Corporate Restructuring Through Mergers : A Case of ICICI Bank

** Abdul Wajid*
*** Harjit Singh*
**** Abdul Aziz Ansari*

Abstract

In the time of financial turbulence, corporate restructuring through mergers is one of the most prominent business strategies for corporates to achieve more significant market share, enhance profitability, expand its reach into the new markets, and also to obtain economies of scale. The objective of this study was to examine the impact of mergers on the short run market performance and long-run operating performance of ICICI Bank, one of the leading private sector banks in India. The present study distinguished itself from others by analyzing three essential measures simultaneously: (a) short run abnormal returns to shareholders, (b) long term operating performance of acquirer, and (c) strategic similarity analysis. Event study methodology, ratio analysis, and strategic similarity analysis were applied to study the short term and long-term performance of ICICI Bank. The findings revealed that the shareholders of ICICI Bank did not respond positively surrounding the announcement of its merger. However, the post - merger financial performance of ICICI Bank improved as was evident in its post-merger ratios and strategic similarity analysis. The Indian banking industry has witnessed a surge in consolidation activities through mergers and acquisitions. This study is rational in today's changing banking business environment to understand the value creation aspects of corporate restructuring moves primarily through mergers.

Keywords : **corporate restructuring, merger, event study methodology, performance, banking**

JEL Codes : G14, G21, G34, L25

Paper Submission Date : September 15, 2018 ; Paper sent back for Revision : June 19, 2019 ; Paper Acceptance Date : June 25, 2019

In today's globalized economy, mergers and acquisitions (M&A) are being tremendously used by corporates to enter new markets, increase manufacturing capacities, gain market share, increase synergy, reduce cost, achieve competitive advantage, and respond to economic shocks. The essential factor behind M&As is to create synergy (Ansoff, 1965). Synergy is achieved when the market value of a merged entity is higher than the market value of two individual entities. This may result from operating synergy, if the two firms happen to be in the same industry, through scale and scope of economies, or financial synergy through lower cost of capital, or it may result from managerial synergy by utilizing different managerial resources (Rani, Yadav, & Jain, 2016).

---

* *Research Scholar (Corresponding Author),* Amity College of Commerce and Finance (ACCF), Amity University, Amity Road, Sector 125, Noida - 201 313, Uttar Pradesh. E-mail : abdulwajid000@gmail.com
ORCID ID - https://orcid.org/0000-0003-2585-5550
** *Associate Professor,* Amity School of Business (ASB), Amity University, Amity Road, Sector 125, Noida - 201 313, Uttar Pradesh. E-mail : hsingh12@amity.edu ORCID id - https://orcid.org/0000-0001-5557-2071
*** *Professor,* Department of Commerce and Business Studies, Jamia Millia Islamia, Jamia Nagar, Okhla, New Delhi, Delhi -110 025. E-mail : aaansari54@gmail.com ORCID id - https://orcid.org/0000-0002-8329-7828

DOI : 10.17010/ijf/2019/v13i8/146303

Due to cut - throat competition and excessive liberalization, corporates opine that only big players can survive in the market, so they resort to inorganic growth strategies like M&As. The most crucial factor for growth in the U.S. banking sector has been through mergers (Berger & Humphrey, 1994). The M&As in the banking sector have gained attention in the last decade because of their role in transforming the global banking industry. Growing competition, enhancement in technology, and the globalized economy forced the banking business environment to become more competitive and challenging (Selvakumar & Kathiravan, 2009).

Corporate restructuring through M&As is increasingly used in the Indian banking sector. Since the inception of the modern banking system in India, the merger of three presidency banks to form the Imperial Bank of India was the most crucial milestone in the Indian banking industry in the pre - Independence era. In the pre-liberalization period, the nationalization of 14 banks on July 19, 1969 and later six more commercial banks on April 15, 1980 were approved by the Government of India. However, in the year 1993, The New Bank of India was merged with Punjab National Bank. In the post - liberalized period, licenses and permission were granted to private banks for the growth of the Indian banking sector.

Many mergers and acquisitions have been reported in private sector banks. The present study is concentrated on the merger of ICICI Bank with the Bank of Rajasthan, a voluntary merger u/s 44A of The Indian Banking Regulation Act, 1949. The list of M&As in the Indian banking sector (post-liberalization) is provided in the Table 1.

Table 1. Post - Liberalization Mergers and Acquisitions in India

S.No	Acquirer	Acquired	Years
1	Punjab National Bank	New Bank of India	1993
2	Bank of India	Bank of Karad Ltd.	1993
3	State Bank of India	KashiNath Seth Bank Ltd.	1996
4	Oriental Bank of Commerce	Bari Doab Bank Ltd.	1997
5	Oriental Bank of Commerce	Punjab Cooperative Bank Ltd.	1997
6	Bank of Baroda	Bareilly Corporation Bank Ltd.	1999
7	Union Bank of India	Sikkim Bank Ltd.	1999
8	HDFC Bank Ltd.	Times Bank Ltd.	2000
9	ICICI Bank Ltd.	Bank of Madura Ltd.	2001
10	ICICI Bank Ltd.	ICICI Ltd.	2002
11	Bank of Baroda	Benaras State Bank Ltd.	2002
12	Punjab National Bank	Nedungadi Bank Ltd.	2003
13	Bank of Baroda	South Gujarat Local Area Bank Ltd.	2004
14	Oriental Bank of Commerce	Global Bank Trust Ltd.	2004
15	IDBI Ltd.	IDBI Ltd.	2005
16	Centurion Bank Ltd.	Bank of Punjab Ltd.	2005
17	Federal Bank Ltd.	Ganesh Bank of Kurundwad Ltd.	2006
18	IDBI Bank	United Western Bank Ltd.	2006
19	Indian Overseas Bank	Bharat Overseas Bank Ltd.	2007
20	ICICI Bank Ltd.	Sangli Bank Ltd.	2007
21	Centurion Bank of Punjab	Lord Krishna Bank Ltd.	2007

22	HDFC Bank Ltd.	Centurion Bank of Punjab Ltd.	2008
23	ICICI Bank Ltd.	Bank of Rajasthan Ltd.	2010
24	State Bank of India	SBI Commercial & Intl. Bank Ltd.	2011
25	Kotak Mahindra Bank	ING Vysya Bank Ltd.	2014
26	State Bank of India	Bharatiya Mahila Bank	2017
27	State Bank of India	State Bank of Travancore	2017
28	State Bank of India	State Bank of Bikaner & Jaipur	2017
29	State Bank of India	State Bank of Hyderabad	2017
30	State Bank of India	State Bank of Mysore	2017
31	State Bank of India	State Bank of Patiala	2017

Source: Compiled from CMIE PROWESSIQ and RBI, Various Issues. Retrieved from https://rbi.org.in

Rationale of the Merger

The Bank of Rajasthan was under pressure from the Reserve Bank of India (RBI) to restructure its operations. RBI levied a fine of ₹ 25 lakhs for violating various norms, including money laundering norms. RBI also appointed a committee to look after the operations of the Bank of Rajasthan. Besides, the Bank of Rajasthan incurred a loss of ₹ 102.13 crore on March 31, 2010; its assets and market shares were deteriorating from the year 2007 onwards. It had been facing internal problems relating to employee union strikes and was served a notice from the Rajasthan High Court. Due to these problems, the Tayal family, the controller of the bank, finally decided to merge it with ICICI Bank.

On the other hand, ICICI Bank had been very active in using inorganic routes to expand its operations in different geographies. The Bank of Rajasthan was its third merger after Bank of Madura and Sangli Bank. ICICI Bank proposed the merger with 1 share for every 4.72 shares of the Bank of Rajasthan. ICICI Bank expected that the merger would strengthen its branch networks, and especially, it would strengthen its position in the Northern and Western parts of India by capitalizing the growth opportunities. The deal was expected as a win - win situation for both the banks.

Background and Profile of ICICI Bank : ICICI Bank is one of the undisputable and largest private sector banks in India. It was incorporated in the year 1994 by ICICI Limited, a premier Indian financial institution, and was its wholly owned subsidiary. In order to gain significant market share and offer world-class services in the shortest possible time, it adopted the inorganic route of expansion by frequent mergers and acquisitions. It has completed 38 mergers and acquisitions from 1999 to 2017. Its total assets were worth USD $172.5 billion on March 4, 2018. It offers a wide range of financial services apart from banking products and caters to corporate and retail customers through its different delivery channels and a group of companies. It has nearly 5000 bank branches and 15,000 ATMs across the country. It also has an international presence in 20 countries. ICICI Bank has a long list of recognition, awards, and accolades in almost all the categories which a bank aspires for.

Review of Literature

A plethora of research has already been done on the post - merger financial performance, and mostly, researchers attempt to analyze two issues. First, they study the impact on the operating performance of the merged entity after the M&A event through ratio analysis. Furthermore, they evaluate abnormal returns to shareholders through the

event study methodology. However, most of the studies are reported to be conducted in developed nations, and very few studies have taken place in India. Some important studies carried out in India and abroad are as follows :

Al - Sharkas, Hassan, and Lawrence (2008) used a stochastic frontier approach to investigate the efficiency related to cost and profit of mergers of banks in the U.S. They used the data envelopment analysis (DEA) to scrutinize the structure of merged banks and non-merged ones. They concluded that non-merged banks had a higher cost than merged ones, further mergers allowed banks to get benefit from opportunities drawn from improved technology. A study by Jayadev and Sensarma (2007) examined consolidation issues in the Indian banking sector from the point of view of shareholders and managers, an event study analysis of stock return was done for shareholders' short - term gain. Besides, a survey of bank managers was also executed. The study concluded that voluntary mergers were beneficial for both targets and bidders, while in the case of forced mergers, neither targets nor bidders attained any gain.

Similarly, Anand and Singh (2008) analyzed the impact of merger announcements on the wealth of shareholders by taking a sample size of five banks and concluded that the cumulative abnormal returns of acquirer banks were positive and statistically significant. The study of Srinivas (2010) analyzed the pre and post-merger financial performance of Indian banks. The study reported that liberalization had a positive impact on the Indian banking sector, banks were able to improve their profitability by reducing their operational costs after the new economic policy. The study further suggested that M&As in the banking sector actually had a long-term positive impact on the merged banks.

One of the important studies on mergers in the Indian banking industry was done by Kumar and Suhas (2010) ; they examined the impact of mergers on shareholders' wealth and operating performance of banks in the Indian banking sector. It was suggested that the merger announcement created value for bidder bank shareholders, but destroyed the wealth of target bank shareholders. They also suggested that operating performance did not improve after the merger. Khan (2011) evaluated the financial performance of banks by employing ratio analysis and paired *t* - test. The study concluded that the post - merger performance of Indian banks improved after M&As, and thereby, it was beneficial for equity shareholders. Bhattacharyya and Chatri (2012) analyzed the impact of bank mergers on the technical efficiency of commercial banks in India from 2000 to 2010. Using DEA, they computed the technical efficiency of commercial banks that participated in mergers. The comparison of post - amalgamation scores of banks was also done with a control group of banks that did not go for consolidation. The results suggested that acquiring banks gained efficiency after M&As.

Tatuskar (2016) conducted a study on the pre and post - merger financial performance of the public sector and private sector banks in India for 10 years using the CAMEL framework. The study concluded that capital adequacy ratios did not improve after the merger in any of the sectors, but total assets quality showed a positive difference. Prakash (2017) analyzed short-run abnormal returns to shareholders of the target, bidder, and hypothetical combined entities. The study analyzed M&As that happened during 2000 - 2010, taking a sample of 29 pairs. The study reported a loss to target shareholders and significant gains to acquirers. It was suggested that the theories of developed nations regarding short run abnormal returns to shareholders of targets might not be applicable in the Indian context.

DEA has been extensively used by researchers to analyze the efficiency of banks. One of the important studies using the same methodology was done by Kollapuri (2017). The study examined issues of consolidation and efficiency in the banking sector by taking a sample size of 16 deals from the period of 1995 to 2013. Using DEA and non - parametric tests, the author found that consolidation resulted in improvement of efficiency in majority of the cases.

Most studies on the M&A phenomenon analyzed either short-run abnormal returns surrounding mergers and acquisitions announcement or long-term operating performance of the merged entity using ratio analysis. Very few studies have analyzed the impact of strategic similarity and dissimilarity between target and bidder. Although

well documented in the literature that analysis of strategic fit is vital for merging entities, still very less attention has been given to this topic. Hence, we present a few essential studies on the aforesaid topic in this section.

Levine and Aaronovitch (1981) and Lubatkin (1983) were among the first to claim the importance of strategic fit between merging firms. Later, Datta, Grant, and Rajagopalan (1991) also expressed the same views. They opined that when mergers of dissimilar managements happen, then a firm cannot act in unison and loses its potential synergies that arise from the merger, this leads to the poor performance of the merged entity. They also stated that better performance of a merged entity is ensured when there is minimization in conflicts among core competencies. Similarly, the empirical study of Ramaswamy (1997) concluded that mergers of banks that exhibited similar characteristics outperformed those which were strategically dissimilar. Strategic fit among partners has long been recognized as a determining factor for the success or failure of the M&A deal. Altunbaş and Marqués (2008) analyzed the impact of strategic similarity on the merger performance of European Union banks. They reported positive results of M&A activities on bank performance. They also stated that merging of dissimilar banks can prove to be a very costly affair ; hence, they suggested that there should be some similarity between merging banks in terms of cost, earnings, loan, size, and deposits. In a recent study on the topic, Kuriakose and Paul (2016) explored the strategic similarities of the acquirer and acquired banks in voluntary amalgamations and suggested that the merging entities should possess some similarities and few dissimilarities.

Significance of the Study

Researchers throughout the globe generally follow two types of methodologies to analyze the impact of mergers. First, they use event study methodology to examine the changes in stock returns surrounding the merger announcement ; the primary goal of such studies is to check whether the announcement of a merger creates short - run wealth for shareholders or not. Second, most studies investigate long term performance using accounting ratios because efficiency gains take time to realize. However, very scant literature is available towards understanding of an important phenomenon: "How the degree of relatedness between merging and non-merging firms affects post-merger operating performance" (Altunbaş & Marqués, 2008, p. 207). The same views were shared by Kuriakose and Paul (2016) who explicated, "While an impressive body of literature exists on mergers in the international context, few studies have been conducted in India, particularly in the financial sector, and these studies are confined to market performance and efficiency gains" (p. 51). Therefore, there is a need to understand how the pre-merger characteristics of merging banks help to decide the post-merger outcome.

A few studies concentrated on the strategic similarity analysis (Altunbaş & Marqués, 2008 ; Kuriakose & Paul, 2016 ; Ramaswamy, 1997). Moreover, previous studies concentrated on the M&As in developed nations like the U.S. and Europe. To the best of our knowledge, no previous study has done an in-depth analysis using all the three measures mentioned above together to investigate the bank post-merger performance. Hence, the present study distinguishes itself by doing an in-depth analysis of a bank merger using three measures, which include : short run abnormal returns to shareholders, long term operating performance of acquirers, and strategic similarity analysis.

Objectives of the Study

(1) To analyze the impact of the merger on the financial performance of ICICI Bank.

(2) To measure the short-term abnormal returns to the shareholders of ICICI Bank surrounding its merger announcement with the Bank of Rajasthan.

(3) To study the strategic similarity and dissimilarity between ICICI Bank and Bank of Rajasthan.

Research Methodology

(1)Data Collection : The present study is primarily based on secondary data, collected mainly through annual reports of banks, web sources, CMIE ProwessIQ database, and published research papers.

(2) Tools and Techniques : Ratio analysis is considered to be a useful tool to access the financial performance of an entity. Owing to its effectiveness, it is used in the present study. This study is based on a specific merger, so we use descriptive statistics to explain the changes in financial ratios. The improvement in post-merger performance is evident if there is an increase in profitability and efficiency following the merger event. Hence, four ratios related to 'profitability' and three ratios related to 'efficiency' are used. Further, event study methodology is used to analyze the short-term abnormal returns to the shareholders of ICICI Bank surrounding the announcement of its merger with the Bank of Rajasthan and lastly, strategic similarity analysis is performed on different variables of both ICICI Bank and Bank of Rajasthan to analyze the impact of similarity and dissimilarity between target and bidder bank.

Analysis and Results

The data used in the present study were taken from the CMIE ProwessIQ database. Ratios were calculated from 2008 to 2017. However, the year of the merger was excluded from the analysis, that is, 2011, because it might have distorted the results (Rani et al., 2016). Selected seven key ratios of ICICI Bank are given in the Table 2. We analyze the profitability and efficiency ratios as these two types of ratios are very important indicators of bank performance (Sharma & Kumar, 2013). It can be seen in the Table 2 that there is an increasing trend in almost all the profitability ratios considered in the study, which may be due to economies of scale and scope.

Efficiency ratios in the present study include total income to total assets ratio, interest income of bank as a percentage of working funds, and operating profit of the bank as a percentage of working funds. All the efficiency ratios considered in the study show an increasing trend, especially after the merger.

The pre - merger ratios of the Bank of Rajasthan are reported in the Table 3. There is high instability and inconsistency in all the profitability ratios considered in the study. The profitability ratios of the bank go from bad to worse. All the profitability ratios are negative, as can be seen from the Table 3. Out of the three efficiency ratios presented in the Table 3, two ratios are positive & consistent, though total income to total asset ratio is meager,

Table 2. Key Financial Ratios of ICICI Bank

Profitability Ratios	2008	2009	2010	2012	2013	2014	2015	2016	2017
Operating Profit Ratio	19.2	21.0	28.1	24.6	26.5	29.9	31.8	34.3	34.6
Net Profit Ratio	9.9	8.5	11.4	15.4	16.6	17.5	17.9	18.1	18.3
Return on Net Worth	11.3	7.0	7.4	11.1	12.6	13.6	14.2	14.2	14.3
Return on Total Asset	1.1	0.9	1.0	1.4	1.6	1.7	1.7	1.8	1.8
Efficiency Ratios									
Total Income/Total Assets	0.105	0.101	0.079	0.096	0.097	0.098	0.098	0.100	0.099
Interest income of bank as a percentage of working funds	8.3	8.1	7.2	7.8	8.2	8.0	8.2	8.1	7.4
Operating profit of bank as a percentage of working funds	2.1	2.3	2.7	2.4	2.7	3.0	3.3	3.6	3.6

Table 3. Pre - Merger Key Financial Ratios of Bank of Rajasthan

Profitability Ratios	March 2006	March 2007	March 2008	March 2009	March 2010
Operating Profit Ratio	-2.6	17.5	9.4	10.0	-8.9
Net Profit Ratio	-2.1	12.4	8.8	7.8	-6.8
Return on Net Worth	-3.9	28.9	22.0	20.1	-17.2
Return on Total Asset	-0.1	1.0	0.8	0.7	-0.6
Efficiency Ratios					
Total Income/Total Assets	0.06	0.08	0.08	0.09	0.09
Interest income of bank as a percentage of working funds	6.8	7.9	8.3	8.7	7.7
Operating profit of bank as a percentage of working funds	0.4	2.0	1.3	1.2	-0.2

Table 4. Three Years Pre and Post - Merger Ratios of ICICI Bank

Profitability Ratios	Pre-Mean	Post-Mean	Pre-*S.D*	Post-*S.D*
Operating Profit Ratio	22.76	27.00	3.84	2.19
Net Profit Ratio	9.93	16.50	1.18	0.86
Return on Net Worth	8.57	12.43	1.94	1.03
Return on Total Asset	1.00	1.57	0.08	0.12
Efficiency Ratios				
Total Income/Total Assets	0.95	0.10	0.01	0.00
Interest income of bank as a percentage of working funds	7.87	8.00	0.48	0.16
Operating profit of bank as a percentage of working funds	2.37	2.70	0.25	0.24

which shows that the assets were not being used appropriately to generate income for the bank. The operating profit of the bank as a percentage of working funds showed a declining trend and finally became negative in the year 2010.

The Table 4 presents 3 years pre and 3 years post-merger profitability and efficiency ratios of ICICI Bank. We calculated the descriptive statistics of key financial ratios for ICICI Bank to explicate the changes in its financial performance. Operating profit ratio measures the profit generation efficiency of an organization, and generally, a higher operating profit ratio is preferred. As can be inferred from the Table 4, the mean of all profitability ratios is higher in the post-merger period, while the standard deviations of all profitability ratios decline, except for return on total assets. The same outcome is derived for the efficiency ratios. Therefore, it can be said that the profitability and efficiency of ICICI Bank improved after its merger with the Bank of Rajasthan. Improvement in performance was probably the result of higher sales growth and not because of cost reductions and cost efficiencies as they are harder to realize in the post-acquisition period, mainly in emerging economies (Correa, 2009).

(1) Short-Term Abnormal Returns to the Shareholders Surrounding ICICI Bank Merger Announcement with the Bank of Rajasthan : Event study methodology (ESM) assumes that the market is rational, and the effect of any

corporate announcement or an event of a company is seen directly on its share prices. The importance and scope of event study analysis are vast and proliferating in the literature (Kliger & Gurevich, 2014). The underlying theme of ESM is to track the price of security along a period of time before the event to the point of time after the event, and by doing so, the irregularity in price behavior is detected and measured. The prerequisite of using ESM is to define an event, the day the merger is announced to the general public. Day 0 is defined as the event day, in this case, May 19, 2010 was the event day, and it was verified from the CMIE ProwessIQ database. ESM was applied to measure the impact on short - term stock prices of ICICI Bank surrounding the announcement of its merger with the Bank of Rajasthan. The abnormal returns during the event window (-10, 10) days were examined. The single factor model was used to analyze expected returns by regressing the stock return on the market index. Adjusted closing prices of ICICI Bank were taken from Yahoo Finance and Index data were taken from BSE BANKEX. An estimation period starting from 200 days prior to the announcement of the merger to 21 days prior to the merger was taken for estimation (Uddin & Boateng, 2009).

The market model was used to estimate returns as follows :

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \qquad ....(1)$$

R_{it} is the returns of ICICI Bank for the period t, R_{mt} is the returns from the market, α_i and β_i are parameters of the model, and ε_{it} denotes error term.

The abnormal returns for ICICI Bank at period t are calculated as:

$$AR_{it} = R_{it} - E(R_{it}) \qquad ....(2)$$

Abnormal returns are the difference of actual returns (R_{it}) and expected returns $E(R_{it})$:

$$AR_{it} = R_{it} - (\hat{\alpha} + \hat{\beta} R_{mt}) \qquad ....(3)$$

AR_{it} are the abnormal returns of ICICI Bank for period t.

Cumulative abnormal returns are defined as :

$$CAR^{i}_{s,t} = \sum\nolimits_{\tau}^{t} AR_{it} \qquad ....(4)$$

The event study statistics of ICICI Bank are reported in the Table 5. The intercept is -0.00079, the standard error is 0.009138, slope (beta) is 1.28, which shows ICICI Bank had more than average risk at that time. The R-square is 0.8193, which means that the model is quite fit, it is explaining 81.93% variation in returns of ICICI Bank surrounding the merger announcement with the Bank of Rajasthan. The abnormal returns to shareholders of ICICI Bank decreased significantly prior to the announcement as well as after the announcement of the merger as reported in the Table 5. The overall cumulative abnormal returns (CARs) over 10 days after the announcement of the merger decreased to -3.3%. The results reveal that the shareholders of ICICI Bank did not respond positively to its merger with the Bank of Rajasthan.

Table 5. Announcement Returns of ICICI Bank

Days	ARs	*T*-test	CARs
10	-0.52%	-0.57	-3.32%
9	0.64%	0.69	-2.80%
8	-1.31%	-1.43	-3.43%
7	-0.39%	-0.42	-2.12%
6	-0.09%	-0.10	-1.73%
5	-0.50%	-0.55	-1.64%

4	0.12%	0.12	-1.14%
3	-2.10%	-2.29*	-1.25%
2	2.37%	2.59*	0.85%
1	0.73%	0.79	-1.52%
0	0.45%	0.48	-2.25%
-1	0.96%	1.05	-2.70%
-2	-0.11%	-0.11	-3.66%
-3	-2.40%	-2.63*	-3.55%
-4	-1.11%	-1.20	-1.15%
-5	-0.31%	-0.33	-0.05%
-6	0.99%	1.08	0.26%
-7	0.50%	0.54	-0.73%
-8	-1.26%	-1.37	-1.23%
-9	-0.07%	-0.08	0.03%
-10	0.10%	0.11	0.10%

Note. *Denotes significance at the 5% level.

Table 6. Size of Variables **(Crores)**

Variables	ICICI Bank	Bank of Rajasthan
Size of the Balance sheet	363,399.71	16904.89
Total Expenses	28,974.37	1591.63
Total Income	32,999.36	1489.48
Other Income	7,292.43	129.99
Advances and Loans	181,205.60	8329.47
Deposits	202,016.60	15062.35
Total Capital Including Reserves	51618.373	541.34
Total Assets	363,399.71	16904.89
Interest Income	25706.93	1359.49

Source: Annual Reports of ICICI and BOR

(2) Strategic Similarity Analysis : A handful of studies have examined the aspects of strategic fit among target and bidder firms. As specified in the literature, it can be said that relatedness and similarity between two merging entities enhance post - merger performance. In the present study, an analytical framework to assess the impact of strategic similarity is used based on the variables utilized by Ramaswamy (1997), Altunbaş and Marqués (2008), and Kuriakose and Paul (2016). The Table 6 presents the items from the balance sheet of bidder and target bank.

Assuming balance sheet resource allocation, we measure the strategic features. The Table 7 is based on the parameter suggested by Kuriakose and Paul (2016).

(3) Interpretation of Strategic Similarity Analysis : In this section, we present a brief summary of the outcome of the analysis. The relative size of the target firm is arrived by dividing size of the target (SOT) by size of bidder (SOB) as calculated in the Table 7, which comes out to be 0.046, which is a small ratio and evidence for sound

Table 7. Strategic Similarity Analysis

Variables	Algorithm	Analysis		Post-Merger Performance Hypothesis
		ICICI	BOR	
The relative size of the target	SOT/SOB		0.046	Smaller ratio improves performance
Cost - income ratio	TC/TR	0.87	1.06	Similarity improves performance
Efficiency ratio	NIE/TR	0.34	0.38	Similarity improves performance
Liquidity risk	LN/TA	0.49	0.49	Similarity improves performance
Diversity Earning	OOR/TR	0.22	0.087	Dissimilarity improves performance
Financial Leverage	CPT/TA	0.14	0.032	Dissimilarity improves performance
Loan-deposit ratio	LN/TA	0.89	0.55	Similarity is vital in determining post-merger asset quality

post - merger performance (Altunbaş & Marqués, 2008 ; Mantravadi & Reddy, 2008). As explained by Ramaswamy (1997) and Altunbaş and Marqués (2008), it is because a smaller relative size helps in quick integration and leads to cost cutting.

The second indicator used in the study, the cost to income ratio, shows how efficiently banks work, a lower ratio is desirable as a lower ratio means high profitability to the bank. It is calculated by dividing the total cost (TC) with total revenue (TR). The cost to income ratios are 0.87 and 1.06, respectively, there is a difference of 0.19 and it is a decent sign for the merged bank as its similarity is expected to improve the post - merger performance (Altunbaş & Marqués, 2008 ; Kuriakose & Paul, 2016). As can be seen from the Table 7, this ratio is higher for the Bank of Rajasthan, which is expected as it was facing quite a lot of problems before it finally merged with ICICI Bank.

Efficiency ratio as measured by dividing non-interest earnings (NIE) with total revenue (TR) differs by a very small amount (0.04), this small difference is considered to be a healthy sign for the merged bank, thereby improving its efficiency (Kuriakose & Paul, 2016).

Liquidity risk is measured by dividing the loan amount (LN) with the total asset (TA). It can be seen from the Table 7 that it is equal for both the banks and it is good for the merged bank as explained in the literature and its similarity is expected to improve the post - merger performance.

Diversity of earning indicates the extent of bank income other than the interest income, it may include commissions, fees income, forex operations, etc. It is arrived at by dividing other operational revenue (OOR) with total revenue (TR). Studies (Altunbaş & Marqués, 2008 ; Kuriakose & Paul, 2016) suggest that its dissimilarity is expected to improve the post-merger performance, and it can be seen from the Table 7 that there is very much dissimilarity in this ratio between these two banks. ICICI Bank has a high ratio, which is expected. On the other hand, for the Bank of Rajasthan, the ratio is very low, which shows that it was heavily dependent on interest income.

Financial leverage is measured by dividing capital (CPT) with total assets (TA). Its dissimilarity is expected to improve the post - merger performance, as can be seen in Table 7, the ratio is in accordance with the assumption and hence favorable for the merged bank.

The loan - deposit ratio explains the contribution of loans (LN) in bank's total assets (TA). It can be seen from the Table 7 that this ratio differs by 0.44 points, which is not a good indicator for the merged bank as its similarity is expected to improve the post-merger performance (Altunbaş & Marqués, 2008 ; Kuriakose & Paul, 2016 ; Ramaswamy, 1997).

Therefore, "post-merger performance can be expected to worsen when banks with very different asset quality and overall portfolio strategies merge" (Altunbaş & Marqués, 2008, p. 210). In general, it can be said that greater

difference in merging banks' strategies is expected to lower the performance of merged banks, the more the differences in types of business of target and bidder, the more disadvantageous it will be for the merged entity.

Conclusion

Corporate restructuring through 'mergers and acquisitions' is a part of the resource reallocation exercise in the economy to optimize the value of an organization either by adding the related or divesting the unrelated businesses. This exercise incorporates a multidimension exercise, that is, strategic, governance, accounting, finance, valuation, and human resource amalgamation. These decisions are generally large enough to change the industry structure and influence a comprehensive range of stakeholders and its effect penetrates deep into the society. The present study undertakes a case of ICICI Bank's merger with Bank of Rajasthan using ratio analysis, event study methodology, and strategic similarity analysis. Seven ratios are used in the study to analyze the financial performance.

All the profitability ratios considered in the study exhibit an increasing trend in the post-merger period. The same improving trend is seen in selected efficiency ratios, and the results of the analysis are in sync with the findings of Jayadev and Sensarma (2007), Al-Sharkas et al. (2008), Mantravadi and Reddy (2008), Khan (2011), and Bhattacharyya and Chatri (2012) as they all advocated positive impact of mergers on the long term financial performance of banks, while the results are in contrast with the findings of Kumar and Suhas (2010).

The results of the event study analysis show that the shareholders of ICICI Bank did not react positively as can be seen from CARs surrounding the announcement of its merger with the Bank of Rajasthan, and the results of the analysis are in contrast with the findings of Kumar and Suhas (2010) as they suggested that shareholders' wealth increased in the short-run surrounding M&A by banks.

Strategic similarity analysis was done on the variables supported by literature to grasp the impact of similarity and dissimilarity on the performance of the merged bank, and the results are in line with the findings of Ramaswamy (1997), Altunbaş and Marqués (2008), and Kuriakose and Paul (2016). The results of ratio analysis are in conformity with strategic similarity analysis as both are supporting the improved performance of ICICI Bank after the merger. Overall, the results of the analysis suggest that the long-term financial performance of ICICI Bank improved after its merger with the Bank of Rajasthan.

Research Implications

The present study has undertaken a thorough examination of the merger outcome of ICICI Bank and the Bank of Rajasthan by using well-established research techniques. The methodology and mathematical results used in the present study are explained in a lucid way by providing each and every minor detail so that the same methodology can be used in a real-life scenario.

The study can be used by policy makers and investors to predict the outcome of M&As to some extent. Mainly, strategic similarity analysis could be beneficial for prospective acquirer banks. Furthermore, the present study also demonstrates the use of various research techniques to do an in-depth analysis in a case-based research. Hence, the study provides a roadmap to policymakers, corporates, academicians, research analysts, and practitioners for designing and redevising corporate restructuring moves.

Limitations of the Study and Scope for Further Research

This study was done only on one merger ; so, the findings cannot be generalized. Further, the tools and techniques used in the study have their limitations. The scope of the study could be extended by using a big sample size, and

the same tools and techniques could be used by considering different industries. A comparison between the outcomes of the mergers could be made among different industries.

References

Al - Sharkas, A. A., Hassan, M. K., & Lawrence, S. (2008). The impact of mergers and acquisitions on the efficiency of the U.S. banking industry : Further evidence. *Journal of Business Finance & Accounting, 35*(1 - 2), 50 - 70. DOI:10.1111/j.1468-5957.2007.02059

Altunbaş, Y., & Marqués, D. (2008). Mergers and acquisitions and bank performance in Europe : The role of strategic similarities. *Journal of Economics and Business, 60*(3), 204 - 222. DOI: 10.1016/j.jeconbus.2007.02.003

Anand, M., & Singh, J. (2008). Impact of merger announcements on shareholders' wealth: Evidence from Indian private sector banks. *Vikalpa : The Journal for Decision Makers, 33*(1), 35 - 54.

Ansoff, H. I. (1965). *Corporate strategy.* New York : McGraw-Hill.

Berger, A. N., & Humphrey, D. B. (1994). Bank scale economies, mergers, concentration, and efficiency: The U.S. experience. *Revue d'Economies Financiere, 27*(1), 123 - 154.

Bhattacharyya, S., & Chatri, A. (2012). Efficiency of Indian commercial banks: The post - reform experience from mergers and acquisitions. *The Indian Economic Journal, 60*(3), 3 - 28. DOI: 10.1177/0019466220120302

Correa, R. (2009). Cross-border bank acquisitions: Is there a performance effect? *Journal of Financial Services Research, 36*(2 - 3), 169 -197.

Datta, D. K., Grant, J. H., & Rajagopalan, N. (1991). *Management incompatibility and post-acquisition autonomy: Effects on acquisition performance.* In P. Shrivatsava, A. Huff, & J. Dutton (eds.), Advances in strategic management, (Vol. 7, pp. 157 - 182). Greenwich, CT : JAI Press.

Jayadev, M., & Sensarma, R. (2007). Mergers in Indian banking: An analysis. *South Asian Journal of Management, 14*(4), 20 - 49.

Khan, A. A. (2011). Merger and acquisitions (M&As) in the Indian banking sector in post - liberalization regime. *International Journal of Contemporary Business Studies, 2*(11), 31 - 45.

Kliger, D., & Gurevich, G. (2014). *Event studies for financial research: A comprehensive guide.* New York, United States : Springer.

Kollapuri, M. (2017). *Bank consolidation and efficiency: An empirical study from India* (No. 17 - 03). New Delhi, India : Centre for International Trade and Development, Jawaharlal Nehru University.

Kumar, B. R., & Suhas, K. M. (2010). An analytical study on value creation in Indian bank mergers. *Afro - Asian Journal of Finance and Accounting, 2*(2), 107-134. DOI:10.1504/aajfa.2010.037281

Kuriakose, S., & Paul, J. (2016). Strategic and financial similarities of bank mergers. *Review of International Business and Strategy, 26*(1), 50 - 68. DOI: 10.1108/RIBS-09-2013-0084

Levine, P., & Aaronovitch, S. (1981). The financial characteristics of firms and theories of merger activity. *The Journal of Industrial Economics, 30*(2), 149 - 172. DOI: 10.2307/2098200

Lubatkin, M. (1983). Mergers and the performance of the acquiring firm. *Academy of Management Review, 8*(2), 218 - 225.

Mantravadi, P., & Reddy, A. V. (2008). Post- merger performance of acquiring firms from different industries in India. *International Research Journal of Finance and Economics, 22*(1), 192 - 204.

Prakash, S. (2017). The impact of mergers and acquisitions on shareholders' value: An empirical analysis of select Indian companies. *Indian Journal of Finance, 11*(9), 22 - 38. doi:10.17010/ijf/2017/v11i9/118087

Ramaswamy, K. (1997). The performance impact of strategic similarity in horizontal mergers: Evidence from the US banking industry. *Academy of Management Journal, 40*(3), 697-715.

Rani, N., Yadav, S. S., & Jain, P. K. (2016). Mergers and Acquisitions. *India Studies in Business and Economics.* Singapore: Springer.

Selvakumar, M., & Kathiravan, P. G. (2009). A study of profitability performance of public sector banks in India. *Indian Journal of Finance, 3*(9), 3-13.

Sharma, V. K., & Kumar, A. (2013). Assessment of performance of commercial banks in India. *Indian Journal of Finance, 7*(12), 47-54.

Srinivas, K. (2010). Pre and post merger financial performance of merged banks in India - A select study. *Indian Journal of Finance, 4*(1), 3 - 19.

Tatuskar, S. S. (2016). *Pre - merger versus post-merger performance evaluation of public sector banks vis a vis private sector banks in India that have merged during the period 1993 1994 to 2004 2005 (Doctoral dissertation).* SNTD Women's University, Mumbai, India. Retrieved from https://shodhganga.inflibnet.ac.in/handle/10603/91876

Uddin, M., & Boateng, A. (2009). An analysis of short-run performance of cross-border mergers and acquisitions. *Review of Accounting and Finance, 8*(4), 431 - 453.

About the Authors

Abdul Wajid is a Research Scholar at Amity University, Uttar Pradesh. He is pursuing a doctoral degree in commerce. His research area is mergers and acquisitions. His research work has been published in a prestigious journal.

Dr. Harjit Singh, MFC (Gold Medalist), M.Phil, Ph.D. is an Associate Professor in Amity School of Business, Amity University, Uttar Pradesh. His publications have appeared in journals of Emerald, Inderscience, Thomas Reuters as well as Case Centre UK, and so on. His areas of expertise are mergers and acquisitions and corporate restructuring.

Dr. (Prof). Abdul Aziz Ansari is a Professor in Jamia Millia Islamia University (JMI), New Delhi. He was the former Head of Department of Commerce and Business Studies at JMI. He has published five books and over 60 research articles in journals of repute.