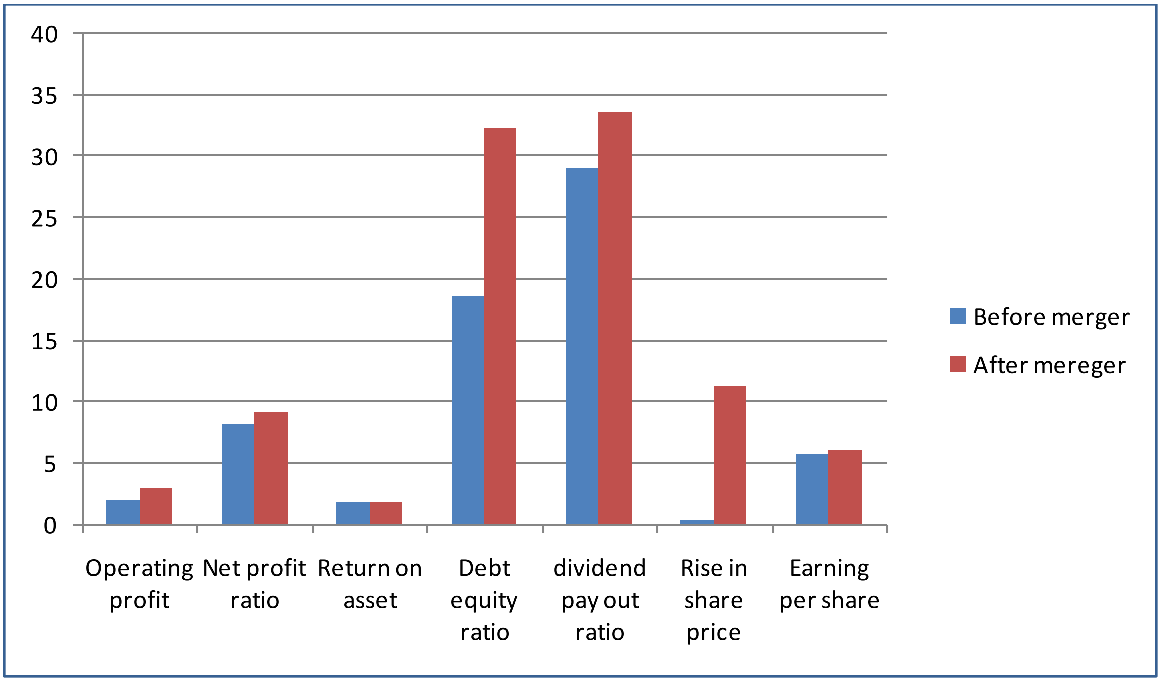
6. Current assets turnover ratio = Sales /Current asset

= 37282891/1634150=22.81

7. Fixed assets turnover ratio = Sales/ Fixed assets = 37282891/316726 =117.71
8. Total asset turn over = Sales /Total asset = 37282891/ (1634150+316726) =19.11

TABLE NO -1,POST-MERGER ANA LYSIS OF KOTAK MAHINDRA BANK (RUPEES IN THOUSAND OF INDIAN CURRENCY) .

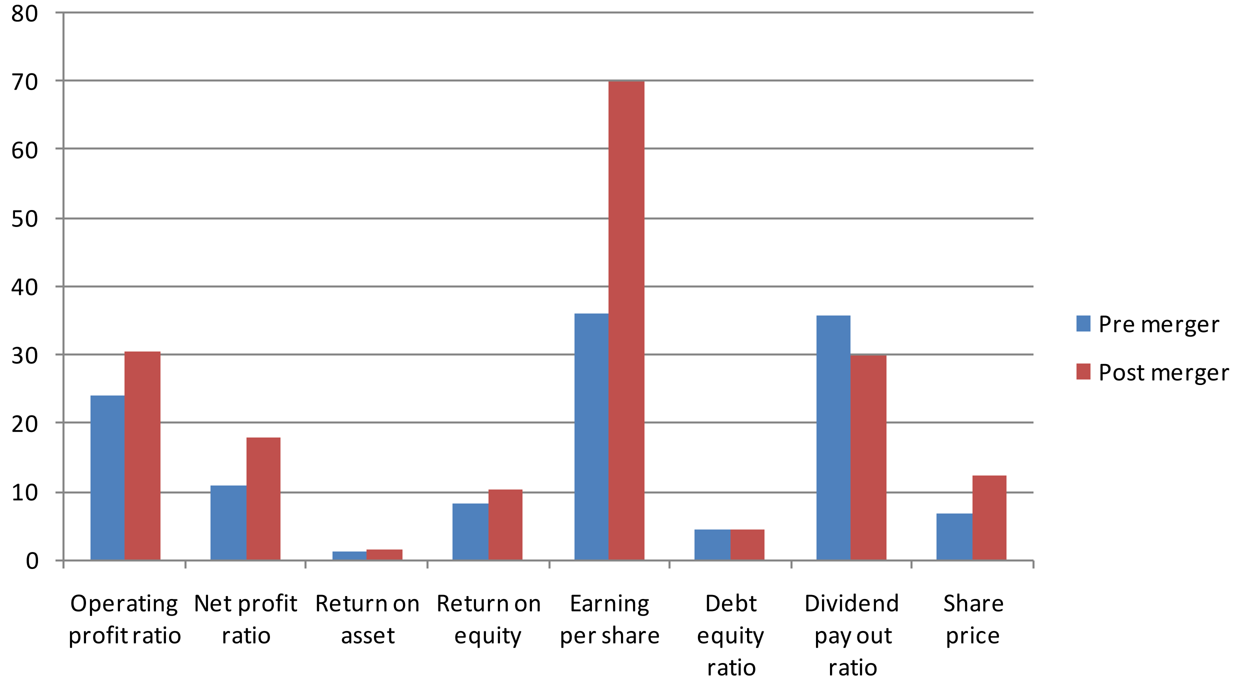
S.L. NO	PARTICULARS	POSTMERGER VALUE	CHANGE (%)	T value	Significance
1	Current ratio	0.43	26.47	1.7	4.30
2	Quick ratio	0.21	-30	1.94	2.44
3	Debt Equity ratio	32.26	7.5	2.13	2.77
4	Total debt ratio	33.00	16.57	0.98	2.12
5	Proprietary ratio	0.14	-0.049	-34.80	2.63
6	Interest coverage ratio	2.98	0.37	4.30	1.92
7	Gross profit ratio	0.00	-0.6287%	3.02	1.66
8	Operating profit ratio	2.39	17.02	2.69	-1.90
9	Net profit ratio	9.2	10.42	4.33	-1.73
10	Operating ratio	0.7842	0.54	0.99	1.68
11	ROA	1.75	0.004	0.51	0.01
12	ROC	13.83	-0.011	0.74	0.14
13	ROE	12.73	0.000786	0.76	0.53
14	Return on investment	0.39	3.15	13	4.32
15	Current assets turnover ratio	28.13	0.233	0.250	0.718
16	Fixed asset turnover ratio	119.34	0.013	0.22	0.88
17	Operating cost to asset	2.91	-0.034	0.79	0.33



The above analysis shows that there is significant increase in current ratio ,total debt ratio and operating profit ratio and net profit ratios . There is decrease in gross profit ratio and proprietary ratio . The operating cost and operating expenses are decreased . Some efficient and determinant ratios like operating pro fit changed (17.02%) , net profit ratio changed (10.42%) , Return on asset was changed to (0.004%) ,debt to equity ratio changed(7.5%) ,dividend payout ratio is increased to 7% . There is no significant change in other financial ratios .

TABLE NO-2 ANALYSIS OF FINANACIAL PERFORMANCE OF ICICI BANK AFTER MERGER

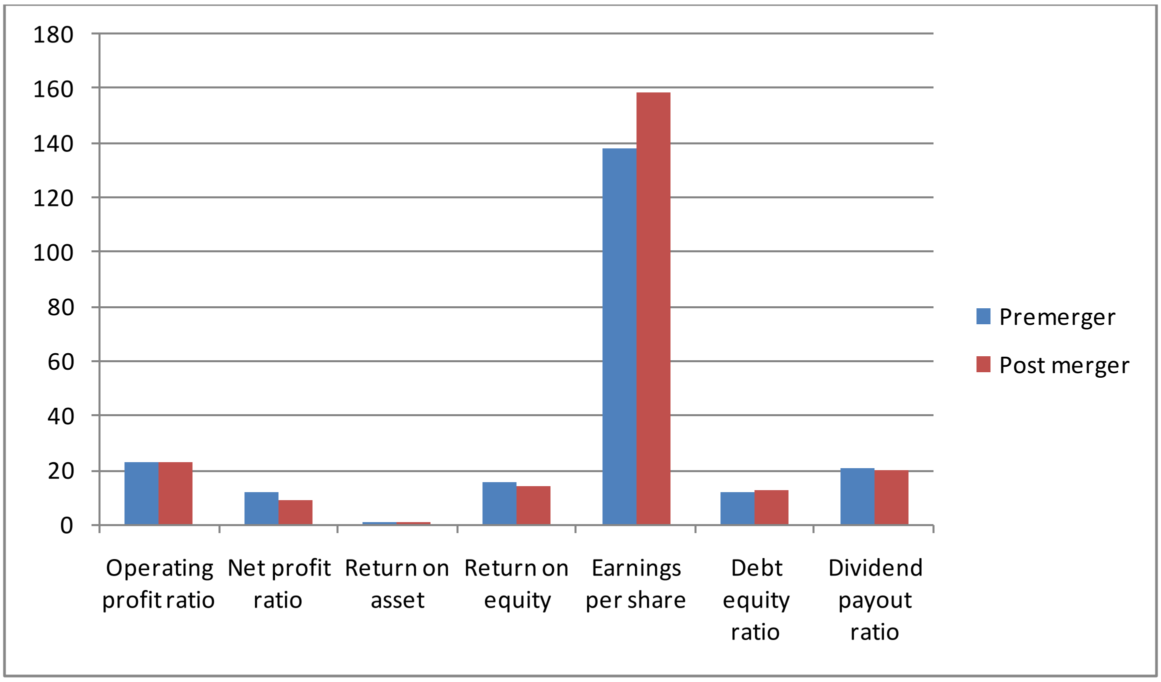
Financial ratios	Pre merger	Post merger	T-value	Significant
Operating profit ratio	24.10	30.38	2.9	0.10
Net profit ratio	10.76	17.97	9.39	0.01
Return on asset	1.07	1.58	5.50	0.03
Return on equity	8.09	10.35	0.76	0.53
Earnings per share	36.14	70.17	3.67	0.07
Debt equity ratio	4.53	4.31	0.52	0.65
Dividend payout ratio	35.62	30.0	2.08	0.17
Share price	685	1245	-2.18	0.17



The above analysis shows the analysis of the financial performance of ICICI Bank before and after the Merger with 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 (24.10 % to 27.65%), Net Profit Margin (10.76% vs. 16.97%), Return on Assets (1.07 % to 1.58%), Return on Equity (8.9 % to 10.35%) and Earnings per Share were (36.43% to 71.07%) 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. 1,245 reflecting upon a favorable impact of Merger.

TABLENO-3 ANALYSIS OF FINANACIAL PERFORMACE OF STATE BANK OF INDIA AFTER MERGER

FINANACIAL PARAMETERS	PREMERGER	POST MERGER	T-value	Significant
Operating profit ratio	22.49	22.70	0.13	0.91
Net profit ratio	11.42	9.08	3.69	0.07
Return on asset	0.98	0.81	4.25	0.05
Return on equity	15.64	13.76	1.36	0.31
Earnings per share	138.25	158.38	-2.46	0.13
Debt equity ratio	11.39	12.30	-0.50	0.67
Dividend payout ratio	20.38	20.09	1.48	0.28
Share price	1582	2028	-1.33	0.32

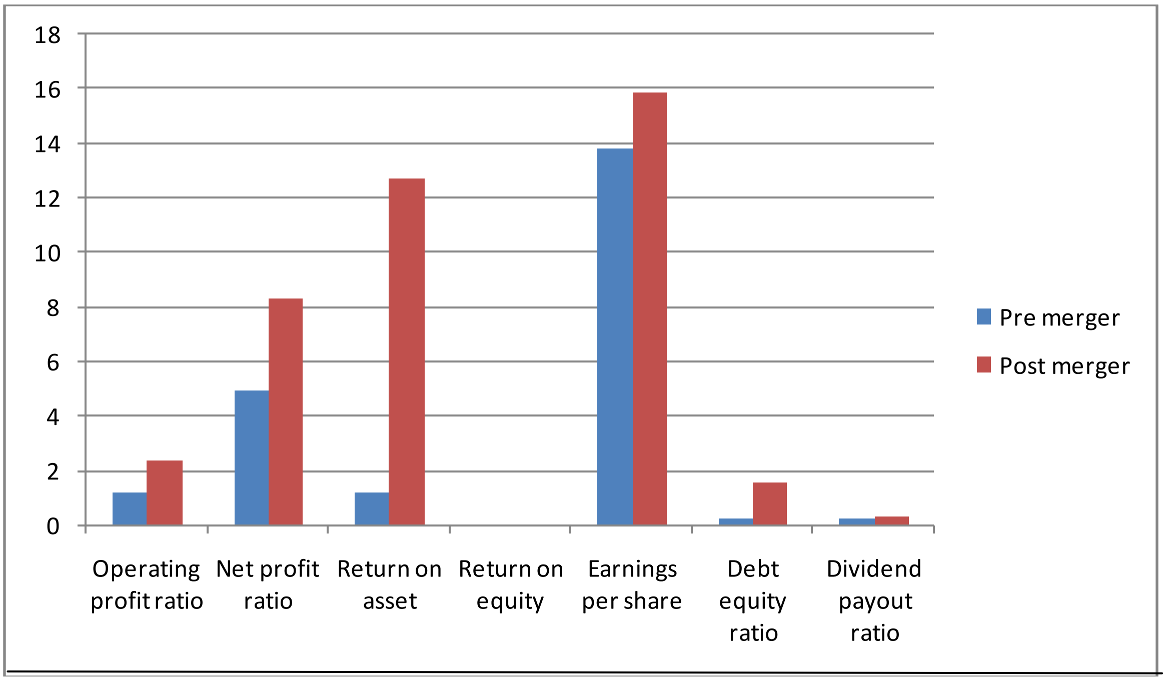


The above table shows the analysis of the financial performance of SBI before and after the merger of

State Bank of Indore with SBI. It is found that there is not much difference in the mean of the Operating Profit Margin (22.49 % to 22.70%). There is a decline in the Net Profit Margin (11.42% to 9.02%), Return of Assets (0.98 % to 0.81%), and Return on Equity (15.64 % to 13.76%). Earnings per Share have increased by 44.21 percent in the post merger period. There is no significant change in the Debt Equity Ratio and Dividend Payout Ratio. Market Price of the Share showed a continuous decline in the post merger period.

TABLE NO -4 ANALYSIS OF FINANACIAL PERFORMACE OF BHARAT OVERSEAS BANK WITH INDIAN OVER SEAS BANK AFTER MERGER

FINANACIAL PARAMETERS	PREMERGER	POST MERGER	CHANGE %	T-value	Significant
Operating profit ratio	1.19	2.38	100.84	0.13	0.91
Net profit ratio	4.9	8.27	168.80	3.69	0.07
Return on asset	1.18	12.73	981.0	0.5675	0.2
Return on equity	0.01	0.00	-60.28	1.36	0.31
Earnings per share	13.825	15.838	1.14	-2.46	0.13
Debt equity ratio	0.26	1.56	490.63	0.2917	0.022
Dividend payout ratio	0.22	0.26	20.02	0.160	0.350



BOB merged with IOB . After merger , It is found that there is not much difference in the mean of the

Operating Profit Margin (1.19%,2.38%). There is a decline in the Net Profit Margin (4.9to 9.27%), Return of Assets (1.18 % to 12.73%), and Return on Equity (0.01 % to 0.00%). Earnings per Share have increased by 11.41 percent in the post merger period. Debt Equity Ratio changes from 0.26 to 1.56 and Dividend Payout Ratio changed to 0.22 to 0.26 .

TABLE NO -5 ANALYSIS OF FINANACIAL PERFORMACE OF ICICI BANK WITH SANGALI BANK AFTER MERGER (SANGALI BANK ANALYSIS)

FINANACIAL PARAMETERS	PREMERGER	POST MERGER	CHANGE %	T-value	Significant
Current ratio	0.10	0.12	20	0.011	0.267
Net profit ratio	0.95	0.95	00	-1.74	0.03
Return on asset	1.18	4.508	373.6	0.061	0.00
Return on equity	0.00	0.01	10	0.508	0.895
Earnings per share(%)	5.8	7.9	1.36	0.426	0.98
Debt equity ratio	3.17	1.64	-48.26	0.657	.0151
Dividend payout ratio	0.33	0.32	-4.52	0.017	0.574

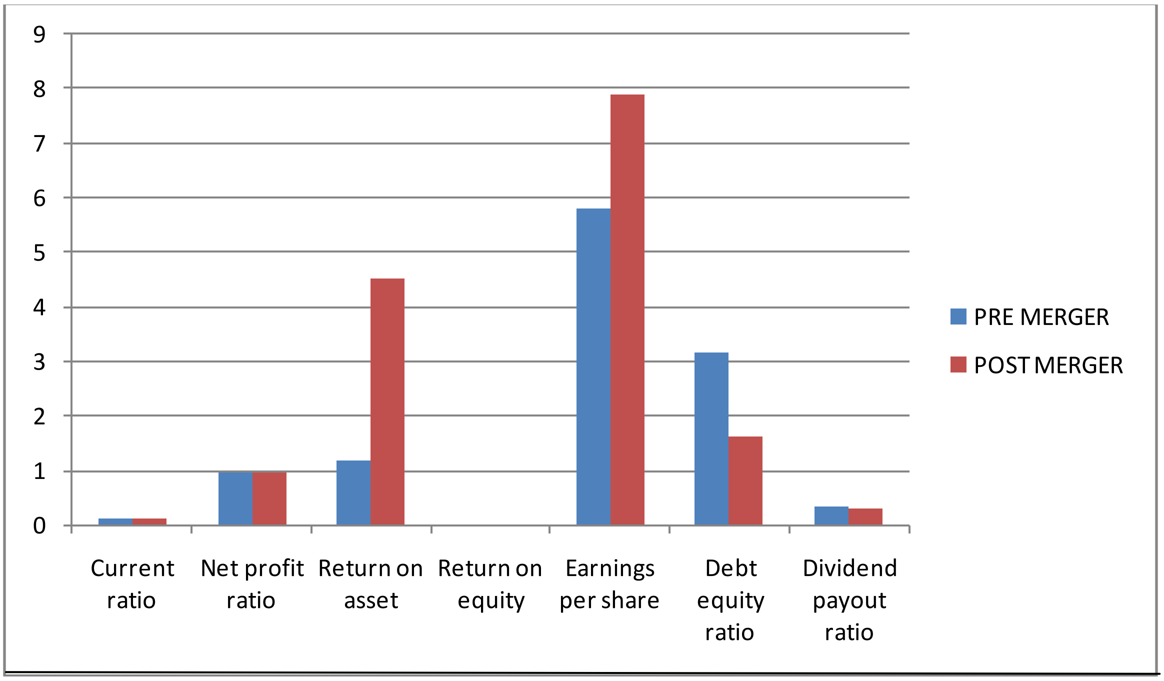


TABLE NO-6 ANALYSIS OF FINANACIAL PERFORMACE OF POST MERGER EFFECT OF CENTURIAN BANK WITH HDFC

FINANACIAL PARAMETERS	PREMERGER	POST MERGER	CHANGE %	T-value	Significant
Current ratio	0.10	0.12	20	0.011	0.267
Net profit ratio	0.95	0.95	00	-1.74	0.03
Return on asset	1.18	4.508	373.6	0.061	0.00
Return on equity	0.01	0.02	10	0.508	0.895
Earnings per share(%)	5.8	7.9	1.36	0.426	0.98
Debt equity ratio	1.17	0.43	-48.26	0.657	.0151
Dividend payout ratio	0.33	0.32	-4.52	0.017	0.574

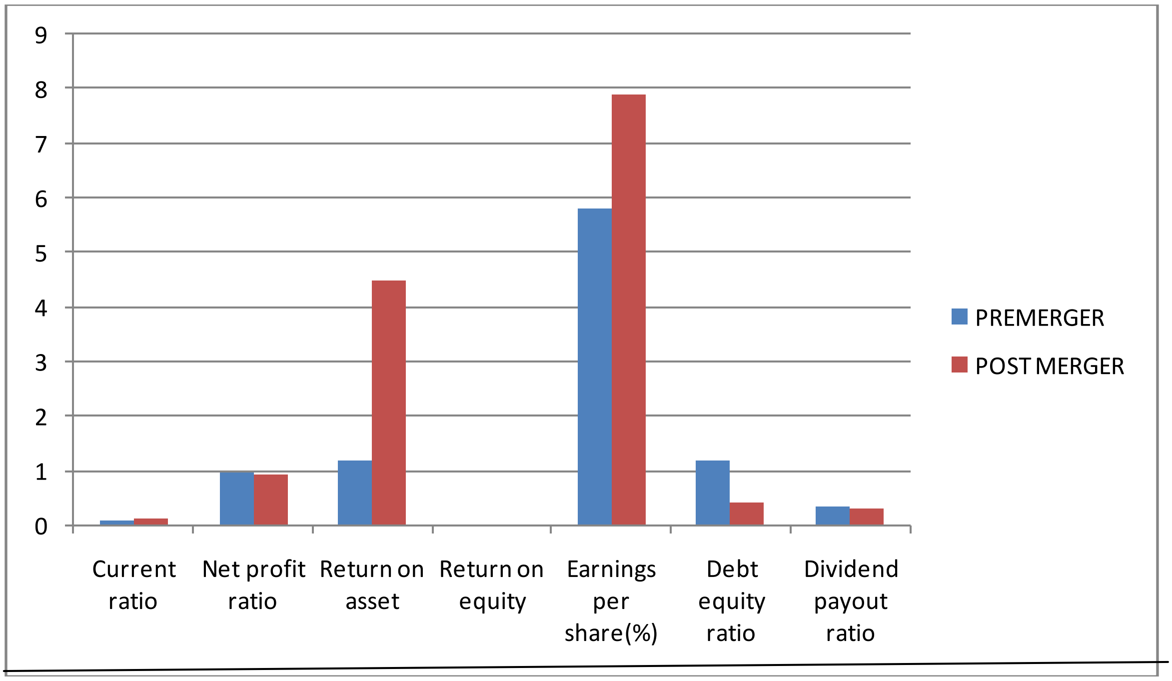
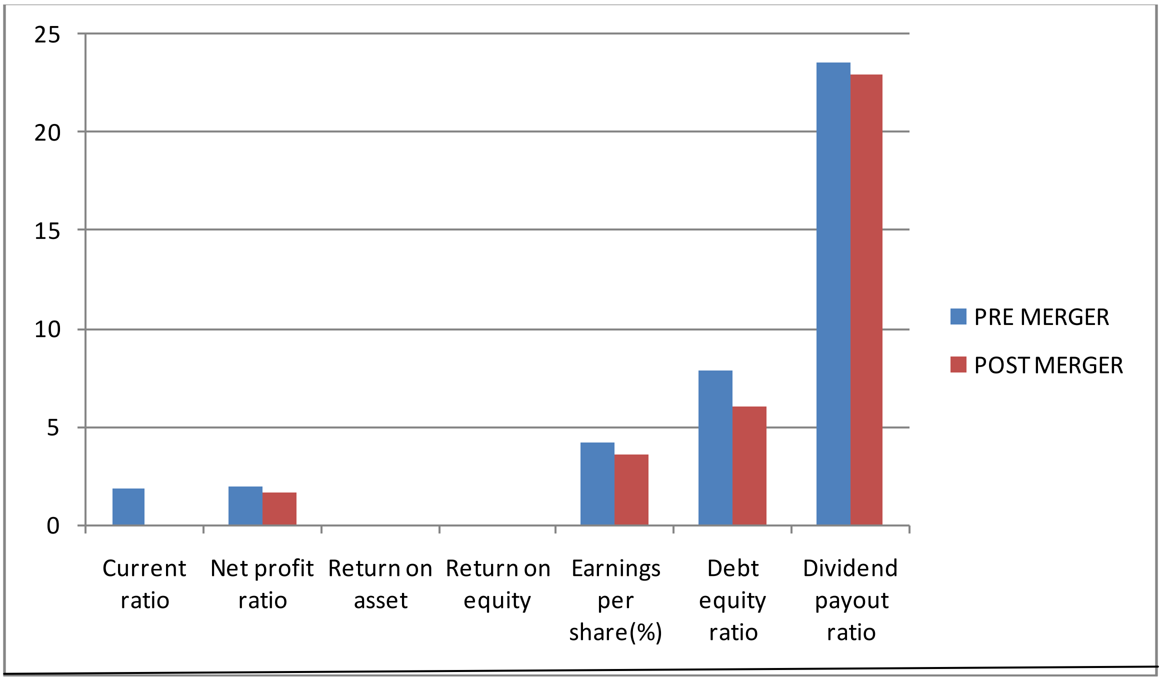


TABLE NO -7 ANALYSIS OF FINANACIAL PERFORMACE OF POST MERGER EFFECT OF IDBI BANK WITH UNITED WESTERN BANK

FINANACIAL PARAMETERS	PREMERGER	POST MERGER	CHANGE %	T-value	Significant
Current ratio	1.83	0.06	-96.85	0.0250	0.638
Net profit ratio	1.94	1.69	-12.53	0.00289	0.004
Return on asset	0.01	0.01	0.00	0.5765	0.002
Return on equity	0.01	0.00	-10	0.014	0.001
Earnings per share(%)	4.18	3.6	-0.86	0.426	0.03
Debt equity ratio	7.85	6.06	-22.75	0.2917	.0022
Dividend payout ratio	23.62	22.98	-2.72	0.017	0.574



IDBI merged with UWB . After merger , The results are _:

Operating Profit Margin (1.18 ,0.32%). There is a decline in the Net Profit Margin (1.94to 1.69%), Return of Assets (0.01 to 0.00%), and Return on Equity (0.01 % to 0.00 %). Earnings per Share have increased by 4.18 TO 3.16 percent in the post merger period. Debt Equity Ratio changed to 7.85 to 6.06 and Dividend Payout Ratio decreased to 23.62 to 22.98 .

CHAPTER -7

SHARE HOLDERS GAIN AND LOSS BY MERGER AND AQUISITION

Merger is not always helpful for the banks it has both pros and cons with it some gains and losses for merging of banks are -:

Gains of merger and acquisition

1 . Greater value generation through the implementation of scale .

2. Leads to tax gain.

3. Achieve cost efficiency.

4. Larger market coverage

5. Increases EPS

6 . Greater financial leverage

7. Higher competitiveness

8 .Increase in equity financing

Losses of mergers and acquisitions

1. Increase in liabilities
2. Large value firm looses the share value
3. Change of taxation regime
4. Stock market volatility
5. Cross border problems
6. Foreign exchange losses

EFFECT OF MERGERS AND AQUSITIONS ON STOCK MARKET

1. Change in stock price after announcement of merger

2. Uncertainty can lower the price

3. Hostile takeover is more volatile and affects the price more aversely.

4. Some time the acquisition stock rises after declaration.

5. Targets stock will rise after acquisition

6. Options are the best alternative for cost control.

EFFECT OF MERGER ON SECONDARY MARKET

Pricing bubble effect

While the prevalence of M&A increased during the technology bubble, the pricing of M&A did not change. Moreover, the bursting of the bubble seems to have led to further cautiousness by investors, which extended throughout the years subsequent to the bursting of the bubble, even when prices on the exchange had rebounded. While we do not find robust evidence for changes in price multiples outside the exchange in concomitance with the changes on the exchange, we document changes in the information used by investors to value their targets. It seems that investors experienced a learning process in terms of the type of variables preferred, appearing to be more cautious since the bubble burst. This learning process investors undergo in concomitance to processes in the market seems to result in their being less affected by periodical or cyclical sentiments of euphoria and depression in the capital market.

PREDICTION

As Govt of India declared to remove stakes from public sector banks so most of the banks will offer vast share in the market . Due to globalisation and entry of number of private banks in India public sector banks can hardly convince the investors to purchase their share . If they merge then there must be a rise in share price and investors will believe on a strong entity and the banks share can fight in stock mar ket with the other banks share .

When a firm acquires another entity, there usually is a predictable short-term effect on the stock price of both companies. In general, the acquiring company's stock will fall while the target company's stock will rise. The reason the target company's stock usually goes up is that the acquiring company typically has to pay a premium for the acquisition: unless the acquiring company offers more per share than the current price of the target co mpany's stock, there is little incentive for the current owners of the target to sell their shares to the takeover company.

The acquiring company's stock usually goes down for a number of reasons. First, as we mentioned above, the acquiring company must pay more than the target company currently is worth to make the deal go through. Beyond that, there are often a number of uncertainties involved with acquisitions. Here are some of the problems the takeover company could face during an acquisition - : A turbulent integration process: problems associated with integrating different workplace cultures. Lost productivity because of management power struggles. Additional debt or expenses that must be incurred to make the purchase. Accounting issues that weaken the takeover company's financial position including restructuring charges and goodwill.

CHAPTER -8
CONCLUSION

Mergers and acquisition leads to financial gain and increase in price of target banks .It depends on conditions and different situations that it will increase the share and profit of acquirer or not. Primary purpose of mergers and acquisition is to reduce competition and protect existing markets in the economy. Overall mergers and acquisitions have their own pros and cons. But mergers are good for the growth and development of country only when it does not give rise to competition issues. Mergers improve the competition edge of the industry in order to compete in the global market but mergers shrink the industry because number of firms reduces. Mergers help banks to strengthen their financial base and access tax benefits and direct access to cash resources. Overall merger and acquisitions is useful for the growth and expansion of any industry. In banking industry it helps weaker banks to strengthen their position by merging with bigger and stronger banks. The above study shows the impact of merger and acquisition on different Indian banks after analyzing seven cases

From the above analyzing it is found that in private bank sector the merger of Mahindra kotak bank with Ing-Vysya is highly success full. Mahindra kotak had a remarkable increase in different financial aspects like Net operating profits, Debt to equity ratio, Dividend payout ratio, ROA, ROE, Earning per share and market price ,but in case of SBI the Parton is almost reversed little rise in market price and all other ratios are decreased due to the high debt structure of State bank of Indore . In case private banks like ICICI the merger with Bank of Rajasthan is profitable situation where as the merger with the bank of Sangali is not so fruitful. The merger of IDBI bank with United Western bank is totally gone wrong it reduces the financial parameters of IDBI bank and caused a loss situation. The merger of HDFC with Centurion bank reduced the debt structure of both the bank and resulted in the increases of profitability ratios of both banks.

From the above all analysis it is found that Merger in banking Industry is fruitful in most cases. The PSBS operating in India can strengthen their position in emerging market by merging with each other. As the banks are going to put more share in the secondary market so merger can help them in raising the price of their share by which banks can gain more profit.

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