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Does Merger Affect Financial Performance of Bidder Bank in India? Evidence from Merger of IDBI and United Western Bank

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Abstract
The objective of the study is to analyze and compare empirically the pre and post-acquisitions financial performance of IDBI Bank and United Western Bank Ltd. (UWB) in India and assess the impact of merger of IDBI Bank and United Western Bank Ltd. (UWB) on the efficiency of said banks in terms of different financial parameters through ratio analysis. A majority of the financial indicators of IDBI Bank and United Western Bank Ltd. (UWB) display noteworthy improvement in their operational performance during post merger period. Therefore, the results of the study reveal that average financial ratios of sampled banks in Indian banking sector showed a notable and important improvement in terms of liquidity, profitability, and stakeholders' wealth.
Keywords: Merger, India, IDBI Bank, United Western Bank Ltd, efficiency.

1. Introduction:

In present globalized scenario, mergers and acquisitions (M&As) have become a globally accepted device for enhancing competitiveness of companies through gaining greater market shares, reduce business risks, entering new markets, searching for economies of scale, synergies and many other reasons. Mergers and acquisition (M & A) can generally be defined as activities involving takeovers, corporate restructuring, corporate control as well as changes in the ownership structure of firms in any industry. Actually, merger and acquisition which takes place to achieve economies of scale, to encourage diversifications of the products, to enhance profitability along with technological change and deregulation and to reduce the risk as well, can occur through internal and external means. Internally, a firm achieves development and growth by expanding firm's infrastructure activities and customer base and thus profits and revenues via organic path. Externally, inorganic way via Merger and Acquisition offers immediate development and growth. Therefore, M & A can be considered as an inorganic strategy of growth. In the global environment, this strategy has become vital for achieving economies of scale, improving efficiency, reaching out to new markets and building new capabilities. Banks play a very imperative responsibility in driving up the whole economy of a country. With the influence of M&A in the banking sector, the banks can accomplish strategic benefits, noteworthy growth in operations and minimize their expenses to considerable extent. Therefore, more and more international and domestic banks all over the world are engaged in M&A tricks.

In globalised world, a great deal of researches in economics and corporate finance has evaluated the profitability of banks by financial factors before and after M&A, since investment decisions are directly related to the financial factors. The significance of this approach lies in the fact that it can be used to identify strengths and weaknesses of the banks' performance, whether it is profitable or not. Whether M&A lead to improved performance is a controversial issue. Since no explicit conclusion can be drawn, it leads to further exploration in this area.

In this article, we will attempt to examine the post-merger performance of specific Indian banks [United Western Bank Ltd. (UWB) and IDBI Bank] involved in M&A activities by using accounting approach (ratios). The present work is motivated by the very dearth of empirical evidence on the impact of M&A in Indian bank's context and also try to compare whether this merger has impacted financial performance of IDBI bank after getting it merged with United Western Bank Ltd in 2006.

1.1.Profile of IDBI Bank:

The Industrial Development Bank of India (IDBI) was set up in 1964 under an Act of Parliament as a wholly owned subsidiary of the Reserve Bank of India. In 1976, the ownership of IDBI was transferred to the Government of India and it was made the principal financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry in India. IDBI provided financial assistance, both in rupee and foreign currencies, for green-field projects as also for expansion, modernization and diversification purposes. In the wake of financial sector reforms unveiled by the government since 1992, IDBI also provided indirect financial assistance by way of refinancing of loans extended by State-level financial institutions and banks and by way of rediscounting of bills of exchange arising out of sale of indigenous machinery on deferred payment terms. After the public issue of IDBI in July 1995, the Government shareholding in the Bank came down from 100% to 75%. IDBI played a pioneering role, particularly in the pre-reform era

(1964–91), in catalyzing broad based industrial development in India in keeping with its Government-ordained 'development banking' charter. Some of the institutions built with the support of IDBI are the Securities and Exchange Board of India (SEBI), National Stock Exchange of India (NSE), the National Securities Depository Limited (NSDL), the Stock Holding Corporation of India Limited (SHCIL), the Credit Analysis & Research Ltd, the Exim Bank (India), the Small Industries Development Bank of India (SIDBI) and the India. A committee formed by RBI recommended the development financial institution (IDBI) to diversify its activity and harmonize the role of development financing and banking activities by getting away from the conventional distinction between commercial banking and developmental banking. To keep up with reforms in financial sector, IDBI reshaped its role from a development finance institution to a commercial institution. With the *Industrial Development Bank (Transfer of Undertaking and Repeal) Act*, 2003, IDBI attained the status of a limited company viz., IDBI Ltd.Subsequently, in September 2004, the Reserve Bank of India incorporated IDBI as a 'scheduled bank' under the *RBI Act*, 1934. Consequently, IDBI, formally entered the portals of banking business as IDBI Ltd. from 1 October 2004. The commercial banking arm, IDBI BANK, was merged into IDBI in 2005.As on 31 March 2015, the bank had 16,555 employees, out of which 197 were employees with disabilities.[7] The average age of bank employees on the same date was 34 years. The bank reported business of INR 25.64 crores per employee and net profit of INR 12.17 lakhs per employee during the FY 2012-13. The company incurred INR 1,538 crores towards employee benefit expenses during the same financial year. It is currently 10th largest development bank in the world in terms of reach, with 3700 ATMs, 1995 branches, including one overseas branch at Dubai, and 1382 centers. It is one of 21 commercial banks owned by the Government of India. The Bank has an aggregate balance sheet size of INR 3.74 trillion as on 31 March 2016.

1.2. Profile of United Western Bank Ltd. (UWB):

United Western Bank (UWB) was an Indian bank founded in 1840 that IDBI Bank acquired in 2006 in a rescue. The Reserve Bank of India placed UWB under a moratorium to protect the interest of public and depositors as growing losses eroded its capital. Annasaheb Chirmule, a leader of the Swadeshi movement, founded Satara Swadeshi Commercial Bank in 1907, and some three decades later founded United Western Bank. The bank was incorporated in 1936, and commenced operations the next year. UWB's head office was in Satara, in Maharashtra State. It became a Scheduled Bank in 1951. In 1956 UWB acquired Union Bank of Kolhapur, which had been incorporated on 5 July 1949.In 1961 UWB acquired Satara Swadeshi Commercial Bank. Established on 20 August 1907, this was the first bank established at Satara.At the time of the merger with IDBI, UWB had some 230 branches spread over 47 districts in 9 states, controlled by five Zonal Offices at Mumbai, Pune, Kolhapur, Jalgaon and Nagpur. By acquiring UWB, IDBI was able to increase its branch network from 195 to 425 branches.

Table: 1: Dismal financial performance of United Western Bank ltd. Rs (in Crores)

For the year	March,31,2002	March,31,2003	March,31,2004	March,31,2005
Operating Income	631	593	565	459
Net Profit	26	28	31	-99
Net Worth	142	146	144	85
No. of Shares (in crore)	3	3	3	3
Adjusted EPS (Rs)	9	7	10	-33
Book value per Share (Rs)	77	85	94	74
Dividend per Share (Rs)	2	2	2	0
Net Profit Margin (%)	4	4	5	-20
Current Ratio	1	1	1	1
Lt Debt Equity	0	0	0	0

Source: Banks' Annual Report(Several years)

1.3. Merger of United Western Bank Ltd. (UWB) with IDBI Bank:

On September 02, 2006, the Government of India (GoI) imposed a moratorium on the Satara based United Western Bank Limited (UWBL), one of the largest private sector commercial banks in India. The moratorium order was passed in response to an application by the Reserve Bank of India (RBI) citing the poor financials of UWBL due to its inefficient management. The moratorium was for three months from 14.00 hours on September 02, 2006 till December 01, 2006 or an earlier date, in case of any alternative arrangement. During the period of the moratorium, the bank was permitted to make some specific payments as mentioned in the order and depositors were allowed to withdraw only up to Rs.10,000 in total from their savings/current account or any other deposit account through any of the branches of the bank. It had 130 branches in the rural and semi-urban areas of Western India.

The race to acquire the beleaguered United Western Bank (UWB) has finally come to an end with Industrial

Development Bank of India (IDBI) all set to acquire it. On September 13, 2006, the RBI announced the merger of the Industrial Development Bank of India (IDBI) and UWBL. The merger came into effect from October 03, 2006. IDBI benefited from UWBL's vast branch network as the merged entity had 411 branches as against 181 of IDBI alone. The asset base of IDBI increased by Rs. 71.6 billions. Immediately before merger, the financial position of both banks is depicted in the following table:

Table: 2: Pre merger financial snapshot of IDBI Bank (Bidder Bank)and United Western Bank (Target bank)

	Fact File as on 30.6.2006(In Rs crores)	
	IDBI	*United Western Bank (UWB)*
Net worth	*6,484*	*-*
CAR(%)	*14*	*-53*
Net NPA(%)	*1.02*	*5.67*
Braches	*181*	*230*
Net Profit	*151*	*-6*

Source: Banks' Annual Report,2006

IDBI has offered to pay Rs. 28 per share to the UWB shareholders. The purchase consideration, at this price, works out to about Rs. 150 crore. The price-to-book multiple for the acquisition works out to about 1.9. Further, UWB has a minimal net worth. Its capital adequacy ratio had turned negative mainly because of technical provisions such as for depreciation in the value of investments. Even with a mere 10 per cent recovery rate and no further slippage in the asset quality, the acquisition would be a value proposition for IDBI. Being a big bank with a high capital adequacy (14.8 per cent), it is likely to see larger volumes per branch.

Analysts felt at the time of merger that the amalgamation of UWBL with IDBI would support IDBI's growth. The amalgamation of UWB with IDBI is likely to add value to the latter over the long term. The merger is likely to help IDBI expand its retail presence, though its size may not increase substantially. Of the several benefits the deal brings, it is believed that access to the branch network is most significant. IDBI, with a balance-sheet size of Rs. 81,700 crore, has a network of 181 branches now. It scores poorly on this parameter compared to like-size peers. The merger would give IDBI immediate access to the 230-branch network of UWB, thereby widening its deposit franchise.IDBI wanted to expand its branch network. By acquiring UWBL, IDBI got access to its 230 branches that covered all the commercially important places in Maharashtra. With the RBI having restricted branch licenses in over-banked urban centers, this access would help IDBI's expansion. Analysts opined that the merger would sustain the momentum of IDBI's growth in terms of deposits by widening its retail presence.

2. Methodology:

2.1. Collection of data:

The financial and accounting data of banks has been mainly collected from banks' Annual Report of several years to evaluate the impact of M&As on the performance of said banks. Financial data has also been collected from *www.moneycontrol.com* for the study.

2.2. Method of Analysis:

For attaining the result, pre and post merger performance have been compared. The pre and post merger financial performance have been achieved in terms of Investment- Deposit Ratio, Priority sector advance as % to total advance, Deposit per employee, Advance per employee, Interest income as a % of total income, Non-interest income as a % of total income, Interest expenses as a % of total expenses, Establishment expenses as a % of total expenses, Other operating expenses as a % of total expenses, Spread as a % to Assets, Interest Income as % to average working funds, Non-interest Income as % to average working funds, Operating profit as % to average working funds, Return on Asset, Net NPA as % to net advances, Capita Adequacy Ratio [CAR(%) etc.

In order to make a notable comparison of the performance of the merged banks, data for two years prior to the merger and data for two years after the merger have been analyzed. Thus, a period of five years has been analyzed. The pre-merger (two years before) and post -merger (after two years) of the financial ratios have been compared. The year of merger is considered as base year and denoted as 0 which has been excluded from the analysis. Keeping in mind the objective of the study, we have taken into consideration the mean difference, standard deviation, growth rate(%)as tools of statistical evaluation of our study.

2.3 Financial ratio used:

(i) Credit -Deposit Ratio=Total Advance/Total Deposit X 100
(ii) Investment- Deposit Ratio: Total Investment / Total Deposit X 100
(iii) Priority sector advance as % to total advance: Priority sector advance / Total Advance X 100
(iv) Deposit per employee: Total Deposit / no of employees X 100
(v) Advance per employee: Total Advance / no of employee X 100

(vi) Interest income as a % of total income: Interest earned / Total income X 100
(vii) Non-interest income as a % of total income: Non-interest earned / Total income X 100
(viii) Interest expenses as a % of total expenses= Total interest expended / Total expenditure
(ix) Establishment expenses as a % of total expenses = Establishment expense / Total expenditure
(x) Other operating expenses as a % of total expenses = Other operating expenses / Total expenditure
(xi) Spread as a % to Assets =spread (i.e. interest income minus interest expenses)/ Total assets
(xii) Interest Income as % to average working funds =Interest earned/Average working fund (AWF)
(xiii) Non-interest Income as % to average working funds=Non-interest earned/ Average working fund (AWF)
(xiv) Operating profit as % to average working funds= Operating profit/ Average working fund (AWF)
(xv) Return on Asset (ROA)= Net profit/ Average assets
(xvi) Net NPA as % to net advances= Net NPA/ Net advances
(xvii) CAR(%)=Tier-I Capital(%)+Tier-II Capital(%)

2.4. Hypotheses:

Hypotheses have been formulated for testing the significant difference between Pre and Post merger financial indicators which have been depicted below:

H_0 (Null Hypothesis): There is no significance difference between the pre and post merger financial indicators like Investment- Deposit Ratio, Priority sector advance as % to total advance, Deposit per employee, Advance per employee, Interest income as a % of total income, Non-interest income as a % of total income, Interest expenses as a % of total expenses, Establishment expenses as a % of total expenses, Other operating expenses as a % of total expenses, Spread as a % to Assets, Interest Income as % to average working funds, Non-interest Income as % to average working funds, Operating profit as % to average working funds, Return on Asset, Net NPA as % to net advances, Capita Adequacy Ratio [CAR(%) etc.

H_1 (Alternative Hypothesis): There is significance difference between the pre and post merger financial indicators like Investment- Deposit Ratio, Priority sector advance as % to total advance, Deposit per employee, Advance per employee, Interest income as a % of total income, Non-interest income as a % of total income, Interest expenses as a % of total expenses, Establishment expenses as a % of total expenses, Other operating expenses as a % of total expenses, Spread as a % to Assets, Interest Income as % to average working funds, Non-interest Income as % to average working funds, Operating profit as % to average working funds, Return on Asset, Net NPA as % to net advances, Capita Adequacy Ratio [CAR(%) etc.

3. Analysis of results:

Table-3 simply presents pre-merger financial performance for two years 2004-05 and 2005-06 on the basis of some financial indicators depicted below. However, simple ratio shows ups and downs in operating performance of two banks. Of course, post merger financial parameters for 2 year period in table 2 do not indicate merely steady upward performance ,rather, some ratios show dismal downward trend.

Table: 3: Pre-Merger financial performance of United Western Bank and IDBI (two years prior) (in percentage)[Merged on October 3, 2006]

Serial no.	Ratios	IDBI (Bidder Bank)		United Western Bank (Target Bank)	
		As on 31-03-2005	As on 31-03-2006	As on 31-03-2005	As on 31-03-2006
1.	Credit -Deposit Ratio	300.70	202.84	61.62	61.82
2.	Investment- Deposit Ratio	165.90	97.50	32.58	34.16
3.	Priority sector advance as % to total advance	9.51	13.03	32.08	38.71
4.	Deposit per employee	333.39	571.70	204.33	211.63
5.	Advance per employee	1002.51	1159.61	125.91	130.84
6.	Interest income as a % of total income	80.90	80.78	88.10	89.64
7.	Non-interest income as a % of total income	19.10	19.22	11.90	10.36
8.	Interest expenses as a % of total expenses	82.94	81.98	52.24	49.51
9.	Establishment expenses as a % of total expenses	5.29	5.22	11.66	16.69
10.	Other operating expenses as a % of total expenses	9.96	8.87	9.88	11.13
11.	Spread as a % to Assets	0.23	0.43	2.07	2.30
12.	Interest Income as % to average working funds	3.35	6.51	6.99	7.07
13.	Non-interest Income as % to average working funds	1.03	1.55	0.94	0.82
14.	Operating profit as % to average working funds	0.46	0.97	1.04	0.59
15.	Return on Asset	0.38	0.63	-1.39	-1.49
16.	Net NPA as % to net advances	1.87	1.07	5.84	5.67
17.	Capita Adequacy Ratio [CAR(%)]	15.51	14.80	4.86	-53.00

Source: Author's own estimate from data collected from Indian Banking Association (several years).

Table 4:- Post-merger financial performance of IDBI (two years after the year of merger) (in percentage)

Serial no.	Ratios	IDBI (Bidder Bank)	
		As on 31-03-2008	As on 31-03-2009
1.	Credit -Deposit Ratio	112.62	92.03
2.	Investment- Deposit Ratio	44.94	44.53
3.	Priority sector advance as % to total advance	18.53	21.98
4.	Deposit per employee	886.97	1101.86
5.	Advance per employee	998.94	1014.06
6.	Interest income as a % of total income	83.06	88.66
7.	Non-interest income as a % of total income	16.94	11.34
8.	Interest expenses as a % of total expenses	82.50	84.73
9.	Establishment expenses as a % of total expenses	4.31	4.68
10.	Other operating expenses as a % of total expenses	6.43	6.32
11.	Spread as a % to Assets	0.50	0.72
+12.	Interest Income as % to average working funds	7.18	8.22
13.	Non-interest Income as % to average working funds	1.46	1.05
14.	Operating profit as % to average working funds	1.19	0.98
15.	Return on Asset	0.67	0.62
16.	Net NPA as % to net advances	1.32	0.92
17.	Capita Adequacy Ratio [CAR(%)]	11.95	11.23

Source: Author's own estimate from data collected from Indian Banking Association (several years).

Table 5 presents combined financial picture of IDBI and United Western Bank during pre merger period if they could have been taken together during 2004-05 to 2005-06.Result shows similar upward and downward picture of both banks in terms of selected financial parameters.

Table 5:- Combined average Profile of United Western Bank and IDBI for the last two financial years pre-merger (in Percentage)

Serial no.	Ratios	United Western Bank and IDBI Bank	
		As on 31-03-2005	As on 31-03-2006
	Credit -Deposit Ratio	181.16	132.33
2	Investment- Deposit Ratio	99.24	65.83
3	Priority sector advance as % to total advance	20.80	25.87
4	Deposit per employee	268.86	391.67
5	Advance per employee	564.21	645.23
6	Interest income as a % of total income	84.50	85.21
7	Non-interest income as a % of total income	15.50	14.79
8	Interest expenses as a % of total expenses	67.59	65.75
9	Establishment expenses as a % of total expenses	8.48	10.96
10	Other operating expenses as a % of total expenses	9.92	10.00
11	Spread as a % to Assets	1.15	1.37
12	Interest Income as % to average working funds	5.17	6.79
13	Non-interest Income as % to average working funds	0.99	1.19
14	Operating profit as % to average working funds	0.75	0.78
15	Return on Asset	(0.51)	(0.43)
16	Net NPA as % to net advances	3.86	3.37
17	Capita Adequacy Ratio [CAR(%)]	10.19	(19.10)

Source: Author's own estimate.

In case of merger between IDBI and United Western Bank, we have found, while comparing between pre and post merger financial performance that mean value of Credit -Deposit Ratio (156.75 vs 102.325, mean difference 54.42, growth rate -34.72%) has increased showing a mean difference of -54.42% which shows significant a decrease in Credit -Deposit Ratio in terms of growth rate of -34.72%. Investment- Deposit Ratio has also decreased noticeably during post merger period as compared to pre-merger period indicating significant downward trend in the performance of banks' Investment- Deposit (mean value 82.54 vs 44.74, mean diff.37.80, growth rate -45.80%) and simultaneously, priority sector advance as % to total advance have also decreased noticeably during post merger period as compared to pre-merger period (mean value 23.33 vs 20.26, mean diff. 3.08, growth rate: -13.19%). Interest income as a % of total income (mean value 42.25 vs 85.86, mean diff. 43.61, growth rate 103.22%) has increased significantly as a result of increase in volume of operation accompanied with added customers' base. Decrease in Spread as a % to Assets during post merger period signifies that gap between interest income and interest expenses decreases during this period because of manifold increase in interest expenses which is not at all a good sign for the merged entity of the bank. Interest expenses as a % of total expenses (mean value 14.14 vs 66.67) has increased significantly resulting in broader customer base with more interest obligation of the merged entity. Likewise, Return on Asset, Deposit per employee, Advance per employee has noticeably increased during post merger period.

Operating profit as % to average working funds[mean value 0.77 vs 1.09,mean diff. 0.32,growth rate(41.83%)] during post merger period shows significant acceleration in terms of profitability indicating that favourable changes have taken place in term of operating profit margin in post merger scenario. Capital adequacy is only one of the factors which limit bank's lending capabilities. CAR determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk etc. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. In the simplest formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. Capital Adequacy Ratio (mean value -4.46 vs 11.59, mean diff. 16.05, growth rate 359.86%) has improved in post-merger period significantly. Establishment expenses as a % of total expenses (mean value 9.72 vs 4.50, mean diff. 5.22, growth rate -53.73%) ,other operating expenses as a % of total expenses(mean value 9.96 vs 6.38, mean diff. 3.59, growth rate -35.99%) show significant decrease indicating that due to expansion of number of branches via merger ,establishment expenses and operating expenses may have probably been decreased because of economies in scale of operation.

Non-interest income as a % of total income, Interest Income as % to average working funds, Non-interest Income as % to average working funds have increase significantly during post merger period and Net NPA as % to net advances has declined during post merger period which is under our expectation. Net NPA as % to net advances (mean value 3.61 vs 1.12, mean diff. 2.49, growth rate -69%) significantly declined during post reform period indicating a decline in NPA of merged entity which is good sign for the merged bank entity.

Therefore, it can be inferred that out of 17 performance indicators of the two banks, 10 financial indicators of IDBI and United Western Bank display significant improvement in their operational performance during post merger period and 7 financial indicators show decline in their operational performance.

Table 6:- Average Mean and Standard Deviation of Pre-merger and Post-merger Ratios of combined (IDBI and United Western Bank) and Acquiring Bank (IDBI)[considering two year pre and post]

		Mean	Mean Difference	Change in ratios	Std.Deviation	Growth Rate(%)
Credit -Deposit Ratio	Pre-merger	156.75		D**	34.53	-34.72%
	Post-merger	102.325	54.42		14.56	
Investment- Deposit Ratio	Pre-merger	82.54		D**	23.62	-45.80%
	Post-merger	44.74	37.80		0.29	
Priority sector advance as % to total advance	Pre-merger	23.33		D**	3.59	-13.19%
	Post-merger	20.26	3.08		2.44	
Deposit per employee	Pre-merger	330.26		I*	86.84	201.10%
	Post-merger	994.42	664.15		151.95	
Advance per employee	Pre-merger	604.72		I*	57.29	66.44%
	Post-merger	1,006.50	401.78		10.69	
Interest income as a % of total income	Pre-merger	42.25		I*	0.50	103.22%
	Post-merger	85.86	43.61		3.96	
Non-interest income as a % of total income	Pre-merger	15.15		D**	0.50	-6.64%
	Post-merger	14.14	1.01		3.96	
Interest expenses as a % of total expenses	Pre-merger	66.67		I*	1.30	25.42%
	Post-merger	83.62	16.95		1.58	
Establishment expenses as a % of total expenses	Pre-merger	9.72		D**	1.75	-53.73%
	Post-merger	4.50	5.22		0.26	
Other operating expenses as a % of total expenses	Pre-merger	9.96	3.59	D**	0.06	-35.99%
	Post-merger	6.38			0.08	
Spread as a % to Assets	Pre-merger	1.26	0.65	D**	0.15	-51.49%
	Post-merger	0.61			0.16	
Interest Income as % to average working funds	Pre-merger	5.98	1.72	I*	1.15	28.76%
	Post-merger	7.70			0.74	
Non-interest Income as % to average working funds	Pre-merger	1.09	0.17	I*	0.14	15.67%
	Post-merger	1.26			0.29	
Operating profit as % to average working funds	Pre-merger	0.77	0.32	I*	0.02	41.83%
	Post-merger	1.09			0.15	
Return on Asset	Pre-merger	(0.47)	1.11	I*	0.05	-237.97%
	Post-merger	0.65			0.04	
Net NPA as % to net advances	Pre-merger	3.61	2.49	D*	0.34	-69.00%
	Post-merger	1.12			0.28	
Capita Adequacy Ratio [CAR(%)]	Pre-merger	(4.46)	16.05	I*	20.71	359.86%
	Post-merger	11.59			0.51	

***I stands for Increase**
****D stands for Decrease**
Source: Author's own estimate using e.views 5.

In case of merger between IDBI and United Western Bank, while we consider some fixed parameters like Deposit per employee, Advance per employee, Interest income as a % of total income, Interest expenses as a %

of total expenses, Interest Income as % to average working funds, Non-interest Income as % to average working funds, Operating profit as % to average working funds, Return on Asset, which showed post merger improved performance, null hypotheses are rejected which lead us to conclude that there are significant differences between pre and post merger above mentioned financial indicators.

With respect to Credit -Deposit Ratio, Investment- Deposit Ratio , Priority sector advance as % to total advance , Non-interest income as a % of total income , Establishment expenses as a % of total expenses, Other operating expenses as a % of total expenses , Spread as a % to Assets , Net NPA as % to net advances ,Capita Adequacy Ratio [CAR(%)] which show significant declining trend , null hypotheses are also rejected signifying that there are significant differences between pre and post merger above mentioned financial indicators.

The results suggest that the performance of banks has been improved in terms of Deposit per employee, Advance per employee, Interest income as a % of total income, Interest expenses as a % of total expenses, Interest Income as % to average working funds, Non-interest Income as % to average working funds, Operating profit as % to average working funds, Return on Asset, but regarding Credit -Deposit Ratio, Investment- Deposit Ratio , Priority sector advance as % to total advance , Non-interest income as a % of total income , Establishment expenses as a % of total expenses, Other operating expenses as a % of total expenses , Spread as a % to Assets , Net NPA as % to net advances ,Capita Adequacy Ratio [CAR(%)], these ratios show negative trend in post merger period.

4. Conclusion:

The analysis evidences that after the merger, the efficiency and performance of banks have increased in terms of different financial parameters and the success of merger is reliant upon synergy gains created after the merger and overall performance of bank. In the above cases, Null Hypothesis, i.e. there is no difference in mean value of selected variables before merger and after the merger, is rejected in most of the variables and Alternate Hypothesis, i.e. there is a difference in mean value of selected variables before merger and after the merger, is accepted. A majority of the financial indicators of United Western Bank Ltd. (UWB) and IDBI Bank display significant improvement in their operational performance during post merger period. Therefore, the results of the study reveal that average financial ratios of sampled bank in Indian banking sector showed a remarkable and significant improvement in terms of liquidity and leverage parameters, profitability, and shareholders wealth.

In conclusion, since the time period for the comparison here was two years before and after the acquisition, the impact of the acquisitions could not be seen. Next, this study refers to the overall change in performance by comparing the post with the pre acquisitions performance. However, some of this difference could be due to a continuation of firm specific performance before the M&A or to economy wide and industry factors, or different types of variables influencing operational efficiency improvement in bank M&A as stated by Healy et al. (1992). Also, the change of profit efficiency may be caused by changes in the pricing behavior of the acquired banks or decrease market power, etc., therefore, next researcher should investigate further those issues. Further research can be done on same topic by using longer time span and diverse important factors like inflation, market size, rules and regulation, corporate social responsibilities, etc. Furthermore, apart from the profitability and solvency, other performance indicator ratios like liquidity, cash flow can be used to recognize the performance of banks undergone for M&A strategy.Moreover; it forms a base for doing research on the topic of mergers in different sectors of India other than banking sector.

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