A Study on Mergers & Acquisitions of Indian Banking Sector
(With the Special Reference of Kotak Mahindra Bank & ING Vysya Bank)

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ABSTRACT

The Indian banking sector has witnessed many Mergers and Acquisitions in the recent and past decades. With this context this study analyzed pre- and post-merger performance of ING Vysya Bank and Kotak Mahindra Bank using CAMEL rating approach system. The quality of assets is an important parameter to gauge the strength of the bank. The prime aphorism behind measuring the assets quality is to ascertain the component of non-performing assets (NPAs), total investments and total assets. This paper mainly aims to highlight the theoretical background of merger and acquisition and evaluation of assets quality in Indian banking sector and to examine the pre- and post-merger performance of net NPAs to net advances and gross NPAs to gross advances in ING Vysya and Kotak Mahindra bank. And also, to assess the pre- and post-merger performance of total investment to total assets and net NPAs to total assets of ING Vysya and Kotak Mahindra Bank. In this paper data has been collected from secondary sources and for the purposes of analysis or to measure adequacy of data applied one sample T-Test, descriptive statistics. Finally, this study results net NPAs to net advances, gross NPAs to gross advances, net NPAs to total assets post-merger performance was high and improved compared to the pre-merger performance of Kotak Mahindra bank. Further the total investment to total assets the post-merger performance was less or reduced after ING Vysya Bank merged with Kotak Mahindra Bank. Therefore, there is a significant difference between pre- and post-merger performance of net NPAs to net advances and total investment to total assets.

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KEYWORDS: *Pre-post merger performence, Total Assest, Net NPAs, Gross NPAs, Total Investments, Advances*

MERGER

Merger is defined as combination of two or more companies into a single company where one survives and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Generally, the surviving company is the buyer, which retains its identity, and the extinguished company is the seller. Merger is also defined as amalgamation. Merger is the fusion of two or more existing companies. All assets, liabilities and the stock of one company stand transferred to Transferee Company in Consideration of payment in the form of:
Equity shares in the transferee company,
Debentures in the transferee company,

Cash

Merger is a financial tool that is used for enhancing long-term profitability by expanding their operations. Mergers occur when the merging companies have their mutual consent as different from acquisitions, which can take the form of a hostile takeover.

Managers are concerned with improving operations of the company, managing the affairs of the company effectively for all round gains and growth of the company which will provide them better deals in raising their status, perks and fringe benefits. If we trace back to history, it is observed that very few mergers have actually added to the share value of the acquiring company and corporate mergers may

promote monopolistic practices by reducing costs, taxes etc.

No

Definition: Merger is an agreement or a voluntary fusion whereby two existing entities that are equal in terms of size, scale of operations, customers, etc. decides to amalgamate to form into a new entity with an agenda to expand its reach into newer markets, lower operational costs, increase revenues, earn greater control over market share, etc.

TYPES OF MERGERS

Merger or acquisition depends upon the purpose of the offeror company it wants to achieve. Based on the offeror's objectives profile, combinations could be vertical, horizontal, and conglomeratic as precisely described below with reference to the purpose in view of the offeror company.

A. Horizontal combination:

It is a merger of two competing firms which are at the same stage of industrial process. The acquiring firm belongs to the same industry as the target company. The main purpose of such mergers is to obtain economies of scale in production by eliminating duplication of facilities and the operations and broadening the product line, reduction in investment in working capital, elimination in competition concentration in product, reduction in advertising costs, increase in market segments and exercise better control on market.

B. Vertical combination

A company would like to take over another company or seek its merger with that company to expand espousing backward integration to assimilate the resources of supply and forward integration towards market outlets. The acquiring company through merger of another unit attempts on reduction of inventories of raw material and finished goods, implements its production plans as per the objectives and economizes on working capital investments. In other words, in vertical combinations, the merging undertaking would be either a supplier or a buyer using its product as intermediary material for final production.

The following main benefits accrue from the vertical combination to the acquirer company:
1. It gains a strong position because of imperfect market of the intermediary products, scarcity of resources and purchased products;
2. Has control over products specifications.

C. ©Conglomerate Merger:

It is amalgamation of two companies engaged in unrelated industries like DCM and Modi Industries.

The basic purpose of such amalgamations remains utilization of financial resources and enlarges debt capacity through re-organizing their financial structure so as to service the shareholders by increased leveraging and EPS, lowering average cost of capital and thereby raising present worth of the outstanding shares. Merger enhances the overall stability of the acquirer company and creates balance in the company's total portfolio of diverse products and production processes

D. Concentric Merger:

A concentric merger is a merger in which two companies from the same industry come together to offer an extended range of products or services to customers. These companies often share similar technology, marketing, and distribution channels, and look to the concentric merger to create synergies. This type of transaction can also be called a concentric merger.

Acquisition

Acquisition usually refers to a purchase of a smaller firm by a larger one. Acquisition, also known as a takeover or a buyout, is the buying of one company by another. Acquisitions or takeovers occur between the bidding and the target company. There may be either hostile or friendly takeovers. Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company. Methods of Acquisition An acquisitio

Types of Acquisitions

There are different types of Acquisitions/takeovers: -
Friendly takeovers
Hostile takeovers
Reverse takeovers

1. Friendly takeovers

Before a bidder makes an offer for another company, it usually first informs that company's board of directors. If the board feels that accepting the offer serves shareholders better than rejecting it, it recommends the offer be accepted by the shareholders.

2. Hostile takeovers

A hostile takeover allows a suitor to bypass a target company's management unwilling to agree to a merger or takeover. A takeover is considered "hostile" if the target company's board rejects the offer, but the bidder continues to pursue it, or the bidder makes the offer without informing the target company's board beforehand.

3. Reverse takeovers

A reverse takeover is a type of takeover where a private company acquires a public company. This is usually done at the instigation of the larger, private company, the purpose being for the private company to effectively float itself while avoiding some of the expense and time involved in a conventional IPO. However, under AIM rules, a reverse take-over is an acquisition or acquisitions in a twelve-month period which for an AIM company would:

NEED OF THE STUDY

It has been found that merger has impotance in increasing the performance of the organisation. ING Vysya Bank and Kotak Mahindra Bank has consolidates the kotak Mahindra banks position as the fourth largest bank private sector bank in India.

Objectives of the study

1. To study the pre and post merger performance of net NPAs to net advances in ING Vysya and Kotak Mahindra bank.
2. To analysis the pre and post merger performance of gross NPAs to gross advances in ING Vysya and Kotak Mahindra bank.
3. To assess the pre and post merger performance of total investment to total assets in ING Vysya and Kotak Mahindra bank.

Scope of the study

➢ The study is based of the data collected of two banks i.e., ING Vysya Bank and Kotak Mahindra Bank.
➢ The study is limited to financial performance of banks on the basis of pre and post merge of the banks.

Limitations of the study:

➢ The study ignores the impact of possible differences in accounting methods adopted by different banks.

➢ The study is limited up to two banks i.e., ING Vysya Bank & Kotak Mahindra Bank.

Sources of Data

The present study is purely based on data gathered from secondary sources. In this study we select ING Vysya Bank is merged with Kotak Mahindra Bank in the year 2014.The sources of secondary data were collected from Annual reports of ING Vysya Bank and Kotak Mahindra Bank.

Tools and Techniques:

The tools are used in this study to analyse the financial performance of the banks
➢ Mean
➢ Standard Deviation
➢ One sample T- test

Hypothesis

H0: There is no significant difference between pre- and post-merger performance of Gross NPAs to advances in Kotak Mahindra Bank.
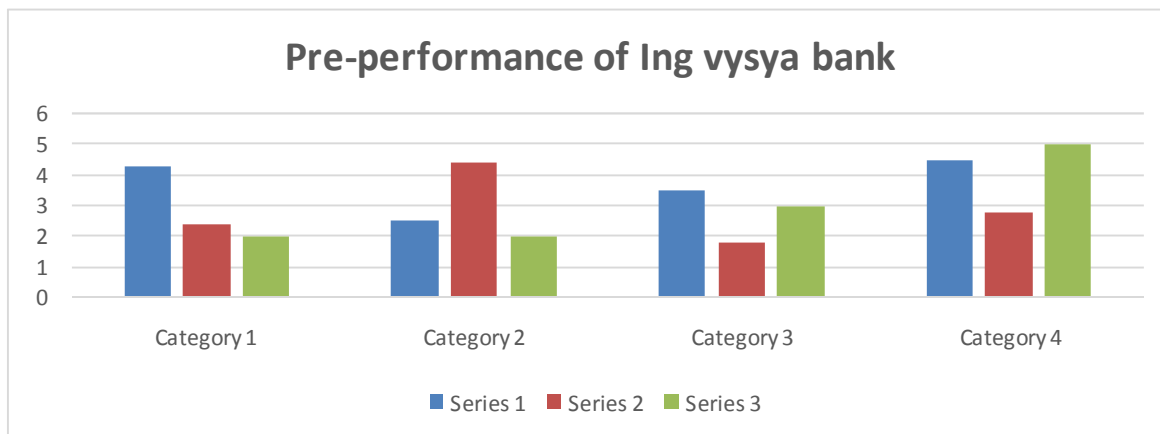
H1: There is significant difference between pre- and post-merger performance of Gross NPAs to advances in Kotak Mahindra Bank.

H0: There is no significant relationship between pre- and post-merger performance of Total Investment to Total Assets in Kotak Mahindra Bank.

H1: There is significant relationship between pre- and post-merger performance of Total Investments to Total Assets in Kotak Mahindra Bank.

H0: There is no significant relationship between pre- and post-merger performance of Net NPAs to Advances in Kotak Mahindra Bank.

H1: There is significant relationship between pre- and post-merger performance of Net NPAs to Advances in Kotak Mahindra Bank.

1. Pre-merger Performance of Gross NPA to Advances of ING Vysya & Kotak banks

Table No. 1 Gross NPA to advances

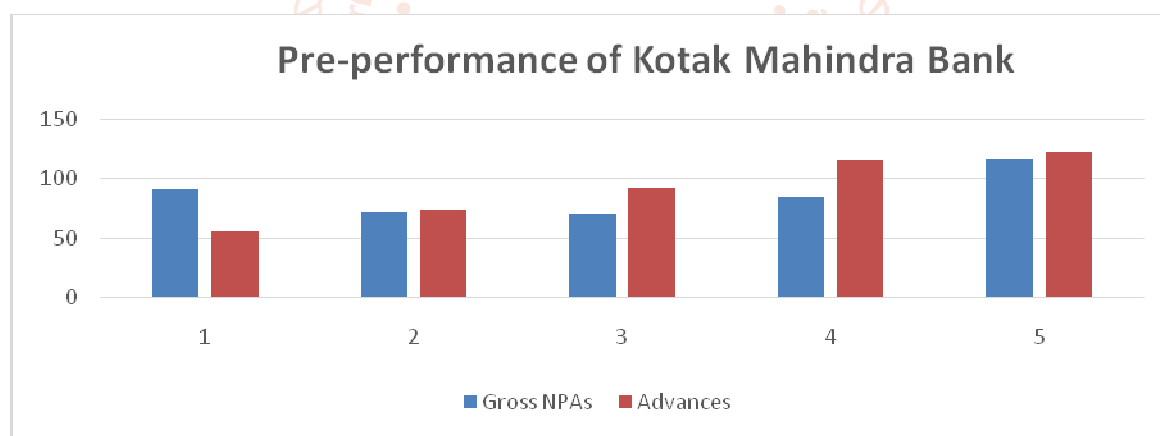| Years	ING Vysya Bank Pre-Merger Performance	Mean	Standard Deviation	One Sample T-Test
2010-2011	1.13			
2011-2012	1.05	1.15	0.85	T=3.14 P=0.001(H0) Accepted
2012-2013	1.27			
2013-2014	3.45			

Interpretation:

One sample T-test indicates that to test the significant difference between the mean differences among pre-merger performance of return on assets in ING Vysya bank. The mean and standard deviation were found in return on assets category around and 0.85 respectively. The calculated P value (Sig 2-tailed) is 0.001, which is less than the Alpha Value of 0.05, which indicated that the stated null hypothesis to be accepted.

Table No. 2 Gross NPA to advances

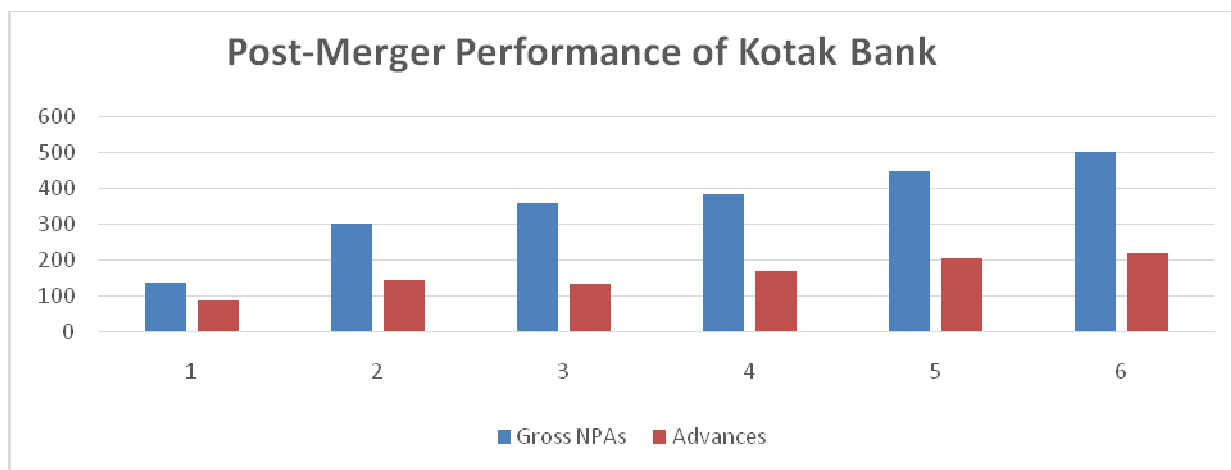| years	Pre-Performance of Kotak Mahindra bank		Mean	SD	One-tail test
	Gross NPAs	**Advances**			
2010	91	55			
2011	71	73			P=0.69
2012	70	92	89	121.23	T=2.776
2013	84	115			(H0) Accepted
2014	117	122			

Interpretation:

Then the pre-performance of the Kotak bank according to the one sample T-test indicates that to test the significant difference between the mean differences among pre-merger performance of return on assets in Kotak Mahindra bank. The mean & standard deviation were found in return on assets category around and 89 and 121.23 respectively. The calculated P value (sig 2-tailed) is 0.69 which is less than the Alpha Value 2.776, Which indicated that the stated null hypothesis to be accepted.

Post-Merger performance of Kotak Mahindra Bank:

Table No. 3 Gross NPA to advances

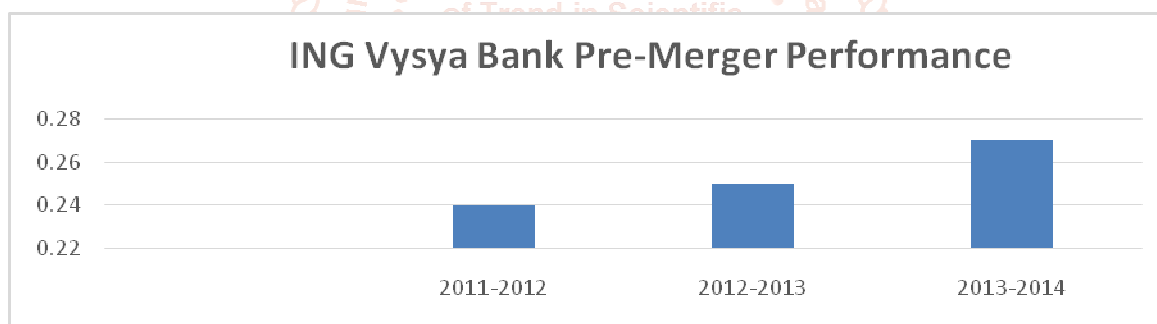| Years	Post-Merger Performance of Kotak Mahindra Bank		Mean	SD	One sample T-test
	Gross NPAs	**Advances**			
2015	139	88			
2016	301	144			
2017	357	136			P=0.001
2018	382	169	258	156.88	T=0.741
2019	446	205			(H0) Accepted
2020	502	219			

Interpretation:

Then the Post-Performance of Kotak T-test the significant difference between the mean differences among post merger performance of return on assets of Kotak Mahindra bank. The mean and standard deviation were found in return on assets around 258 and 156.88 respectively. The calculated P value (Sig 2-tailed) is 0.001, which is more than the Alpha Value of 0.05, which indicated that the stated null hypothesis to be accepted.

2. **Pre-merger Performance of Total Investments to Total Assets:**

Table No. 4 Total Investments to total assets

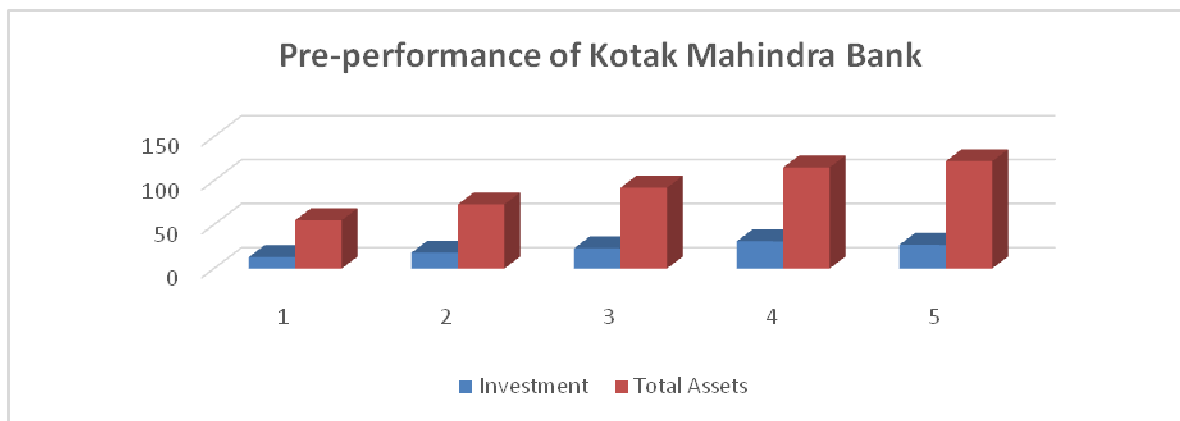| Acquire Banks	ING Vysya Bank Pre-Merger Performance	Mean	Standard Deviation	One Sample T-Test
2010-2011	0.24			
2011-2012	0.25	0.25	0.173	T=1.37 P=0.002 (H0) Accepted
2012-2013	0.27			
2013-2014	0.76			

Interpretation:

One sample T-test indicates that to test the significant difference between the mean differences among pre-merger performance of return on assets in ING Vysya and Kotak Mahindra bank. The mean and standard deviation were found in return on assets category around 0.25 and 0.173 respectively. The calculated P value (Sig 2-tailed) is 0.002, which is less than the Alpha Value of 0.05, which indicated that the stated null hypothesis to be Accepted.

Table No. 5 Total Investments to total assets

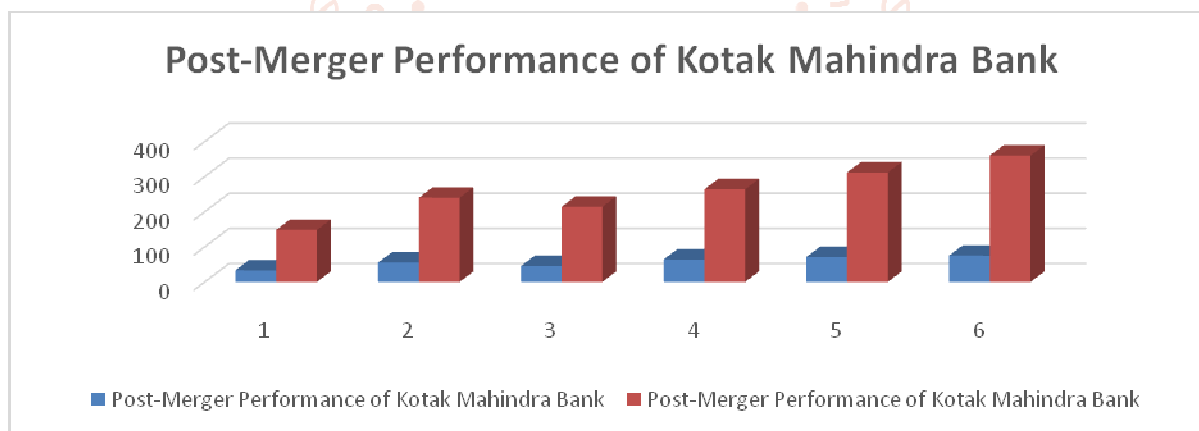| Year	Pre-performance of kotak Mahindra bank		Mean	SD	One Sample T-Test
	Investment	Total Assets			
2010	13	55			
2011	18	73			P=0.001
2012	23	92	56.9	71.43	T=0.741
2013	31	115			(H0: Accepted)
2014	27	122			

Interpretation:

Then pre performance of Kotak Mahindra Bank to test the significant difference between the mean differences among pre-merger performance of return on assets in Kotak Mahindra bank. The mean and standard deviation were found in return on assets around 56.9 and 71.43 respectively. The calculated P value (Sig 2-tailed) is 0.001, which is less than the Alpha Value of 0.05, which indicated thatthe stated null hypothesis to be Accepted.

Post-Merger Performance of Kotak Mahindra Bank on Investments and Total Assets:

Table No. 6 Total Investments to total Assets

years	Post-Merger Performance of Kotak Mahindra Bank		Mean	SD	One sample T-Test
	Investment	Total Assets			
2015	33	148			
2016	55	240			P=0.004
2017	45	214	156.75	120.93	T=0.005
2018	64	264			(H0= Accepted)
2019	71	312			
2020	75	360			

Interpretation:

One sample T-test indicates that to test the significant among post-merger performance of return on assets of Kotak Mahindra bank. The mean and standard deviation were found in return on assets category around 156.75 and 120.93 respectively. The calculated P value (Sig 2-tailed) is 0.004, which is less than the Alpha Value of 0.05, which indicated that the stated null hypothesis to be Accepted.

3. Pre-merger Performance of Net NPAs to Advances:

Table No. 7 Net NPAs to Advances

Acquire Banks	ING Vysya Bank Pre-Merger Performance	Mean	Standard Deviation	One Sample T-Test
2011	0.23			
2012	0.28			T=3.04
2013	0.31	0.28	0.142	P=0.011
2014	0.82			(H0Accepted)

Interpretation:
One sample T-test indicates that to test the significant difference between the mean differences among pre merger performance of return on assets in ING Vysya bank. The mean and standard deviation were found in return on assets category around 0.28 and 0.142 respectively. The calculated P value (Sig 2-tailed) is 0.011, which is less than the Alpha Value of 0.05, which indicated that the stated null hypothesis to be Accepted.
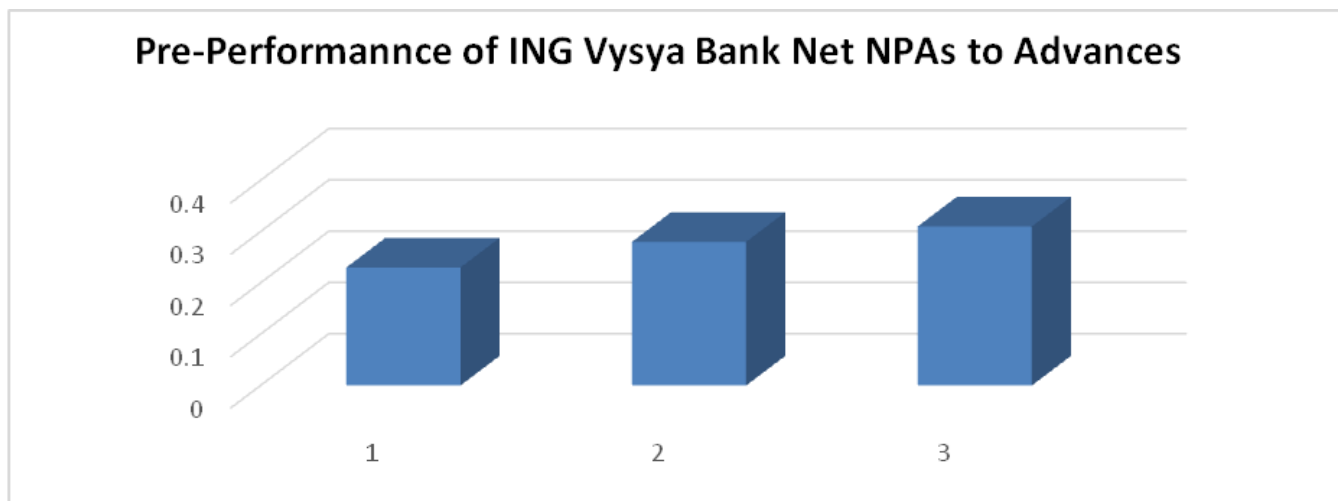

Pre-Performannce of ING Vysya Bank Net NPAs to Advances

Interpretation:
One sample T-test indicates that to test the significant difference between the mean differences among pre merger performance of return on assets in ING Vysya bank. The mean and standard deviation were found in return on assets category around 0.28 and 0.142 respectively. The calculated P value (Sig 2-tailed) is 0.011, which is less than the Alpha Value of 0.05, which indicated that the stated null hypothesis to be Accepted.
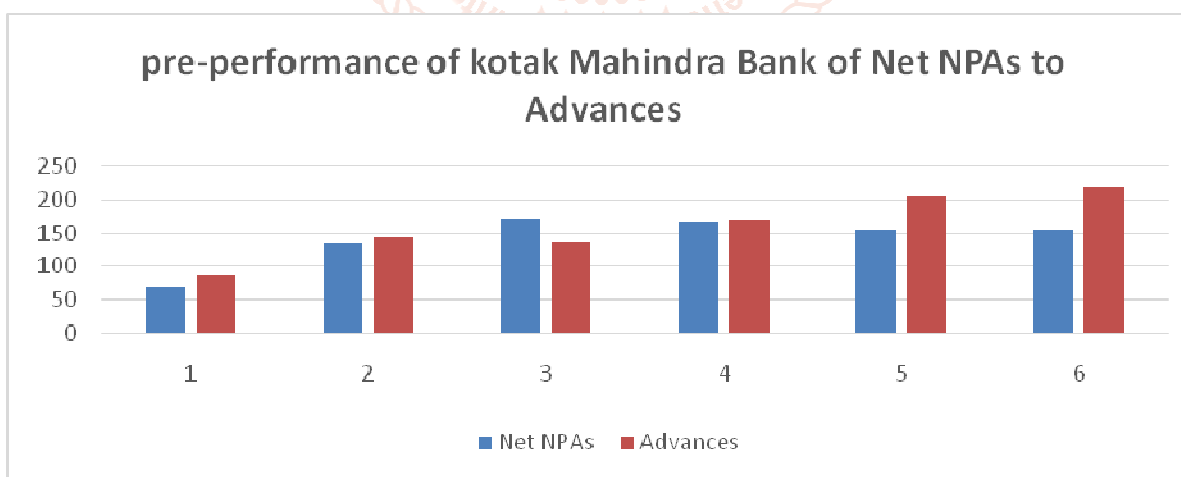
Table No. 8 Net NPAs to Advances

years	Kotak Mahindra Bank Pre-Performance		Mean	SD	One sample T-Test
	Net NPAs	Advances			
2010	44	29	37.83	23.46	P=0.17 T=2.13 (H0: Accepted)
2011	24	41			
2012	27	53			
2013	36	66			
2014	63	71			

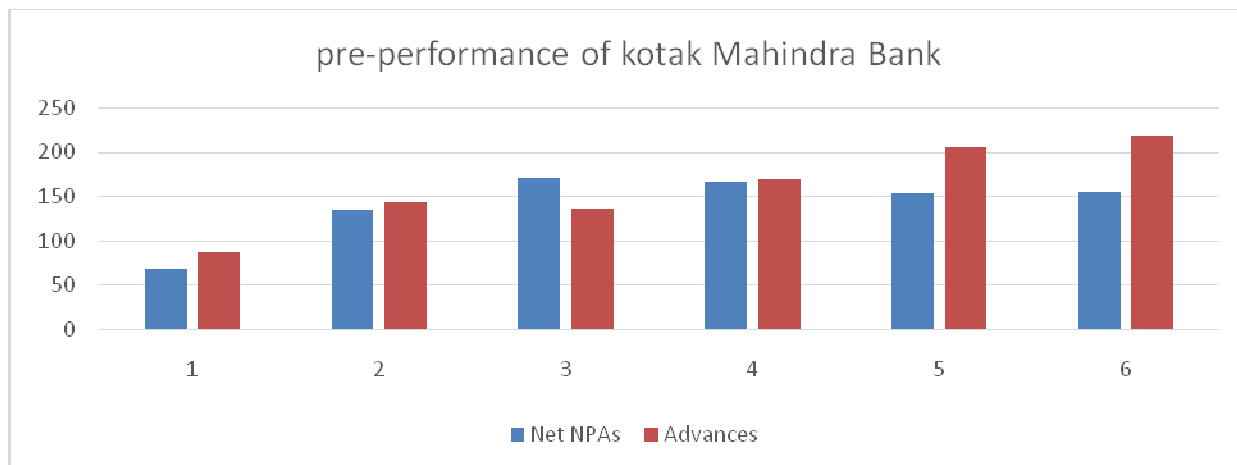pre-performance of kotak Mahindra Bank of Net NPAs to Advances

Interpretation:
One sample T-test indicates that to test the significant difference between the mean differences among pre-merger performance of return on assets in Kotak Mahindra bank. The mean and standard deviation were found in return on assets category around 37.83 and 23.46 respectively. The calculated P value (Sig 2-tailed) is 0.017, which is less than the Alpha Value of 2.132, which indicated that the stated null hypothesis to be Accepted.

Post-merger Performance of Net NPAs to Advances:

years	Kotak Mahindra Bank Post-Performance		Mean	SD	One sample T- Test
	Net NPAs	Advances			
2015	69	88	156.75	120.93	6 P=0.004 T=0,005 (H0: Accepted)
2016	135	144			
2017	171	136			
2018	166	169			
2019	154	205			
2020	155	219			

Interpretation:

One sample T-test indicates that to test the significant difference between the mean differences among post-merger performance of return on assets in Kotak Mahindra bank. The mean and standard deviation were found in return on assets category around 156.75 and 120.93 respectively. The calculated P value (Sig 2-tailed) is 0.004 which is less than the Alpha Value of 0.005 which indicated that the stated null hypothesis to be Accepted.

FINDINGS OF THE STUDY:

1. The Pre-performance of the ING Vysya bank is on the basis of Gross NPAs to Advances the 1.13 times to 3.45 times respectively from the years 2010 to 2014.

2. The Pre-performance of the Kotak Mahindra bank is on the basis of Gross NPAs to Advances the 91 to 117 times & 55 to 122 times respectively from the years 2010 to 2014.

3. The Post-performance of the Kotak Mahindra bank is on the basis of Gross NPAs to Advances the 139 to 502 times & 88 to 219 times respectively from the years 2015 to 2020.

4. The Pre-performance of the ING Vysya bank is on the basis of Total Investments to total Assets 0.24 to 0.76 times respectively from the years 2010 to 2014.

5. The Pre-performance of the ING Vysya bank is on the basis of Total Investments to total Assets 13 to 27 times & 55 to 122 respectively from the years 2010 to 2014.

6. The Post-performance of the Kotak Mahindra bank is on the basis of Gross NPAs to Advances the 33 to 75 times & 148 to 360 times respectively from the years 2015 to 2020.

7. The Pre-performance of the ING Vysya bank is on the factors based on Net NPAs to Advances 0.23 to 0.82 times respectively from the years 2010 to 2014.

8. The Pre-performance of the Kotak Mahindra bank is on the basis of Net NPAs to Advances the 44 to 63 times & 29 to 71 times respectively from the years 2010 to 2014.

9. The Post-performance of the Kotak Mahindra bank is on the basis of Net NPAs to Advances the 69 to 155 times & 88 to 219 times respectively from the years 2015 to 2020.

SUGGESTIONS FOR THE STUDY:

➢ The high level of NPAs is the most crucial challenge face by India banking system. Reducing the existing NPAs and curbing their further build up to improve the assets quality ratio of the bank.

➢ Bank should try to reduce cost at the minimum possible level, but not at the cost of quality of service. Optimum use of technology, proper utilization of assets quality and human resources can help the bank to cut down the cost.

➢ Exploring avenues of recovering NPAs such as LokAdalats for recovering smaller loans. Bank should strengthen the provisions of the Debt

Recovery Act for recovery dues of banks to improve the total assets in Kotak Mahindra bank.

➤ Bank should work to increase other income, so that dependency on interest income can be reduced. Most of the operating expenses should be paid out of total income it leads to increases the total investment to total assets ratio.

➤ Banks should concentrate on creating and maintaining a strong brand, as that can be the single most valuable asset.

➤ Banks should be more aggressive in financial products marketing. This will help to improve financial positioning in term of gross earnings, profit after tax, net assets, total assets and total investments etc.

Conclusion

Banking sector plays predominant role in dynamic economy; therefore, the present study attempts on to evaluate assets quality of pre and post-merger performance of ING Vysya and Kotak Mahindra bank. This paper analyzed on overall Ten years of performance data (2010-14 to 2015-20) out that equally divided five years pre-merger and post-merger performance period. From the above analysis, this study concludes that, the net NPAs to total assets, gross NPAs to gross advances and net NPAs to total

assets data shows increasing trend and higher compared to pre-merger to post performance. In the context of total investment to total assets data shows decreasing trend compared pre-and post-merger performance therefore overall analysis shows that financial performance of the bank with this the post-merger performance was more in all asset's quality ratios compared to pre-merger performance of Kotak Mahindra bank.

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