

# Impact of Enterprise Value on Profitability in Post Merger with Special Reference HDFC Bank with Times Bank Ltd

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## 1. INTRODUCTION

It was incorporated in August 1994. It was promoted by Housing Development Finance Corporation Limited (HDFC), India's largest housing finance company. It was among the first companies to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector. The Bank started operations as a scheduled commercial bank in January 1995 under the RBI's liberalization policies. The Bank is a publicly held banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations. The Bank at present has an enviable

Network of 2201 branches and 7110 ATMs spread in 996 cities across India.124

## 2. BACKGROUND OF THE CASE

Mergers and acquisitions in the banking sector, the banks can achieve significant growth in their operations, minimize their expenses to a considerable extent and also competition is reduced because merger eliminates competitors from the banking industry. The analysis of before and after merger of Times bank with HDFC bank indicates that after merger, Gross Profit Margin, Net Profit Margin, Return on Capital Employed, Return on Equity and Debt-Equity Ratio shows an increasing trend, but Operating Profit Margin shows mixed trend. The results also show that there is a significant difference in Gross Profit Margin, Net Profit Margin, Operating Profit Margin, Return on Equity and Debt-Equity Ratio between before and after merger.

## 3. REVIEW OF LITERATURE

Bahia, K and J Nantel (2000)- The paper suggested an alternative scale for measuring service quality in retail banking. The study developed a scale called as Banking Service Quality Scale which contained factors like effectiveness and assurance, access, price, tangibles, service portfolio and reliability. This model was found to be more reliable than survival Jamal, A., Naser, K., 2002-The study examined key drivers of customer satisfaction using 167 customers and it was found that core and relational performances had impact on customer satisfaction and there was negative relationship between customer expertise and customer satisfaction

Sureshchandar et al(2002).- The study examined relationship between service quality and customer satisfaction in Indian banking sector. These were found to be independent but closely related. Both constructs vary significantly in core services ,human element, systematization of service delivery, tangibles and social responsibility. Gani A, Mushtaq Bhatt (2003)-The study is conducted to do a comparative study of service quality of commercial banks and its dimensions in commercial banks. SERVQUAL is used and sample size was 800 customers. The study found out that CITI bank and Standard chartered bank are good in tangibility and in reliability also they are good. In responsiveness parameter Indian banks are inferior to foreign banks. In Assurance and empathy Indian banks are inferior. Navdeep Aggarwal and Mohit Gupta (2003)- This study basically finds out the primary dimensions and sub dimensions of service quality. Informal structured interviews are conducted with branch managers and academicians to formulate a banking service quality model. The study found out that service time and personal interactions are very important along with ambience for service quality

Zhou, L( 2004)- The study analysed impact of service quality in banks on customer satisfaction in china's retail banking and it was found out that reliability and assurance were the primary drivers of customer satisfaction. It was also found out that there were significant variations in expectations and perceptions in customers Arora S (2005)- This study analysed factors influencing customer satisfaction in public sector, private sector and foreign banks in northern India. 300 customers were given questionnaires which revealed that significant differences exist in customer satisfaction level of customers in each group of banks regarding routine operation and situational and interactive factors. Foreign banks were found to be the leaders in mechanization and automation. Debashis and Mishra(2005)-The study analysed and measured customer satisfaction in branch services provided by nationalized banks in northern India . 1200 customers were given questionnaires and it was found out that computerization, accuracy in transactions, attitude of staff and availability of staff influenced customer satisfaction. Least important factor was promotion of the products and various schemes.

Mushtaq M Bhat (2005)- This study finds out service quality parameters in bank through SERVQUAL and influence of demographic variables . The study was limited to SBI,PNB ,Jammu and Kashmir bank Citi bank and Standard Chartered Grind lay's bank. Sample size was 800 and study found out that foreign banks are better than Indian banks. SBI was found to be relatively poor on reliability and responsiveness. Banks in Delhi were comparatively better in service quality Alka Sharma, Varsha Mehta (2005)-The study focuses on service quality of four leading banks and their comparison. Joshua A J, V Moli, P. Koshi (2005)- The study evaluated and compared service quality in old and new banks using sample size of 480. The study found out that customers were satisfied in reliability, empathy and price and for other parameters the difference between expectations and perceptions were smaller than public sector banks Mohammad et al(2005)- The study tries to develop a comprehensive model of banking automated service quality taking into consideration unique attributes of each delivery channel and other dimensions which influence service quality

Raul and Ahmed (2005)-The study investigated customer service in public sector banks in 3 districts

in Assam and it was found that customers were dissatisfied with the management, technology and interactive factors along with high service charges. Communication gap was the root cause of poor service and service was different in rural and urban sectors

Sharma and Sharma ( 2006)-The study analysed customer delight in urban consumer banking. The study found out that customers were satisfied with loan facilities, bank environment, routine work procedures, location, Interest rates etc and were dissatisfied with loan formalities and promotion through media. Dash et al(2007)- The study measured customer satisfaction through 5 service quality dimensions in Noida and Ghaziabad and findings revealed that assurance was the most important dimension of service quality followed by reliability and responsiveness. Tangibles was found to be least important

Sharma S, et al (2007)-The study did a comparison of public and private banks with respect to perceptions of customers regarding service quality. It was found out that service quality is associated with satisfaction and there was significant difference between quality of services provided by banks. Banks in smaller cities are far behind big cities in this regard

Tracey Dagger, Jillian Sweeney (2007)- The study consists of qualitative research to investigate the effect of consumption stage on service quality perceptions and then development of hypothesis. The findings indicate the evidence that customers rely more heavily on attributes that are search based in the initial stages of service experience and in later stages consumption becomes important.

#### 4. OBJECTIVE OF THE STUDY

Impact of Enterprise Value on profitable it value of the from in Pre and Post

#### 5. RESEARCH METHODOLOGY

Types of research

This study is considered by Descriptive research design because of the merger and acquisition is existing nature problems faced by companies and its descriptive in nature.

Sample design:-

Merging	Merged	Type of activity	Deal value	Year	Strategic motive
HDFC	TIMES bank ltd	Marging	RS. 200 cr	26/2/2000	The merger will strengthen HDFC Bank's distribution network in the northern and the southern regions.

Sources of Data

Secondary data:

It means the data already collected and it is available in the websites, articles, magazines, newspaper, journals etc.

Tools for the study:

1.Statistical tool:

Descriptive research: It is describe what, who, when, where and how to answer the research questions. It is describe the company financial data and ratios followed by the company.

Mean: The "mean" is the "average" you're used to, where you add up all the numbers and then divide by the number of numbers.

Standard deviation: The standard deviation is a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance. ... If the data points are further from the mean, there is higher deviation within the data set; thus, the more spread out the data, the higher the standard deviation.

Skewness: skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable about its mean. The skewness value can be positive or negative, or undefined.

Kurtosis: Kurtosis is defined as the measure of thickness or heaviness of the given distribution for the random variable along its tail. In other words, it can be defined as the measure of "tailedness" of the distribution.

T- test: A t-test is an analysis of two population's means through the use of statistical examination; a t-test with two samples is commonly used with small sample sizes, testing the difference between the samples when the variances of two normal distributions are not known.

Financial tools:

Ratios: in this study to analyzing the ratio analysis using the companies consolidation balance sheet and ratio statement for Acquirer Company.

Gross Profit Margin Ratio: - Gross Profit / Sales X 100

Net Profit Margin Ratio: - Net Profit / Sales X 100

Operating Profit Margin Ratio: - Operating Profit / Sales X 100

Return on Capital Employed: - Net Profit / Total Assets X 100

Return on Equity: - Net Profit / Equity Capital X 100

Debt Equity Ratio: - Total Debt / Total Equity X 100

Hypotheses of the study:

There is no significant difference between Pre and Post merger Impact of Enterprise Value on profitable it value

6.DATA ANALYSIS AND INTERPRITATION

In 1994, as a part liberalization of banking industry by RBI the Housing Development Finance Corporation Limited (HDFC) was the first private bank to receive approval in principle. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited'. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. The Bank provides a wide range of banking and financial services including commercial banking and treasury operations. The Bank has one overseas wholesale banking branch in Bahrain, a branch in Hong Kong and two representative offices in UAE and Kenya. The Bank has two subsidiary companies, namely HDFC Securities Ltd and HDB Financial Services Ltd. The Bank has three primary business segments, namely banking, wholesale banking and treasury.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans and provides other services with the help of specialist product groups to such customers. The wholesale banking segment provides loans, non-fund facilities and transaction services to corporate, public sector units, government

bodies, financial institutions and medium-scale enterprises. The treasury segment includes net interest earnings on investments portfolio of the Bank. The Bank's shares are listed on the Bombay Stock Exchange Limited and The National Stock Exchange of India Ltd. The Bank's American Depository Shares (ADS) are listed on the New York Stock Exchange (NYSE) and the Bank's Global Depository Receipts (GDRs) are listed on Luxembourg Stock Exchange.

In the year 1999, the Bank launched online, real-time Net Banking. In February 2000, Times Bank Ltd, owned by Bennett, Coleman & Co. / Times Group amalgamated with the Bank Ltd. This was the first merger of two private banks in India. The Bank was the first Bank to launch an International Debit Card in association with VISA (Visa Electron). In the year 2001, they started their Credit Card business. Also, they became the first private sector bank to be authorized by the Central Board of Direct Taxes (CBDT) as well as the RBI to accept direct taxes. During the year, the Bank made a strategic tie-up with a Bangalore-based business solutions software developer, Tally Solutions Pvt Ltd for developing and offering products and services facilitating on-line accounting and banking services to SMEs. During the year 2001-02 the bank was listed on the New York Stock Exchange. Also, they made the alliance with LIC for providing online payment of insurance premium to the customers. During the year 2006-07, they commenced direct lending to Self Help Groups. Also, they opened a dedicated branch for lending to SHGs, in Thudiyalur village (Tamil Nadu).

On 26/2/200 the merger of Times bank ltd with HDFC Bank which is considered as one of the biggest merger in domestic banking was formally approved by Reserve Bank of India to complete the statutory and regulatory approval process. The shareholders of Times bank ltd received 1 share of HDFC Bank for every 29 shares of TBL The merger has been advantageous to HDFC Bank in terms of increased branch network, geographic reach, and customer base, and a bigger pool of skilled manpower (Sai and Sultana, 2013).

**Financial Ratios of HDFC Bank**

The various financial ratios of HDFC bank were calculated and the results are presented in Table-1.

**Financial Ratios of HDFC Bank**

Table: 1

Financial Ratios	Before Merger					After Merger				
	2002	2003	2004	2005	2006	2007	2009	2010	2011	2012
	(-5)	(-4)	(-3)	(-2)	(-1)	(+1)	(+2)	(+3)	(+4)	(+5)
Gross Profit Margin	78.49	76.52	74.17	71.12	69.94	74.76	74.67	76.29	78.74	80.56
Net Profit Margin	25.74	23.35	21.52	19.46	16.57	13.75	18.23	19.70	21.64	23.72
Operating Profit Margin	52.18	55.35	53.12	46.01	47.93	54.61	51.12	54.54	52.27	55.19
Return on Capital Employed	1.34	1.42	1.29	1.19	1.25	1.23	1.33	1.42	1.52	1.63
Return on Equity	98.79	158.64	214.78	278.08	357.38	527.75	644.19	843.97	908.64	998.34
Debt-Equity Ratio	68.17	95.54	134.39	192.75	222.65	342.04	393.94	479.29	567.65	652.72

In before merger periods, the Gross Profit Margin and Net Profit Margin show a declining trend. The Return on Equity and Debt-Equity Ratio exhibit an increasing trend. But, Operating Profit Margin and Return on Capital Employed show mixed trend.

In after merger periods, Gross Profit Margin, Net Profit Margin, Return on Capital Employed, Return on Equity and Debt-Equity Ratio show an increasing trend, but Operating Profit Margin shows mixed trend.

In order to examine the difference in financial ratios before and after merger of the banks, the mean, standard deviation and t-values are worked out and the results are presented in below,

**Mean, Standard Deviation and t-Values of Financial Ratios of HDFC Bank Before and After Merger**

Table: 2

Financial Ratios	Merger	Mean	Standard Deviation	t-Value	Sig
Gross Profit Margin	Before	74.05	3.58	75.066	0.000
	After	77.00	2.58		
Net Profit Margin	Before	21.33	3.53	15.815	0.000
	After	19.41	3.78		
Operating Profit Margin	Before	50.92	3.84	54.473	0.000
	After	53.55	1.76		
Return on Capital Employed	Before	1.30	0.09	0.919	0.382
	After	1.43	0.16		
Return on Equity	Before	221.53	100.89	4.805	0.001
	After	784.58	193.83		
Debt-Equity Ratio	Before	142.70	64.70	4.853	0.001
	After	487.13	126.19		

The results show that the mean values of all the ratios except Net Profit Margin are found to be more after merger compared to before merger. This indicates that the financial performance of HDFC bank has improved in terms of Gross Profit Margin, Operating

Profit Margin, Return on Capital Employed, Return on Equity and Debt-Equity Ratio in the after merger periods.

The results reveal that the t-values are significant at one per cent level for all the financial ratios except Return on Capital Employed. It shows that there is a significant difference in Gross Profit Margin, Net Profit Margin, Operating Profit Margin, Return on Equity and Debt-Equity Ratio between before and after merger.

Enterprise Value (EV): The EV of HDFC Bank has significantly improved after the merger. After using the independent sample t-test, the p- value of EV is 0.00 which is less than 0.05 at 5% level of significance; therefore it is statistically significant. Therefore null hypothesis is rejected and alternative hypothesis is accepted. This means that the EV of HDFC bank has significantly increased after the merger with Times Bank Ltd.

#### 7.CONCLUSION

Merger is highly useful tool for growth and expansion in banks. Mergers in banking sector are a form of horizontal merger because the merging entities are involved in the same kind of activity. By the way of mergers and acquisitions in the banking sector, the banks can achieve significant growth in their operations, minimize their expenses to a considerable extent and also competition is reduced because merger eliminates competitors from the banking industry. The analysis of before and after merger of Times bank Ltd with HDFC bank indicates that after merger, Gross Profit Margin, Net Profit Margin, Return on Capital Employed, Return on Equity and Debit-Equity Ratio shows an increasing trend, but Operating Profit Margin shows mixed trend. The results also show that there is a significant difference in Gross Profit Margin, Net Profit Margin, Operating Profit Margin, Return on Equity and Debt-Equity Ratio between before and after merger. It is concluded that the financial performance of bank has increased after merger.

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