Financial Performance Of Hdfc Bank Ltd. – A Study On Pre And Post Merger

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ABSTRACT
The present paper has discussed and find out the various activities of merger in Indian banking system. Including various aspects of bank mergers and its impact, such a case related to HDFC Bank Ltd and Centurion Bank of Punjab, in this I also compare pre and post merger in financial performance of merged banks with the help of financial tools just like, Gross Profit margin, Net Profit margin, operating Profit margin, Return on Capital Employed, Return on Equity, and Debt Equity Ratio. The review of literature and Research Gap between 2012 to 2015 it comes know that most of the work done high lightened the impact of merger and Acquisition. The data of Merger and Accusations are collected for a set of various financial parameters form net world. Independent T-test used for testing the statistical significance and this test is applied not only for ratio analysis but also effect of merger on the performance of banks. My research study found that the shareholders of the acquirer companies increased their financial performance after the merger rapidly event.

Key Words: Merger, Banking, Indian, EVA, Motives, Benefits, financial performance

Introduction-
“Merger between strong bank / financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts and have “force multiplier effect”

-Narasimham committee-II

“Merger of two weaker banks or merger of one health Bank with one weak bank can be treated as the faster and less costly way to improve profitability then spurring internal growth”

-Franz, H. Khan 2007

Mergers and acquisitions in the banking era is a common phenomenon in the entire world. The main reason behind this motive is to achieve growth at the strategic level in terms of size business and increase customer base. This, in turn, increases the credit-creation capacity of the merged bank tremendously. Low capital banks have a fear to aggressive acquisition by a huge capital bank sometimes enter into a merger to increase their market share and protect themselves from the possible acquisition. Mergers and Acquisitions in banking sector have become easier in the majority of all the countries in the world. A large number of international and domestic banks in all over the world are engaged in merger and acquisition activities.

In the cut-throat competition of international market and Indian banks for mergers and acquisitions strategies, making it a vital premeditated option Sector wise, large volume of mergers and mergers and acquisitions in India. The main motive behind the merger and acquisition in the banking industry is to achieve economies of scale and scope. Mergers also help in the diversification of the products, which help to reduce the risk. The Indian banking industry shows a sign of improvement in performance and efficiently after the global crises. Indian banking sector having so better situation than it was at the time of crises. Government has taken various initiatives to strengthen the financial system.

Future of M&A in Indian Banking
After LPG (Liberalization, Privatization and Globalization) in 2009, further opening up of the Indian banking sector is forecast to occur due to the changing regulatory environment (proposal for up to 74% ownership by foreign banks in Indian banks). This will be an opportunity for foreign banks to enter the Indian market as with their huge capital reserves, cutting-edge technology, best international practices and skilled personnel they have a clear competitive advantage over Indian banks. Likely targets of
takeover bids will be Yes Bank and Bank of Rajasthan. However, excessive valuations may act as a deterrent, especially in the post-sub-prime era.

**Small number of large banks is better than large number of small banks.** Persistent growth in Indian banking sector and other segments provide further motives for M&As. Banks need to keep pace with the growing industrial and agricultural sectors to serve them effectively. A bigger player can afford to invest in required technology. Consolidation with global players can offer the benefits of global opportunities in funds' mobilization, credit disbursement, investments and rendering of financial services. Consolidation can also lower intermediation cost and increase reach to underserved segments.

The Narasimhan Committee (II) recommendations are also an important indicator of the future shape of the sector. There would be a movement towards a 3-tier structure in the Indian banking industry: 2-3 large international banks; 8-10 national banks; and a few large local area banks. In addition, M&As in the future are likely to be more market-driven, instead of government-driven.

**LITERATURE REVIEW AND GAP**

1. **Mehta Jay & Kakani Ram Kumar (2006)**
   They have stated that there were multiple reasons for Merger and Acquisitions in the Indian Banking Sector and still contains to capture the interest of a research and it simply because of after the strict control regulations had led to a wave of merger and Acquisitions in the Banking industry and states many reason for merger in the Indian Banking sector. While a fragmented Indian banking structure may be very well beneficial to the customer because of competition in banks, but at the same time not to the level of global Banking Industry, and concluded that merger and Acquisition is an imperative for the state to create few large Banks.

   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 equipments 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.

   The studied on the impact of merger announcements of five banks in the Indian Banking Sector on the share holder bank. These mergers were the Times Bank merged with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the Global Trust Bank merged with the Oriental Bank of commerce and the Bank of Punjab merged with the centurion Bank. The announcement of merger of Bank had positive and significant impact on share holder’s wealth.

   He has gave the views on financial implications and problem occurring in Merger and Acquisitions (M&As) highlighted the cases for consolidation and discussed the synergy based merger which emphasized that merger is for making large size of the firm but no guarantee to maximize profitability on a sustained business and there is always the risk of improving performance after merger.

5. **Aharon David Y et al., (2010)**
   David 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.

6. **Dr. Ramachandran Azhagaiah and T. Sathish Kumar (2011)** analysed examined the corporate financial and operating performance of Indian manufacturing firms covering a period from 2004 to
2010. To measure the corporate performance, ratios analysis is used. Results show mixed results of pre-and post-merger values computed. The study proves that Indian manufacturing corporate firms involved in merger& acquisition (M&A) have increased their corporate performance.

7. Azhagaiah & Kumar (2011), in their study tested hypothesis concerning whether there is significant improvement in the corporate performance of Indian manufacturing corporate firms following the merger event using paired t-test. The study findings indicate that Indian corporate firms involved in M&A have achieved an increase in the liquidity position, operating performance, profitability, and reduce financial and operating risk. In another study they examined a sample consisting of 20 acquiring firms during the period 2007. They concluded that corporate firms in India appear to have performed better financially after the merger, as compared to their performance in the pre-merger period.

8. Antony Akhil (2011), in an analysis “Post-merger profitability of selected banks in India” examined the impact of the banks merged in India from 1999 to 2011. Between 1999 and 2011, around 18 M&A took place in the Indian banking sector. The study samples were six acquirer banks selected, three of them were public sector banks and three were private sector banks. The study used paired t-test. The study findings indicate that there is a significant difference in the profitability ratios, like (growth of total assets ratio, growth of net profit ratio, return on assets ratio, return on equity ratio, and net interest margin ratio) of banks in the post-merger scenario.

9. Deo and Shah (2011), in a work entitled “Shareholder wealth effects to merger announcements in Indian industry” addressed the financial implications of the acquirer and target shareholders wealth in the Indian information technology industry (IT) that occurred from January 2000 to June 2010. The study which consisted of a sample of 28 merger announcements both by independent and controlling bidder firms, applied a constant market model to evaluate acquirer and target shareholders wealth. The study findings indicate that merger announcements in the IT sector have no significant impact on the bidder portfolio. M&A create significant positive abnormal returns for target shareholders only.

10. Mahesh R. & Daddikar Prasad (2012) focused on the performance of Indian Airline Companies after the consolidation of Airline sector in year 2007-08. The main objective of this paper is to analyze whether the Indian Airline Companies have achieved financial performance efficiency during the post merger & acquisition period specifically in the areas of profitability, leverage, liquidity, and capital market standards. The finding of this study shows that there is no improvement in surviving Company’s return on equity, net profit margin, interest coverage, earning per share and dividend per share post-merger & acquisition.

11. Dutta and Dawn (2012) in a paper “Merger and acquisitions in Indian banks after liberalisation: An analysis” investigates the performance of merged banks in terms of its growth of total assets, profits, revenue, deposits, and number of employees. The performance of merged banks is compared taking four years of prior-merger and four years of post-merger. The study findings indicate that the post-merger periods were successful and saw a significant increase in total assets, profits, revenue, deposits, and in the number of employees of the acquiring firms of the banking industry in India.

Research paper cover Research Gap- after 2012 the study on banking mergers and acquisitions researches a huge gap and if any work have been done which are based on previous data related, so a needed of new research work which cover all financial aspect and analytical study on M&A between 2013-2015 it happen in my research paper. The present study would go to investigate the detail of Merger and Acquisitions (M&As) with greater focus on the Indian banking sector in financial activities and ratio’s analysis.

OBJECTIVE OF THE STUDY

The objectives of the study is to evaluate the banks performance in terms of net profitability, return on capital employed, debt equity ratio, and return on equity before and after merger.
HYPOTHESIS
Testing the significance difference between Pre and Post merger Net Profit Margin

- H0 (Null Hypothesis) There is no significance difference between the pre and post merger performance.
- H1 (Alternative Hypothesis) There is significance difference between the pre and post merger.

RESEARCH METHODOLOGY
A. DATA COLLECTION
The data have been collected from merger and Acquisition (M&As) of Indian Banking Industry. The financial and accounting data of banks is collected from banks annual reports of research required period to examine the impact of merger on financial performance of the banks.

B. METHODOLOGY
The adoption of the research methodology for the prediction of comparing the pre and post merger performance of the banks adopted by using following financial parameters and tools such as Gross Profit margin, Net Profit margin, Return on Capital Employed, Return on Equity and Debt Equity Ratio. Research has taken one case of merger as Sample i.e., merger of HDFC Bank Ltd. The pre merger (three years prior ) and post merger (after three years) of the financial ratios being compared. The year of merger is considered as base year and denoted as 0 and it is excluded from the evaluation.

RATIOS
Gross Profit Margin Ratio : Gross Profit / Sales X 100
Net Profit Margin Ratio : Net Profit / Sales X 100
Operating Profit Margin Ratio : Operating Profit / Sales X 100
Return on Capital Employed : Net Profit / Total Assets X 100
Return on Equity : Net Profit / Equity Capital X 100
Debt Equity Ratio : Total Debt / Total Equity X 100

ANALYSIS AND INTERPRETATION
In the decision of merger which for HDFC Bank Ltd (bidder bank) and Centurion Bank of Punjab Ltd (Target Bank). This deal took place in 23 May 2008. Research work analyzed the financial performance of banks after the merger, the financial and accounting ratios like Gross Profit Margin, Operating Profit Margin, Return on Capital Employed, Return on Equity and Debt Equity Ratio have been calculated. Table 1 to Table-3 and the Graphs 1-4, indicates that the financial performance of both the banks before the merger. Table 3 shows the financial performance of HDFC Bank Ltd (bidder bank) after merger.

TABLE NO. 1
Financial performance of HDFC Bank Ltd and Centurion Bank of Punjab for the last three financial years is ending before the merger financial ratios (in percentage)

<table>
<thead>
<tr>
<th>Ratios</th>
<th>HDFC Bank Ltd (Bidder Bank)</th>
<th>Centurion Bank of Punjab(Target Bank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit Margin</td>
<td>74.1719</td>
<td>71.1233</td>
</tr>
<tr>
<td>Operating Profit Margin</td>
<td>53.1167</td>
<td>46.0083</td>
</tr>
<tr>
<td>Return Capital Employed</td>
<td>1.2941</td>
<td>1.18463</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>214.7799</td>
<td>278.0801</td>
</tr>
<tr>
<td>Debt Equity Ratio</td>
<td>134.3883</td>
<td>192.7486</td>
</tr>
</tbody>
</table>

Source: Researcher’s compilation from financial statement of Banks retrieved from
### Table No. 2

**Financial Performance of HDFC Bank Ltd for the last three financial years is ending before and after the merger financial ratios (in percentage)**

<table>
<thead>
<tr>
<th>Ratios</th>
<th>HDFC Bank Ltd (Bidder Bank)</th>
<th>Before Merger 3 years</th>
<th>After merger 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31-03-2005</td>
<td>31-03-2006</td>
<td>31-03-2007</td>
</tr>
<tr>
<td>Gross Profit Margin</td>
<td>74.17</td>
<td>71.12</td>
<td>69.94</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>21.51</td>
<td>19.46</td>
<td>16.57</td>
</tr>
<tr>
<td>Operating Profit Margin</td>
<td>53.12</td>
<td>46.01</td>
<td>47.93</td>
</tr>
<tr>
<td>Return Capital Employed</td>
<td>1.29</td>
<td>1.18</td>
<td>1.25</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>214.78</td>
<td>278.08</td>
<td>357.38</td>
</tr>
<tr>
<td>Debt Equity Ratio</td>
<td>134.39</td>
<td>192.75</td>
<td>222.65</td>
</tr>
</tbody>
</table>

Source: Researcher’s compilation from financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/

### Table No. 3

**Mean and Standard Deviation of Pre-Merger and Post-Merger Ratios of HDFC Bank**

<table>
<thead>
<tr>
<th>Ratios</th>
<th>Analysis of Financial Ratios of HDFC Bank</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
</tr>
<tr>
<td>Gross Profit Margin</td>
<td>Pre</td>
</tr>
<tr>
<td></td>
<td>Post</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>Pre</td>
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<tr>
<td></td>
<td>Post</td>
</tr>
<tr>
<td>Operating Profit Margin</td>
<td>Pre</td>
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<td></td>
<td>Post</td>
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<tr>
<td>Return Capital Employed</td>
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<td></td>
<td>Post</td>
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<tr>
<td>Return on Equity</td>
<td>Pre</td>
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<td></td>
<td>Post</td>
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<tr>
<td>Debt Equity Ratio</td>
<td>Pre</td>
</tr>
<tr>
<td></td>
<td>Post</td>
</tr>
</tbody>
</table>

Source: Researcher’s compilation from financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/
Source: Researcher’s compilation from financial statement of Banks retrieved from http://www.moneycontrol.com/stocksmarketsindia/
In the present research work, the HDFC Bank, post merger performance, we seen that the Mean value of Gross Profit margin (32.58% to 35.9%) has increased which shows significant improvement in the Gross Profit margin. The merger of the Centurion Bank of Punjab and the HDFC Bank, the comparison between pre and post performance, in the mean of Net Profit margin (19.18 % Vs 20.27 %) and the mean of Operating Profit margin (49.02 % to 16.96%) you can see the decline the in the Mean of operating margin parameters that indicates that there is Operating Profit margin after merger
and results shows that there is no significance with Mean. The Return Capital Employed mean pre and post merger as shown (1.24 % Vs 1.70 %) which has been increased Significant statically and shows that return on capital investment has been in good position as pre merger. The mean of return on equity and debt equity ratio shows improvement and statically conformed significant to mean value (283.41 % Vs 1739.45 %) and (183.26 % Vs 843.03 %) and t value of each as 7.8521 and 7.3509. The mean value of equity in post merger has been increased so it means the share holders return held it also shows the improved performance of bank after merger. Similarly debt equity ratio also improved after the merger, the mean value shows the change in debt equity ratio after the merger. From the above analyses we can conclude that some ratios indicates no effect but most of the ratios shows the positive effect and increased the performance of banks after merger announcement.

CONCLUSION
For HDFC Bank, this merger provided an opportunity to add scale, geography (northern and southern states) and management bandwidth. In addition, there was a potential of business synergy and cultural fit between the two organizations.

Today Merger is the most popular and useful tool for rapid growth and span of Indian Banking Sector. It is boost up for survival of going to poorest position and weak banks by merge with larger bank. In this research paper, findings show that a very crucial impact of merger on financial performance of Indian Banking sector. A comparison between pre and post merger performance examined in terms of Gross Profit margin, Net Profit margin, Operating Profit margin, Return on Capital employed, Return on Equity and Debt equity ratio. In the present case study, the return on equity , debt–equity ratio and Gross Profit margin has shows the improvement after the merger and for the purpose and objective of the study, investigator apply t-test for analyzing the pre and post merger performance of banks and result suggested that after the merger the financial performance of the banks have increased. The most important is that to generate net higher profit after the merger in order to justify the decision of merger undertaken by the management to the shareholders. The aim should be to create a nimble giant, rather than a clumsy dinosaur. At the same time, lack of size should not be taken to imply irrelevance as specialized players can still seek to provide niche and boutique services.

There is also a need to note that merger or large size is just a facilitator, but no guarantee for improved profitability on a sustained basis. Hence, the thrust should be on improving risk management capabilities, corporate governance and strategic business planning. In the short run, attempt options like outsourcing, strategic alliances, etc. can be considered. Banks need to take advantage of this fast changing environment, where product life cycles are short, time to market is critical and first mover advantage could be a decisive factor in deciding who wins in future. Post-M&A, the resulting larger size should not affect agility.

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