

BANKS PERSPECTIVE IN MERGERS: A CASE STUDY ON MERGER OF THE BANK OF RAJASTHAN LTD. WITH ICICI BANK LTD.

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ABSTRACT

Merger is the primary growth and expansion strategy of present corporate world. Every business always focuses to maximize profit as well as improve growth and improvement. In this regard, merger can contribute as tremendous role model. Merger occurs when two or more enterprises combine into one entity. Or one enterprise mixes its existence into another entity. Merger activities having a very long history with more than 100 years. This section is full with lot of research activities with quantum suggestions. This research is also a brief attempt to analyze the impact of merger with reference to successful movements of merger in between two banks. The main objective of this paper is to analyze the pre and post merger impact of share price fluctuations on selected sample of study. This study is exploratory and descriptive in nature. Secondary source for data and information has been used in the study. As per the requirements of the research, data are taken from the website of NSE (National Stock Exchange). Basically; this paper investigates the impact of merger on ICICI Bank Ltd. The analysis of the collected data is based on appropriate statistical methods/tools.

KEYWORDS: Merger, Merger Movements by both of Banks, Banks Profiles, and Impact on the share price movements of ICICI Bank Ltd.

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.

M	Mixing
E	Entities
R	Recourses For
G	Growth
E	Enrichment and
R	Renovation
Source: http://shodhganga.inflibnet.ac.in/bitstream/10603/1949/5/05_chapter%202.pdf	

Here, the main focus of study is to discuss about impacts of the Merger in banking sector with special, reference the study of The Bank of Rajasthan Ltd. with ICICI Bank Ltd. This study contains information about effect of merger announcement by board of both banks on share price (Daily Closing Prices and turnover) prices of ICICI Bank Ltd. and effect of merger permission by RBI on the share prices (Daily Closing Prices and turnover) of ICICI Bank Ltd. Both effects are studied through share price performance of ICICI Bank Ltd. in former case before (21 Days) and after (21 Days) and 19 days (pre-post effect) in lateral case of the above shown activities as well as to study of few financial report related data. For the requirement of the study, data are taken from the website of NSE.

REVIEW OF LITERATURE

Reviews of literature always play a very significant role in every research study. This can be treated as the back-support of the study. Tour on historical literature helps the researcher to explore and develop his ideas on the concerned topic. This chapter deals with the historical background on the concerned research topic. It provide base to the researcher to conduct a successful research study. Historically, mergers and acquisition activity started way back in 1920 when the imperial Bank of India was born when three presidency banks (Bank of Bengal, Bank of Bombay and Bank of Madras) were reorganized to form a single banking entity, which was subsequently known as State Bank of India (Mor, et al., 2012). Prajapati (2010) analysis was based on around 45 banks; data for study were taken from public sector banks, private sector banks and foreign banks in India. His study resulted mergers performed a very well task in access to new markets for business and operations. He founds many banks attained a number of benefits like reduction in cost of funds, diversification of loan portfolio and expansion of range of services available to the public. Goyal and Joshi's study about mergers in banking sector initiated from the merger case of the Bank of Rajasthan Ltd. and ICICI Bank Ltd. The main objective of their study was to test the motives of banks for mergers and acquisition with special reference to Indian banking Industry. For this purpose sample of 17 mergers (post liberalization) of Banks has been taken. The results of their study founds small and local banks face difficulty in bearing the impact of global economy therefore, they need support and it covered as one of the main reason for merger. Due to huge potential in rural markets of India, the task of mergers also takes place. Jayadev and Sensarma analysis of this great attempt to construct results on the merger trends in Indian banking with study of impacts on shareholders and managers. They founded after that study both acquiring and merged bank's share value in market showed negative impact on the immediate announcement of mergers. Pautler (2001) analysed on the basis of event study for research. This research study showed M&As significantly beneficial to target/merging firm's shareholders and not much beneficial for acquiring firm's shareholders. Sinha, Kaushik and Chaudhary (2010) pointed in their study Indian M&A cases show a positive correlation between financial performance and the M&A deal. On the basis of studied sample financial sector in India showed more than half of the merging firms' improved financial performance after the merger.

RESEARCH METHODOLOGY

This section of the study is concerned with the boundary line of the study in which the present study will be conducted. This part covers all methodology, techniques and limitations of the study. This study is a try to find out the impact of merger on the share prices and turnover of acquiring firm. This study is conducted with a special reference of merger of The Bank of Rajasthan Ltd. with ICICI Bank Ltd.

RESEARCH OBJECTIVES AND DESIGN OF RESEARCH

MACRO OBJECTIVES

1. To find out the impact of merger on the share prices of ICICI Bank Ltd. (In form of Pre and Post price fluctuations when the merger announced by the board members of both banks).

2. To find out the impact of merger on the share prices of ICICI Bank Ltd. (In form of Pre and Post price fluctuations when the merger was permitted by RBI).
3. To study the merger impact on turnover in both of above cases.

MICRO OBJECTIVE

1. To study the merger movements of the selected banks

Objectives Categories	Objectives of Research	Suitable Research Design
Macro Objectives	To find out pre and post merger announcement effect (Shown earlier in Macro Objectives)	Descriptive Research Design
Micro Objectives	To study the merger movements of the selected banks.	Exploratory Research Design

DATA COLLECTION AND TOOLS USED

The conduction of this study is based on the use of secondary data. The main advantage of secondary data it is easy to collect. This study is purely a secondary data based study. Data collected for study is related with certain time before and after the merger case which is disused earlier. The data and information for this study has been collected from National Stock Exchange's website, ICICI bank's website and from various journals. In this study graphical method and Mean method is significantly used.

SIGNIFICANCE AND LIMITATIONS

The present study provides a brief overview on the before and after announcement effect of mergers on acquiring entity. In this regard, in this study pre and post announcement merger cases is very significant explained with case of The Bank of Rajasthan Ltd. with ICICI Bank Ltd. This is a secondary data based study so also having the limitations of the secondary data. It focus on the share price and turnover, profitability parameters are not covered to test pre-post effects.

BANKS PROFILES AND MERGER'S MOVEMENTS

The Bank of Rajasthan Ltd. was set up in 1943 at Udaipur with starting capital of Rs.10.00 lakhs. Firstly name of the bank was comes into mind Bank of Mewar State or Bank of Udaipur. After this the name of the bank 'The Bank of Rajasthan Ltd.' was given by its promoters. In 1960 the bank started first mobile branch in Jaipur. The achievement of set up rural bank (Mewar Anchlik Gramin Bank) in Udaipur gained by bank in 1983.

ICICI formation was the first step of the World Bank, the Government of India and representatives of Indian industry in 1955. The main target was to create a development financial institution for providing medium and long-term financing to Indian businesses. ICICI Bank was established by the Industrial Credit and Investment Corporation of India, in 1996. The name changed from Industrial Credit and Investment Corporation of India Bank to ICICI bank in 1998. ICICI Ltd was an Indian company which is involved in the working of financial services with main center in Mumbai. ICICI Bank Ltd has a large network of 2,575 branches and 8,003 ATM's in India, and in 19 countries also. In 2007, Sangli Bank taken over by ICICI Bank. In year 2010, ICICI Bank received the World Finance Award.

The merger between India's largest private-sector ICICI Bank and the smaller Bank of Rajasthan not an actually equal match. After two great acquisitions of ICICI Bank's with Bank of Madura Limited in year 2001 and Sangli Bank in year 2007. This was also a great deal of merger in Indian banking industry. It approved by the directors and boards of both the banks on May, 23, 2010 with a share exchange ratio of 25 shares of ICICI Bank for 118 shares of Bank of Rajasthan. The conditions of merger was settled on, Customers can continue to transact using their current The Bank of Rajasthan Ltd.'s cheque books, ATM cards, lockers etc. The minimum balance requirements and service charges on all type of accounts will remain unchanged. With the announcement of merger on May, 23, 2010 stock prices of The Bank of Rajasthan Ltd. goes over 20% than previous day's closing. While stock prices of ICICI Bank Ltd goes 3.6% lower. On August, 13, 2010 Indian superior body of banking Reserve Bank of India gave permission for merger.

FINDINGS OF THE STUDY

Data analysis and interpretation having important role in the completion of any research work. This provides the actuality of the results which are based on the structured data. As per the objectives of the study analysis and interpretation of the whole data are categorized into two categories.

In primary category, pre and post merger announcement effect on daily closing share prices as well as turnover (daily trading in rupees) shown separately, when the board of members of both the banks announced for merger as on May 23, 2010. This section covered with one another parameter, which describes the net average effects on the shares prices movements in pre-post announcement context.

In the second category, pre and post merger announcement effect on daily closing share prices as well as turnover (daily trading in rupees) shown separately, when the distinct body of Indian banking RBI approved permission for merger between both the banks. RBI approved permission for merger as on August 13, 2010.

PRIMARY CATEGORY: FIGURE-1

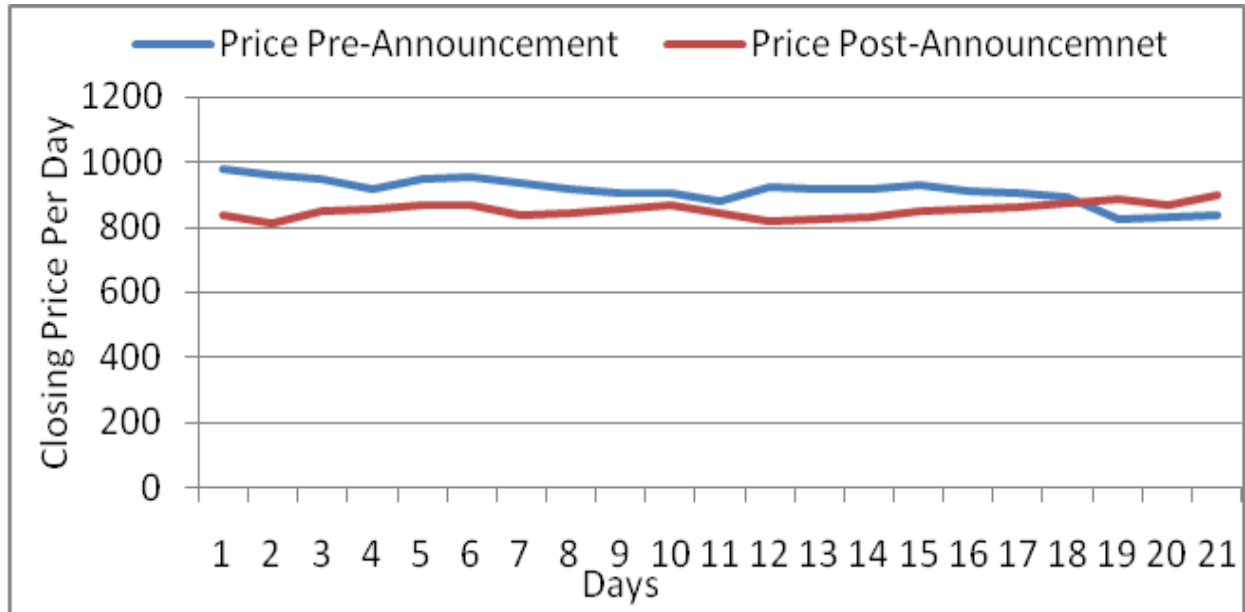


FIGURE: 1 (SHARE PRICE OF ICICI BANK)

Shown in figure 1 the price changes effects are resulting negative changes in the closing prices movements, prices are in unfavorable position than pre announcement period of merger. Here in figure, prices post announcement consistently are in decreasing trend. As days goes up after announcement from 18th day prices are showing positive signs. Thus, on the basis of daily closing price movement results of pre and post merger announcement gave negative results to the shareholders on initial days but with the duration of time positives signs also seen.

PRIMARY CATEGORY: FIGURE-2

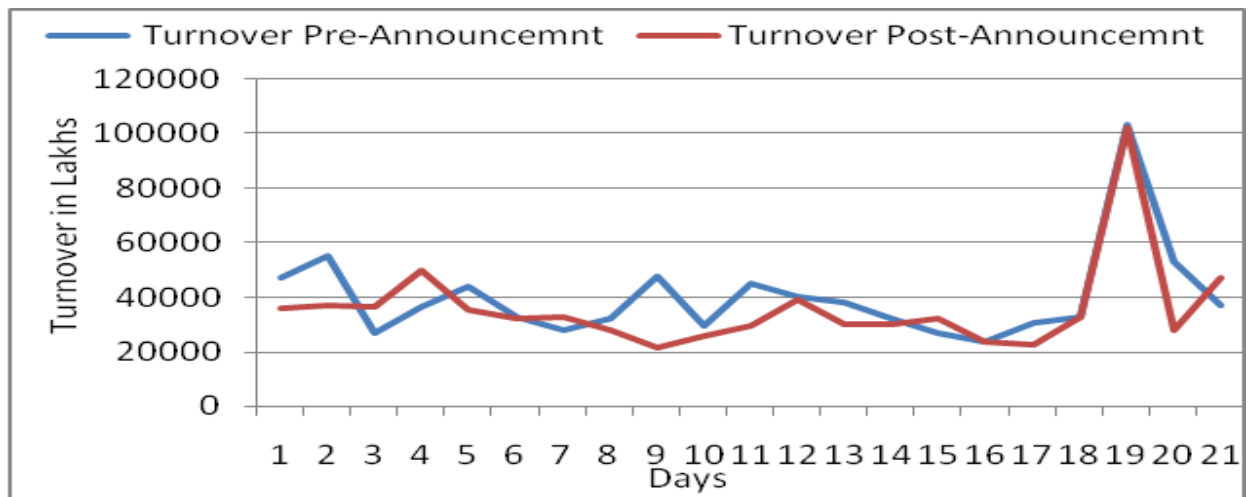


FIGURE: 2 (TURNOVER OF ICICI BANK)

Shown in figure 2, changes in turnover take place negative impacts, it means after announcement of merger trend has been seen in movement of turnover not in positive sense. According to figure, as per X-axis after the merger announcement from day 1st after announcement turnover not resulted in positive way. Besides this is showing few positive effects. With the passage of time pre and post announcement on turnover are approximately in same position. Thus, it can be cleared from figure pre and post announcement are not showing much significant change in turnover.

PRIMARY CATEGORY: FIGURE-3

According to figure 3, based on the average (mean) value of pre and post announcement closing share prices. Pre announcement value stands at 910.05 but post announcement value just stopped at 851.51. Thus, it is showing negative average effects on closing prices for post announcement.

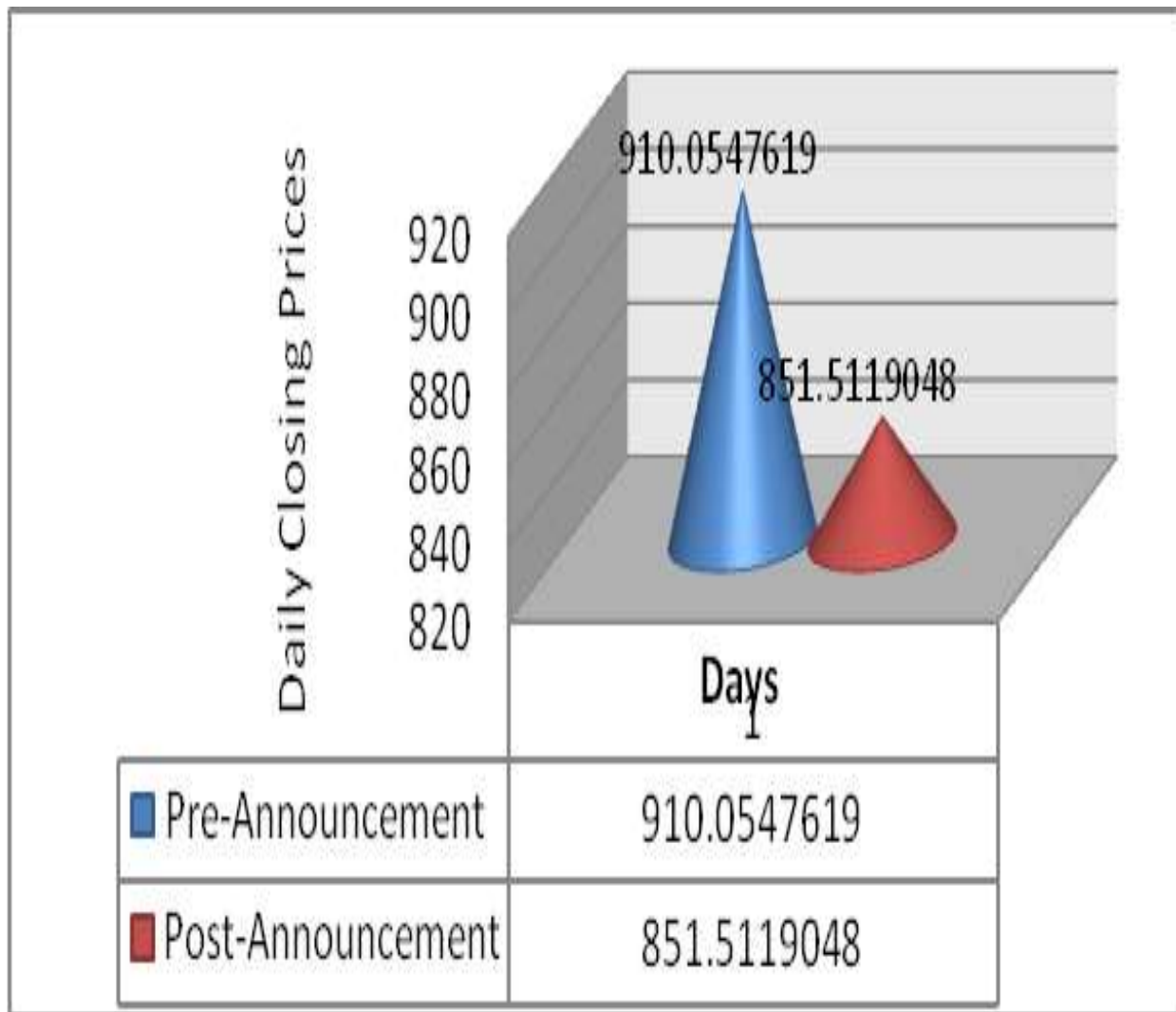


FIGURE: 3 (AVERAGE SHARE PRICES OF ICICI BANK)

SECOND CATEGORY: FIGURE-1

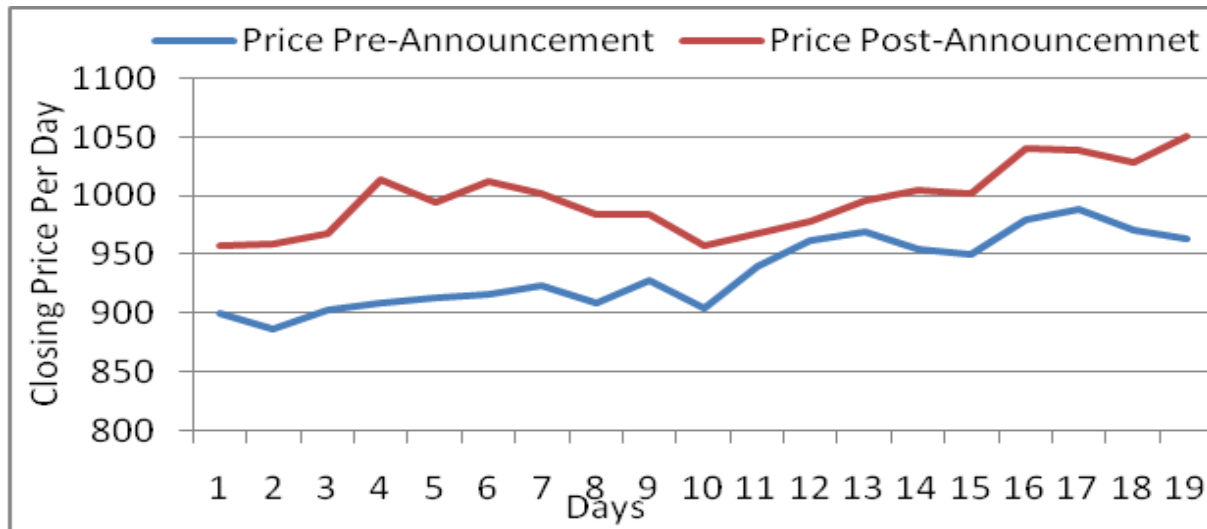


FIGURE: 1 (SHARE PRICE OF ICICI BANK)

After the permission by distinct body of Indian banking RBI for merger the share price movements showing fully positive impacts as cleared from the above shown figure. Post permission line of figure showing increasing trend day by day on share prices on an average basis. After the permission announcement from RBI all points of price values showing fully favorable reactions from market in form of increasing prices. Thus on the basis of above results it is cleared that post permission announcement depicting positive results at each point rather than pre permission announcement period of the study.

SECOND CATEGORY: FIGURE-2

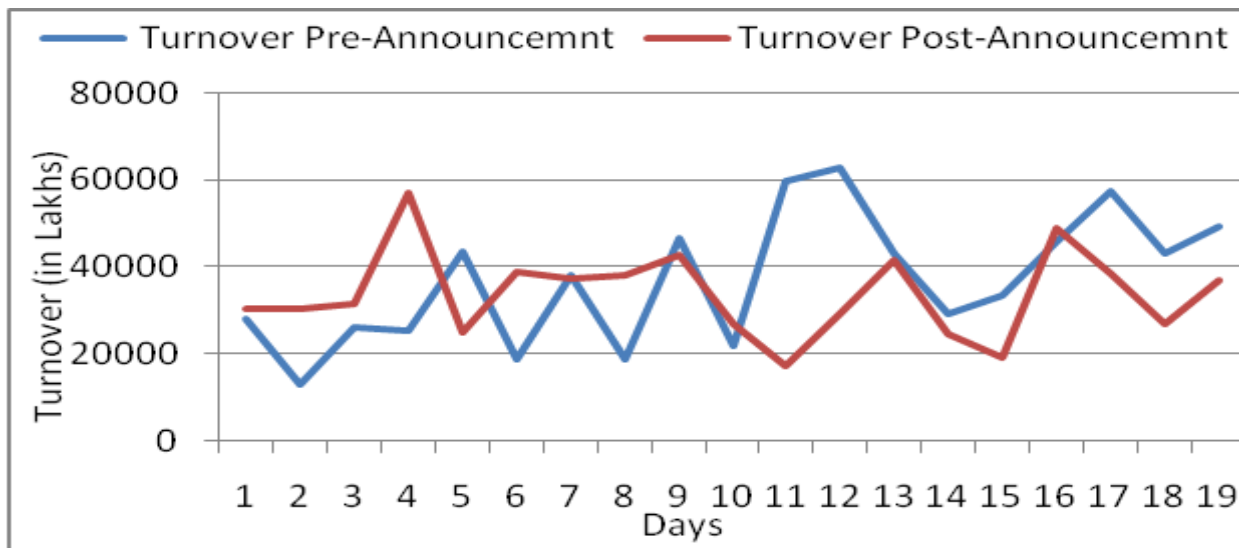


FIGURE: 1 (TURNOVER OF ICICI BANK)

As shown in above figure it is noticed that changes in turnover take place positive changes on initial days after that it's showing negative changes due to decreases in turnover. According to figure as per X-axis after the merger permission start of turnover trend take place with increasing trend after that it showed some positive effects, but according to the time of our study i.e. 19 days shares turnover showed decrease results on an average basis. No doubt, turnover has showed some positive results but overall the movement in turnover is better in pre permission case rather than post permission case. Thus, it is showing, not much positive reaction of trading volume in rupees after the permission period of RBI.

CONCLUSION

Mergers are increasing day by day, every merger make a significant impact on the market as well as entities involved in this process. In the present study firstly we discussed about the mergers and factors forcing for the same. Then the merger movement as well as impact of merger on acquiring entity i.e. ICICI Bank Ltd. are analyzed through graphical-observation method and average method. The present research study resulted that the acquiring bank (ICICI bank Ltd) loses their market prices when the announcement came into the market on the other hand the bank of Rajasthan ltd gain with the announcement news.

FURTHER RESEARCH SCOPE

The present study only focused on share prices as well as turnover changes by merger announcement news. For further research, there may be few other parameters can be used, they can be related with profitability impacts, liquidity impacts, etc. besides this event study can also be focused for further research.

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ANNEXURE

TABLE: 1- PRE AND POST PRICES & TURNOVER CHANGES WHEN MERGER APPROVED BY BOARD OF MEMBERS OF BOTH BANKS, I.E. MAY 23, 2010.

Days	Price Pre-Announcement	Price Post-Announcements	Turnover Pre-Announcements	Turnover Post-Announcement
1	977.7	832.1	47328.5	35675.36
2	960.15	809.35	55036.3	36776.7
3	946.95	847.75	26766.1	36309.72
4	919.45	856.8	36560	49611.91
5	947.05	864.75	43734.94	35048.71
6	951.95	868.3	32577.56	32055.85
7	936.9	837.95	28180.68	32747.49
8	915.2	842.3	32495.16	27840.37
9	903.65	854.1	47467.4	21291.03
10	902.85	865.85	29501.25	25574.1
11	876.6	841.95	45029.04	29156.74
12	922.1	817.5	40453.66	38675.46
13	916.6	824.55	38368.48	29954.05
14	914.75	829.05	32276.46	29625.67
15	927	846	27144.47	31892.52
16	911.05	853.65	23722	23526.75
17	901.1	860.1	30411.37	22384.07
18	889.2	876.75	32531.35	32682.06
19	824.45	883.85	103143.97	102037.07
20	831.65	869.3	53013.24	27765.96
21	834.8	899.8	37236.95	46741.84

Source: www.nseindia.com

TABLE: 2- PRE AND POST PRICES & TURNOVER CHANGES WHEN MERGER APPROVED BY RBI, I.E. AUGUST 13, 2010

Days	Price Pre-Announcement	Price Post-Announcement	Turnover Pre-Announcements	Turnover Post-Announcement
1	900.05	957.1	28070.54	30431.14
2	886.85	958.9	13057.81	30411.1
3	902.6	967.9	26310.57	31509.58
4	908.7	1013	25342.37	56959.16
5	912.85	994	43601.48	25134.37
6	916.7	1011.5	18855.51	39060.54
7	924.2	1001.7	38032.36	37442.04
8	908.85	984.3	18812.88	37988.23
9	928.7	983.55	46570.52	42636.17
10	904.9	957.45	21802.7	26960.62
11	939.55	967.9	59681.71	17381.15
12	962	977.7	62876.56	29374.46
13	969.25	995	43134.25	41699.42
14	955.4	1003.9	29349.28	24842.09
15	949.8	1001	33660.48	19127.13
16	980.1	1039.45	46030.38	49059.81
17	988.9	1038.6	57496.3	38581.66
18	971.85	1027.6	43219.32	27077.74
19	963.3	1050.2	49375.52	36952.13

Source: www.nseindia.com