CORPORATE EXCELLENCE THROUGH MERGERS AND ACQUISITIONS: A STUDY OF ICICI BANK – BANK OF MADURA MERGER

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ABSTRACT

The removal of entry barriers and a host of banking-sector reforms created a congenial climate for market-driven forces to take the driving seat and the entire banking activity started hovering around the long-awaited customer-centric approach. A number of new economy private sector banks came into being making this cool sector a vibrant one. These banks were small in size but had great enthusiasm and zeal to achieve inorganic growth to throw real challenge to monstrous public-sector banks. Small is of course beautiful but being big makes one powerful. To attain size-benefits, ICICI Bank, one of the most enterprising ones looked for a marriageable bride for myriad of synergies leading to sustainable competitive advantages. It dared to opt for merger strategy despite umpteen failure stories and a history full of bail-out cases. The merger which took place early in the decade has now become mature for studying pre- and post-merger conditions to determine not only short-term but also long-term achievements. The present paper has attempted to study the stand alone as well as the combined performance of ICICI Bank and Bank of Madura during pre-merger days. Actual post-merger achievements have been compared with the sum of projections made for each bank using statistical technique as also with the overall figures for the new economy private sector banks. It has been found that ICICI Bank could remain successful in achieving rapid growth in many respects but could not realize a few expected benefits including the economy of scale. But the positive results outweigh heavily the other aspects making this merger a path-breaker and an example for others.

I.0 INTRODUCTION

In the changed business environment, the organizations are finding expansion as a remedy for sustained survival. In recent times this natural zest has been further fuelled by globalization, which has made swifter growth an order of the day. It has become a common maxim that not growing is tantamount to going backwards and a company that does this will fall prey to expansionist competitors and takeover predators. Mergers and Acquisitions (M&As) are important vehicles for growth- largely because they are much faster than the other two methods: internal development and strategic alliances. Prior to 1991, Mergers and Acquisitions were restricted under Indian law, in terms of industrial licensing and restrictive statutory provisions. M&As were not unknown, though they were few and far between. These also evoked hostile reactions in the business world. The whole business of M&As until

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1970’s was at low key, though a profitable affair. These were arranged either by the
government agencies or by the financial institutions within the framework of a regulated
regime. M&A activities continued to take place in the manufacturing sector in India during
the 1980’s. In fact, business houses like the Goenka group, or the Manu Chabaria group grew
largely through acquisitions during this period. Since 1986 onwards, both friendly takeover
bids on negotiated basis and a few hostile bids too, through hectic buying of equity shares of
select companies from the stock market have been reported.

II.0 MERGERS AND ACQUISITIONS: A COMPELLING CASE

In recent years, particularly after 1991 India has embarked upon the path of
liberalization, privatization, and globalization, which occasioned an opening up of the Indian
economy. Stiff competition is implicit in a bid to integrate any national economy with global
economy. Consolidation through M&As is considered one of the best ways of restructuring
for effective response to competitive pressures. With a view to face global challenges, most
of the forward – looking business organizations prefer a path of rapid growth through
mergers and acquisitions (M&As).

As in all other sectors of the economy, the banking industry saw a flurry of activities.
Several new private sector banks opened shop as did several foreign banks; drastically
changing the environment from a government protected and regulated one to a market driven
and competitive one. The new private sector banks provided stiff competition to public sector
banks with their efficiency and technology driven services. In the process they managed to
carve out a niche for themselves in the banking industry. However, their lean structure and
tech-savvy initiatives could not quite match the sheer size and reach of the well-established
public sector banks. The normal route of organic growth was both time consuming and
capital intensive. Therefore, the private sector banks resorted to the Mergers & Acquisitions
(M & As) route for faster spread and inorganic growth. The merger of ICICI Bank and Bank
of Madura is a case in point which exemplifies how two successful banks merged to form a
formidable entity that could match the size & strength of public sector banks. Although
HDFC Bank – TIMES Bank merger which happened prior to this merger cannot be said to be
the first among Indian banks, it created a history of sorts. Earlier instances of mergers in
Indian banking industry were more of the nature of bail-outs of bankrupt entities in order to protect the interests of the depositors and employees. These mergers like those of New Bank of India and Punjab National Bank, or United Industrial Bank Ltd. and Allahabad Bank, were not a part of a well-thought or pre-planned corporate strategy, nor were they aimed at generating any specific positive or incremental results. In this respect HDFC Bank –Times Bank merger and the merger of ICICI Bank and Bank of Madura are path-breaking because they are part of a well-crafted strategy to generate synergistic advantages for the merged entity. It underlines the paradigm shift from mergers at the behest of the government to mergers driven by market forces. The present paper attempts to study the effectiveness of ICICI Bank and Bank of Madura merger based on the objectives laid down before the merger.

III.0 REVIEW OF LITERATURE

As in the global industry, the Indian banking industry had witnessed a spate of mergers. Times Bank merged with HDFC Bank during FY2000. ICICI Bank merged with Bank of Madura during FY2001. Through its merger with ICICI Ltd. in 2002, ICICI Bank became the second largest Scheduled Commercial Bank (SCB) in India. Apart from the possible benefits of economies of scale through mergers, SCBs also expect to exploit revenue scope and product mix economies by cross-selling different types of financial services. With the entry of some banks into the insurance sector, customers may be willing to pay more for the convenience of one-stop shopping for their commercial banking and insurance needs. Similarly, a corporate customer may prefer to reveal its private information to a single consolidated entity that provides its commercial and investment banking needs. Revenue economies can also arise from sharing the reputation that is associated with a brand name that customers recognize and prefer.

The trend towards universal banking may also result in cost savings through sharing physical inputs like offices or computer hardware utilizing common information systems, account service centers; raising capital in larger issue sizes that reduce the impact of fixed costs; or reusing managerial expertise or information. A consolidated commercial bank and insurer may lower total costs by cross selling, using each other’s customer database at a lower cost than building and maintaining two databases. Similarly, information reusability
may reduce costs when a universal bank acting as an underwriter conducts due diligence on a customer with whom it has had a lending or other relationship.

The concept of mergers is not new for India’s Public Sector Banks (PSBs). It has been on the reforms agenda since 1991, when the Narasimham Committee chalked out a blueprint for banking sector reforms. However, at that time, the merger spree had not gathered much steam. Earlier, mergers usually occurred in India only when banks encountered difficulties. For instance, as fallout of the 1992 securities scandal in Mumbai, the Bank of Karad failed. Offers were invited from all PSBs for purchasing specified assets of the bank, taking overall demand and time liabilities and offering employment to all members of staff Bank of India was the only bank to make an offer, which was finally accepted in mid-1994. In the case of New Bank of India, it had been incurring losses for four consecutive years and finally, it reached the point where the cumulative losses and a shortfall in provisions eroded its capital and reserves. The bank was merged with Punjab National Bank in September 1993, the first occasion that a merger of two PSBs had been undertaken. However, this bail-out merger did not fare well and Punjab National Bank which had a track record of being a profitable bank till then, posted net losses in FY 1996 as a direct result of the merger.

As the government plans to liberalize the various restrictions there can be a wave of M&A in Indian banking industry. At this point of time it seems that the fruits of this liberalization are being enjoyed only by private sector banks unless the strong PSU banks take part in this game based on market related strategies. Of late it has been realized globally that ‘Consolidation through mergers and acquisitions’ is the only way to gain critical mass domestically and internationally.

The Indian banking industry is also gearing up towards a healthy consolidation through vertical and horizontal mergers & acquisitions under aegis of structural reforms. In order to attain economies of scale and also to combat the unhealthy competition within the sector besides emerging as a competitive force to reckon with in the international economy, the consolidation of Indian banking industry through mergers and acquisitions on commercial considerations and business strategies – is the essential pre-requisite.
IV.0 METHODOLOGY

The present study aims at outlining the objectives with which the merger of ICICI Bank and Bank of Madura was envisaged, analyzing the financial parameters of the two banks as well as of the merged entity and to deduct how far synergies could be realized in this strategic deal. The data regarding the size of business (deposits and advances), total income, total expenditure, profitability (net profit and return on assets), capital adequacy ratios and non-performing assets (gross NPA/gross advances and net NPA/net advances), have been obtained for the two banks for the period prior to their merger. These parameters (except ratios) have been projected using projection technique available in SAS 8.2 and the projections have then been compared with the actual parameters of the merged bank and also the industry average for new private sector banks. From the comparison of the projections and actual data, conclusions have been drawn regarding how far the merger has succeeded in creating a strategic advantage.

The method used for projection is the combination of time trend with autoregressive model. Trend models are suitable for capturing long-term behavior whereas autoregressive models are more appropriate for capturing short-term fluctuations. The step-wise autoregressive method (STEPAR method) combines a time trend regression with an autoregressive model for departures from trend. The combined time trend and autoregressive model is written as follows:

\[ X_t = b_0 + b_1t + b_2t^2 + u_t \]

\[ U_t = a_1u_{t-1} + a_2u_{t-2} + ... + a_pu_{t-p} + \epsilon_t \]

The autoregressive parameters included in the model for each series are selected by a step-wise regression procedure, so that autoregressive parameters are only included at those lags at which they are statistically significant. This method is fully automatic and, unlike other methods, does not depend on choosing smoothing weights. However, the STEPAR method assumes that long term trend is stable, that is, the time trend regression is fit for the whole series with equal weights for the observations.

Further a parameter named coefficient of growth is used. It was obtained by dividing the growth rate of individual bank by that of the group or category to which it belongs. Such
comparison has been made for pre and post merger figures both, and following coefficients have been calculated:

1) Growth rate of merging bank/growth rate of the group
2) Growth rate of acquiring bank/growth rate of the group
3) Growth rate of merged entity/growth (actual values) rate of the group
4) Growth rate of merged entity (projected values)/growth rate of the group.

V.0 ICICI BANK AND BANK OF MADURA: THE STUDY

Bank of Madura was established in 1943 by K. Thiagrajan Chettiar of the affluent chettiar community. The bank acquired the Chettinad Madurai Bank (established 1933) and the Illanji Bank (established 1904) in the decade 1960-70. It grew quickly and by the year 2000 it had a customer base exceeding 20,00,000 and had more than 280 branches spread over 100 cities throughout the country. It also operated more than 40 ATM centers. Bank of Madura was one of the better run private-sector banks, with a strong technology focus revealed by the tie-ups with TCS and Satyam Infoway. It was considered to be the number one among the private sector banks in Tamil Nadu having almost 90% of business totally automated.

Looking at the other side, Bank of Madura had a huge work force of about 2600 employees in comparison with ICICI Bank’s strength of about 1,700. Based on market perception, Bank of Madura was also considered to be with assets Rs.350 crore behind liabilities and had a leverage of 41 times.

The ICICI Bank itself was promoted by ICICI Ltd. in 1994 as its wholly owned subsidiary. The holding of the parent company in the bank was gradually lowered to 46% through a public offering in India in fiscal 1998 and an equity offering in the form of ADR’s listed in NYSE in fiscal 2000. An all stock amalgamation of the Bank of Madura in fiscal 2001 and sales of shares in secondary markets in fiscal 2001 and 2002 also helped in this reduction of holdings. The amalgamation of the Bank of Madura with ICICI Bank was approved by the Reserve Bank of India with effect from March 10, 2001. At present ICICI Bank is the second largest Indian bank with total assets of about Rs. 1676.59 bn (US$ 38.5
bn) as on March 31, 2005. It has profit after tax worth Rs. 20.05 bn (US$ 461 mn) in the financial year 2004-2005. It now has a network of more than 550 branches and more than 2000 ATM centers. It has subsidiaries in UK, Canada & Russia, has branches in Singapore and Bahrain and has representative offices in the US, China, UAE, Bangladesh and South Africa. Through this wide network, it offers a wide range of banking products and financial services to its corporate and retail customers.

V.1 OBJECTIVES OF THE MERGER

According to H. N. Sinor, Managing Director, ICICI Bank Ltd., “This merger would lead to considerable synergies in the operations of the merged benefit of the customers and other stakeholders.” Expected synergies in operation were likely to accrue from the complementary business strengths which would enhance product portfolio, distribution network addition of about 1.3 million and customer base and brand image. Economies of scale and scope together with cross-selling opportunities were considered to contribute to the universal banking strategy of ICICI Bank. The enlarged network was considered helpful in enhancing fee income particularly in core areas like cash management, payment and collection services. Moreover, Bank of Madura had a number of branches in upcoming semi-urban and rural areas with developed robust micro-credit systems which blended with the strong brand image of ICICI Bank successfully leveraging to tap rural markets. The merger also expected larger scope for low-cost deposits and possibility of reorienting assets profile to enable better spreads for the merged entity.

V.2 OBSERVATIONS

V.2.1 DEPOSITS

The comparison of the figures of Bank of Madura and ICICI Bank before and after merger with the projections based on SAS projection technique, show that the rate of growth for deposits of ICICI Bank, Bank of Madura and the combined entity was better than the rate of growth for the projected values of deposits. A Comparison between the performance of Bank of Madura with the Old Private Sector Banks and of ICICI Bank & ICICI Bank + Bank of Madura with New Private Sector Banks shows that the projected results for ICICI Bank + Bank of Madura when compared with the actual for New Private Sector Banks, it was found that except for three years 1992-93, 1993-94, and 1996-97, Bank of Madura had performed
better than the Old Private Sector Banks with coefficient of growth being more than 1. Even in the year 1996-97 there was hardly any difference as the coefficient of growth being 0.98. The relative performance of ICICI Bank was much better except in the initial year 1996-97. The coefficient of growth for the rest of the period for ICICI Bank is more than 1 with its peak value of 4.70 in the year previous to the year of merger in 1999. Even after the merger the coefficient of growth is more than 1.50 and declined only in 2004 to the level of 1.11. Immediately after the merger the coefficient of growth for the combined entity is as low as 0.61 but increased to the same level as that for ICICI Bank. The coefficient of growth figures were below 0.5 over the period (2002 – 2005) for the projected values of the combined entity. The actual performance of the combined entity exceeded the projections; this indicated that the merger of Bank of Madura had a positive impact on ICICI Bank.

V.2.2 ADVANCES

The actual performance of the merged entity was better than the projected values for the ICICI Bank as well as for the combined entity. The projected advances for Bank of Madura grew at 10.09% in 2002 and over the years the rate decreased to 7.74% in 2005. For ICICI Bank the growth was 18.94% in 2002 and declined to 12.08% in 2005. In fact the growth rate of projected figure was close to that of actual for ICICI Bank and the combined entity in the years 2003 and 2004, though the difference in absolute value was huge. Comparison of the growth rates for Bank of Madura with Old Private Sector Banks showed the former as subnormal performer in the years (1993 (0.13), 1997 (0.80), 1998(0.67) & 2000(0.90). However in the years 1994 (1.74), 1995 (2.00), 1996 (1.43) and 1999 (1.29), Bank of Madura had performed exceptionally well. The ICICI Bank reached the level of New Private Sector Banks after only two years of operations and had performed much better up to 2000 even as a single entity. The merger had improved its performance in 2001 (2.60) & 2002 (3.79), but the merged entity had not performed on par with the New Private Sector Banks in 2003 (0.71) and 2004(0.63). But in the year 2005 the coefficient of growth for ICICI Bank was 1.32 indicating a performance better than the new private sector banks. The coefficient of growth for the projected values of the combined entity was below 0.5 for the period 2002 – 2005 except in the year 2003 when it was 0.75.
V.2.3 TOTAL INCOME

The growth rates for projected figures were around 10% for Bank of Madura decreasing somewhat from 2001 to 2005. For the ICICI Bank the projected growth rates were higher (than Bank of Madura) but these also showed a decreasing trend during 2002 to 2005. The values for total income as well as the rate of growth for the combined entity were closer to that for ICICI Bank. Comparison of the performance of Bank of Madura with Old Private Sector Banks shows that Bank of Madura has performed reasonably well. The coefficient of growth was more than 1 in the years 1995, 1996, 1997 and 1999 and was close to one (0.88) in the year 1994. The coefficients of growth for the projected figures were also above 1 for Bank of Madura indicating a better performance than old private sector banks. The performance of the ICICI Bank with respect to the New Private Sector Banks was below new private sector banks in the years 1997 and 1998. It improved from the year 1999 and had remained better till 2005 with an exception of coefficient of growth being negative (−1.57) in 2004 because of the decrease in total income in that year. The projections indicate that the merged entity would have performed much better than New Private Sector Banks in 2004 (4.31) and 2005(2.50), whereas its coefficient of growth in the previous years would have been less than 0.5.

V.2.4 TOTAL EXPENDITURE

The projections of the total expenditures for Bank of Madura during 2000-2005 were more modest ranging from 13.42% in 2000-01 to 7.74% in 2004-05. Same was true for ICICI Bank in general and the combined entity. For ICICI Bank the projected growth rate was to seen to jump from 8.87% in 2000-01 to 20.08% in 2001-02 but gradually decreased thereafter to 12.53% in 2005. For the combined entity the values were intermediate between those for the two individual banks. The rate of growth of expenditure for Bank of Madura during 1992-2000 was higher than for Old Private Sector Banks from the values of coefficient of growth during 1993-1996 but was lower in the other years as can be inferred. In the year 1997-98 the total expenditure for Old Private Sector Banks decreased from previous years whereas the same for Bank of Madura increased significantly. The projected growth rates of expenditure for Bank of Madura during 2000-2005 were generally more than 1 values of coefficient of growth higher than the actual values for Old Private Sector Banks as is shown. The ICICI Bank had a small rate of growth of expenditure in comparison to New
Private Sector Banks in the years 1996-97 (0.63), 1997-98 (0.83) and 2000-01 (0.91) whereas in 2003-04 (−2.30) the expenditure for ICICI Bank decreased against a marginal increase for New Private Sector Banks. The negative coefficient of growth (−3.95) in the year 2005 is because of the negative growth in the total expenditures of the new private sector banks. Performance of ICICI Bank with respect to total expenditure was below that of new private sector banks in the year 2004–05. The projected growth rates of expenditure for the combined entity were lower than of New Private Sector Banks throughout 2000–2005, except in 2004 (7.95) and 2005 (−15.11).

V.2.5 NET PROFIT
The projections for total net profits and rates of growth for Bank of Madura, ICICI Bank and the combined entity show quite modest but steady growth. The results of the combined entity were intermediate between those of the two individual banks. For Bank of Madura the projected figure grew by 1.67% in 2001 to 8.19% in 2005. Similarly for ICICI Bank the growth varied from 9.27% in 2001 to 11.41% in 2005. The coefficient of growth for Bank of Madura was 1.012 in 1993, 5.87 in 1995, 15.33 in 1997 and 4.05 in 1998 leading to the conclusion that during these years the performance of the bank was better than that of the old private sector banks in terms of net profit. The coefficient of growth for the projected values of Bank of Madura was below 0.5 in all the years during the period 2001 – 2005 except in the year 2001 where it is −0.71. The negative values were because of the negative growth rate of the old private sector banks. The ICICI Bank on the other hand had a much better performance from its inception. In the year 1998-99 the ICICI Bank showed a substantial increase in its profits (25.44%) though New Private Sector Banks suffered a loss (−7.51%). For rest of the period of study the coefficient of growth for ICICI Bank was more than 1 except in 1998 where it was 0.58 and in 2005 when it was 0.42. For the combined entity also, the performance was better than New Private Sector Banks during most of the years included in the present study as the coefficient of growth is more than 1. The negative coefficient of growth (−1.38 in 1999) in this case also was also due to the loss suffered by New Private Sector Banks in that year and it does not reflect on the performance of the combined entity which showed a growth in profits. The coefficient of growth for the combined projected values had declined from 0.56 in 2001 to 0.20 in 2005. The merger of Bank of Madura with ICICI Bank has had a positive impact on the profits of the latter bank.
V.2.6 SPREAD

The projected value shows that the growth rate for Bank of Madura was 0.72% in the beginning. It rebounded to 9.20% in 2002 and then declined to a level of 7.78% in 2004 and further to 7.21% in 2005. For ICICI Bank the rate was 9.64% in 2001, but almost doubled to 17.82% in 2002. There after a decreasing tendency was seen in growth rates of 15.12% in 2003, 13.13% in 2004 and 11.61% in 2005. The growth rate for the combined entity followed a similar path with lowest rate being 6.44% in 2001 and highest being 14.9% in 2002. The decreasing tendency in the growth rate during 2003–2005 was clearly seen here also. The growth coefficient for Bank of Madura is more than 1 in the years 1995, 1997, 1999 and 2000. For rest of the period it is less than 1 indicating a performance level below than that of Old Private Sector Banks. In the case of ICICI the growth coefficient is more than 1 except in the years 1998 (0.54), 2000 (0.90) and 2004 (0.70). For the combined entity the coefficient of growth was less than 1 in the years 1997 (0.88), 1998 (0.32), 1999 (0.84), 2000 (0.89), 2001 (0.84) and 2004 (0.70). It was more than 1 in the year 2002 (2.01), 2003 (2.43) and 2005 (1.52). The coefficient of growth for the projected values of the combined entity was less than 0.5 except in the year 2002 when it was 0.64. ICICI Banks spread grew at a rate more than 40% except in the years 1998 and 2004 wherein the rate was 11.32% and 31.93% respectively. In the years 1997, 2001 and 2003 the rate was more than 100%. In ICICI case, the growth coefficient was more than 1 except in the years 1998 and 2004. For combined entity the coefficient of growth was more than 1 except in the year 1998 and 2004 which is similar to that of ICICI Bank. The ICICI bank showed 117% growth in spread in the year 2001 clearly indicating positive synergy achieved from its merger with Bank of Madura.

V.2.7 IMPORTANT PERFORMANCE INDICATORS:

In order to have an overview of the comparative position of the actual performance of ICICI Bank vis-à-vis the SAS projections, a comprehensive position is shown in Table 1. For each parameter, the upper row represents the actual figures of ICICI Bank whereas the lower row shows the arithmetic sum of the SAS projections for each entity separately.
Table 1: Actual achievements and projections for the combined entity

<table>
<thead>
<tr>
<th></th>
<th>Rs.in Crores</th>
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<tbody>
<tr>
<td>Deposits</td>
<td>16378.00</td>
</tr>
<tr>
<td></td>
<td>14313.95</td>
</tr>
<tr>
<td>Advances</td>
<td>7031.00</td>
</tr>
<tr>
<td></td>
<td>5697.09</td>
</tr>
<tr>
<td>Interest Income</td>
<td>1242.00</td>
</tr>
<tr>
<td></td>
<td>1344.02</td>
</tr>
<tr>
<td>Other Income</td>
<td>220.00</td>
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<tr>
<td></td>
<td>319.72</td>
</tr>
<tr>
<td>Total Income</td>
<td>1462.00</td>
</tr>
<tr>
<td></td>
<td>1663.88</td>
</tr>
<tr>
<td>Interest Expended</td>
<td>838.00</td>
</tr>
<tr>
<td></td>
<td>1036.07</td>
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<tr>
<td>Operating Expenses</td>
<td>283.00</td>
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<tr>
<td></td>
<td>190.28</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>1301.00</td>
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<tr>
<td></td>
<td>1449.13</td>
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<tr>
<td>Spread</td>
<td>404.00</td>
</tr>
<tr>
<td></td>
<td>308.81</td>
</tr>
<tr>
<td>Net Profit</td>
<td>161.00</td>
</tr>
<tr>
<td></td>
<td>161.07</td>
</tr>
<tr>
<td>Assets</td>
<td>19736.59</td>
</tr>
<tr>
<td></td>
<td>17847.89</td>
</tr>
<tr>
<td>Net Profit as % of Total Assets</td>
<td>0.82</td>
</tr>
<tr>
<td></td>
<td>0.90</td>
</tr>
<tr>
<td>Interest income as % of Total Assets</td>
<td>6.29</td>
</tr>
<tr>
<td></td>
<td>7.53</td>
</tr>
<tr>
<td>Interest exp. as % of total assets</td>
<td>4.24</td>
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<tr>
<td></td>
<td>5.80</td>
</tr>
<tr>
<td>Spread as % of total assets</td>
<td>2.05</td>
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<tr>
<td></td>
<td>1.73</td>
</tr>
<tr>
<td>Operating exp. as % of total assets</td>
<td>1.70</td>
</tr>
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<td></td>
<td>1.07</td>
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</tbody>
</table>

It is inferred from the table that ICICI Bank showed much better performance than the projections across all the parameters. The interest income as percentage of total assets is less than the projected figure in the years 2004 & 2005. The abnormal increase of the absolute figures is because of the merger of ICICI with ICICI Bank.

The capital adequacy ratio (CAR) of ICICI Bank was higher before the merger and declined to the level of 10.36% in 2003 – 04. In 2004 – 05 CAR of ICICI Bank had increased to 11.78%. Throughout the period of study the CAR remained above the prescribed norms. In terms of NPA the position of ICICI Bank was stronger than the Bank of Madura in the pre-merger period. After the merger there is substantial increase in the NPA.
for ICICI Bank immediately after the merger, which can be attributed to the merger of ICICI with ICICI Bank. In the last two years the bank had managed to rein the NPAs and had brought gross NPA/gross advances ratio below 5%.

V.2.8 INFERENCE

After merger the growth in the deposits for ICICI bank was not very significant (in 2001), but the deposits almost got doubled in 2002. The actual performance of the combined entity exceeded the projections. This indicated that the merger of Bank of Madura had a positive impact on ICICI Bank.

The advances immediately after the merger i.e. in 2001 got doubled showing a positive impact of merger. It was also corroborated by the growth coefficient figure of 2.60 for ICICI bank in the year 2001. In 2002, ICICI merged with ICICI bank increasing the advance figure manifold, but this merger had considerably slowed the growth rate as was evident from less than 1 growth coefficients of ICICI bank for the years 2003 and 2004. This indicated that no synergy was achieved with respect to advances parameter.

ICICI bank out performed the new private sector banks with respect to total income in the years 2001 and 2002 clearly indicating a positive impact of merger with Bank of Madura. The growth rate of 359.43% in 2003 was because of the merger of ICICI with ICICI bank. There had been some assimilation problems affecting the income as was shown by negative growth in total income in the year 2004.

In 2001 the ICICI Bank managed to bring its growth rate of Total Expenditure lower than that of new private–sector banks but as the process of absorbing Bank of Madura became complete the rate grew more than that of new private sector banks. This negative impact may had diluted over the period but merger of ICICI again increased the total expenditure. This indicated that the merger of Bank of Madura with ICICI Bank could not achieve economy of scale.

As far as Net Profits were concerned, in case of ICICI Bank the growth rate was between 25% and 65% except in the years 1997 and 2003, wherein the rates were 136% and 366.97% respectively. The growth rate for combined entity (BOM + ICICI Bank) fluctuated
between 135.32% in 1997 and 10.33% in 1999. The NPB had a negative growth (−7.51%) in the year 1999, for rest of the period the rate was more than 40% except in the years 2001 (12.30%), 2002 (29.73%) and 2004 (16.91%). In case of ICICI Bank except in the years 1998 and 1999 the growth coefficient was more than 1 indicating a performance better than that of NPB. The combined entity also had growth coefficient more than 1 in all the years similar to ICICI Bank except in 2001. The projected values of the combined entity had growth coefficients less than 0.5. The performance of ICICI bank was better than that of New Private Sector Banks after the merger with Bank of Madura which clearly indicated a positive synergy of the merger.

ICICI Banks spread grew at a rate more than 40% except in the years 1998 and 2004 wherein the rate was 11.32% and 31.93% respectively. In the years 1997, 2001 and 2003 the rate was more than 100%. In the case of ICICI the growth coefficient was more than 1 except in the years 1998 and 2004. For combined entity the coefficient of growth was more than 1 except in the year 1998 and 2004 similar to that of ICICI Bank. The ICICI bank showed 117% growth in spread in the year 2001 clearly indicating positive synergy achieved from its merger with Bank of Madura.

Keeping in view that in most of the parameters ICICI bank had gained in its performance in the post merger period, including enhancing its productivity, it may be considered to be an advantageous merger to ICICI Bank.

V.2.9 CONCLUSION

From the foregoing discussion and analysis, it is amply clear that ICICI Bank-Bank of Madura merger has been able to achieve synergy in most of the parameters analyzed as the merged entity could show higher growth rates than the projections as well as industry indicators. Such positive synergy is visible in respect of key parameters, viz. Deposit, Net Profit and Spread. Though the positive impact with respect to spread is more due to the merger of ICICI with ICICI bank immediately after the merger of Bank of Madura. This merger could not achieve any synergy in terms of Total Expenditure and Advances. The merger of Bank of Madura with ICICI Bank resulted in enhancing the geographical reach and customer base. It may be inferred that the merger was partially successful as the benefits that
could have been achieved in the long run got overridden by the merger of ICICI into ICICI Bank. The absence of any advantage due to merger is notable as far as NPAs, CAR and productivity are concerned. The Bank had unfavorable position as compared to the projections in regards to Interest income to total assets, Profit to total assets and Operating expenses to total assets. It may be attributed to the quantum increase in the total assets which could not lead to matching growth in key performance indicators. In this age of fast moving technological advancements, it has become imperative for banks to invest heavily in upgrading technology on a continuous basis and the returns can be achieved by generating economy of scale, which could not be observed in this case. The Bank was able to enhance its geographical reach and customer base. On integrating the various inferences, it may be safely opined that this milestone strategic merger in the history of banking in addition to the merger of TIMES Bank with HDFC Bank has shown a path and kindled a bright light of hope for all the players in the market so that they do not shy away from adopting M&A strategy based on the earlier experiences of myriads of mergers like PNB-New Bank.

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