EVALUATION OF SYNERGETIC PERFORMANCE IN POST MERGER- A CASE STUDY OF HDFC BANK WITH TIME BANK LIMITED

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***Abstract*- In today' business merger and acquisition play an important role in expanding and diversifying the business. In this paper an industry named HDFC BANK was taken by with TIME BANK ltd and the merger of these two created a good working condition. There is an positive and negative values with respect to profitability ratios, and in respect to efficiency ratios there is decrease in ratios after post – merger. And in the T- test output the level of significance is resulted with more than 0.05, and Ho is accepted. The study is based on the case of HDFC BANK with TIME BANK ltd, which was acquired by HDFC BANK with TIME BANK ltd., and shows that how the company's ratios were valued during pre and post- merger.**

I. INTRODUCTION

Mergers and acquisitions are among the most effective ways to expedite the implementation of a plan to grow rapidly. Companies in all industries have grown at lightning speed, in part because of an aggressive merger and acquisition strategy. The impact of technology and the Internet has only further increased the pace and size of deals. Buyers of all shapes and sizes have many of the same strategic objectives—to build long-term shareholder value and take advantage of the synergies that the combined firms will create—but each industry has its own specific objectives.

Merger and acquisition frenzy has created intense competition for the same target companies, where a premium is placed on price and speed. The fear in many boardrooms is that the company will be left out or left behind if it doesn't move quickly to acquire other businesses. Deals that used to take months to get done now close in a matter of days, especially if no regulatory approvals need to be obtained and no share holder and battles will take place as a condition for getting the deal completed. In this environment, acquisitions are moving so fast and are being bid up so high that the likelihood of problems and errors has increased dramatically. You need to be armed with as much knowledge and as many tools as possible to be an effective entrepreneur in this market place.

The terms "merger" and "acquisition" are often confused and used interchangeably by business and financial executives. On the face of it, the difference may not really matter since the net result is often the same: two companies (or more) that had separate ownership are now operating under the same roof, usually do obtain some strategic or financial objectives. However, the strategic, financial, tax and even cultural impact of the deal may be very different, depending on how the transaction is structured. Merger refers to two companies joining (usually through the shares) to become one. Acquisition occurs when one company, the buyer, purchase the assets or shares of another company, the seller, paying in cash, stock or other assets of value to the seller.

Mergers and acquisitions (M&A) is a general term that refers to the consolidation of companies or assets. M&A can include a number of different transactions, such as mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. In all cases, two companies are involved. The term M&A also refers to the department at financial institutions that deals with mergers and acquisitions**.**

II. BACKGROUND OF THE CASE

Although they are often uttered in the same breath and used as though they were synonymous, the terms merger and acquisition mean slightly different things.
A merger occurs when two separate entities (usually of comparable size) combine forces to create a new, joint organization in which –

theoretically – both are equal partners. For example, both Daimler-Benz and Chrysler ceased to exist when the two firms merged, and a new company, DaimlerChrysler, was created.

An acquisition refers to the purchase of one entity by another (usually, a smaller firm by a larger one). A new company does not emerge from an acquisition; rather, the acquired company, or target firm, is often consumed and ceases to exist, and its assets become part of the acquiring company. Acquisitions – sometimes called takeovers – generally carry a more negative connotation than mergers, especially if the target firm shows resistance to being bought. For this reason, many acquiring companies refer to an acquisition as a merger even when technically it is not.

Legally speaking, a merger requires two companies to consolidate into a new entity with a new ownership and management structure (ostensibly with members of each firm). An acquisition takes place when one company takes over all of the operational management decisions of another. The more common interpretive distinction rests on whether the transaction is friendly (merger) or hostile (acquisition).

In practice, friendly mergers of equals do not take place very frequently. It's uncommon that two companies would benefit from combining forces and two different CEOs agree to give up some authority to realize those benefits. When this does happen, the stocks of both companies are surrendered and new stocks are issued under the name of the new business identity.

Since mergers are so uncommon and takeovers are viewed in a derogatory light, the two terms have become increasingly conflated and used in conjunction with one another. Contemporary corporate restructurings are usually referred to as merger and acquisition (M&A) transactions rather than simply a merger or acquisition. The practical differences between the two terms are slowly being eroded by the new definition of M&A deals. In other words, the real difference lies in how the purchase is communicated to and received by the target company's board of directors, employees and shareholders. The public relations backlash for hostile takeovers can be damaging to the acquiring company. The victims of hostile acquisitions are often forced to announce a merger to preserve the reputation of the acquiring entity.

HDFC Bank merged with Times Bank in February 2000. This was the first merger of two private banks in the New Generation private sector banks category In 2008, Centurion Bank was acquired by HDFC Bank. HDFC Bank Board approved the acquisition of CBoP for 95.1 billion INR in one of the largest mergers in the financial sector in India.

Listening and shareholders:

The equity shares of HDFC Bank are listed on the Bombay Stock Exchange and the National Stock Exchange of India. Its American Depository Shares are listed on NYSE and the global depository receipt are listed on the Luxembourg Stock Exchange where two GDRs represent one equity share of HDFC Bank.

III. LITERATURE REVIEW

According to Ravenscraft and Scherer (1989), the profitability of target companies are decline after an acquisition. **Rovit et al. (2004)** prove their argument after deep analyses of 724 Unites States based firms over fifteen years of research from 1986 to 2001, that most of the successful companies creating long term shareholders value to be frequent strong acquirers that maintain as table programme of transaction throughout economic busts and boom. **According to Beer et al 91993),** the company which is going for mergers and acquisition need to change the culture to fit the strategy. **According to Drennan (1992),** every organization has got its own culture. **The Larson and Gonedes (1969)** model holds that the exchange ratio will be determined by each firms assessment of the post merger price / earnings multiple and postulates that each firms requires that its equivalent price per share be at least maintained as a result of the merger. **(Papadakis, 2005)** This is the fastest and more effective way to expand the business in to the new market in the new country. **According to Flowler and Schmidt (1998),** the only way to globalize the business, to make good profit and growth is the Mergers and Acquisition. **According to Bellou (2007),** most of the mergers end up in failure in the global market. Calculations prove that 50% to 80% of the mergers and acquisition are failure because they are performing low than the expected according to different industry and measures. **(Lowe, 1998)** In order to cover the share price movement, synergy and cost reductions, most of the firms including the banks are announcing for immediate pre-merger strategies.

IV. OBJECTIVE

To study the synergies behind merger or acquisition.

V. RESEARCH METHODOLOGY

5.1 Type of research:
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.
5.2 Sources of data:
Secondary Data: The secondary data were collected through websites, journals, periodicals and text books.

5.3 Sampling design:
Sample:

Sl no	Acquiring	Acquired	Deal value	Year of occurance	Strategic motives
1	HDFC BANK	TIMES BANK LTD	$ 60 billon	2009	Night mare scenario that would be strategic

5.4 Hypotheses:
The Hypothesis is taken based on objectives of the study to prove or disprove the below statement
H_0: There is no change in synergetic performance in the post-acquisition

5.5 Tools Used for study:
1. Statistical tool
A) descriptive statistics
a. Mean: The mean is the average you're used to, where you added up all the numbers and then divide by the number of number.
b. Standard Deviation: Standard deviation is a measure of the dispersion of a set of data from its mean. Its calculated as the square root of variance each data point relative to mean.
c. Kurtosis & Skewness: It is a measures of the tiredness of the probability distribution of a real valued random variables.
Skewness is a term in statics used to describe asymmetry from the normal distribution in a set of statistical data. Skewness can come positive or negative skewness.
T-Test: A test is most commonly applied when the test statistic would follow a normal distribution if value of a scaling term in the test statistic were known.

B. Financial Tool
1. Ratios: In this study financial ratio are used for analysis of the companies based on the financial statements of both the company's.

VI. DATA ANALYSIS AND INTERPRITATION

Key Financial Ratios

PARTICULARS	Dec 10	March 10	March 09	March 08	March 07
Gross profit margin	-3.97	1.40	5.97	-4.59	2.77
Net profit margin	-7.26	-4.13	0.17	-13.42	-3.92
Return on capital employed	0.94	2.63	9.54	-5.49	3.50
Return on net worth	-9.38	-56.45	1.88	-125.93	-12.28

Return on Assets Excluding Revaluations	69.59	5.25	8.21	8.05	18.19

Gross Profit Ratio - since in the year march 2007 the value is positive and the same is also in 2009 and 2010. But there is negative value in March 2010 and in Dec 2010.

Net Profit Ratio – there is negative value in March 2007 as well as in March 2008, but there is a positive result in March 2009 and again there is a negative value in march 2010 and in Dec 2010.

Return on Capital Employed - there is a positive values in all the years accept in the year march 2008.

Return on net worth – there is negative value in the all the years accept in the year march 2009.

Return on assets excluding evaluations - the last year resulted in positive values, with an increase in the year Dec 2010 by 69.59.

Efficiency Ratios

PARTICULARS	Dec 10	March 10	March 09	March 08	March 07
Inventory Turnover Ratio	3.53	6.80	6.45	7.18	3.95
Debtors Turnover Ratio	9.17	12.40	15.59	14.85	17.88
Fixed Assets Turnover Ratio	0.34	0.64	0.79	0.69	1.20
Total Assets Turnover Ratio	0.60	1.35	1.51	1.27	1.15
Asset Turnover Ratio	0.70	1.03	1.50	1.18	1.12

Inventory Turnover Ratio – in the year march 2007 there is a decrease in the inventory turnover ratio, but there is huge increase in the next 3 consecutive years, but in the year Dec 2010 there is decrease by 3%.

Debtors Turnover Ratio – there is an increase in the debtors' turnover in all 4 years, but there is a slight decrease in the year Dec 2010 by 3%.

Fixed Assets Turnover Ratio – there is an increase only in the year march 2007, where for all the rest of the years there is slight variations of ratios.

Total Assets Turnover Ratio – there is increase of ratio in all the years, except in the year Dec 2010 there is decrease.

Asset Turnover Ratio – since in all the years it is showing positive values, except in the year Dec 2010, there is a slight decrease.

Data Analysis

One-Sample Test

	T	Df	Sig.(2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
GPM	0.156	4	0.883	0.316	-5.292	5.924
NPM	-2.528	4	0.065	-5.712	-11.986	0.562
ROCE	0.922	4	0.409	2.224	-4.476	8.924
RONW	-1.715	4	0.161	-40.432	-105.881	25.017

ROA	1.801	4	0.146	21.858	-11.831	55.547

Sources: Authors Calculation SPSS data base

From the above table the calculation of one sample T- test considering the period of 5 years using the profitability ratios of the firms. The study found that the entire profitability ratios t- test resulted in positive as well as negative with the degree of freedom at 4. The study found that GPM, ROCE, ROA resulted in more than 0.05 significance level therefore it is stated that there is no significant changes in the profitability ratio with respect to GPM, ROCE & ROA, therefore Ho is accepted. Henceforth, it's proven that there is no significant change in synergetic performance in post-acquisition.

VII. FINDINGS AND RECOMMENDATIONS

- After post – merger the acquisition of brookbond by brookbond with lipton ltdthe combination of these two companies resulted in largest tile company in the country.
- Also after post – merger the profitability ratios were both positive as well as negative values.
- The Key Financial Ratios the values which resulted in positive are Gross Profit Margin in the year march 2007, 2009, and 2010.
- The Return on Capital Employed resulted in positive values for all the years except in the year march 2008.
- After the post- merger the Return on Capital Asset Excluding Revaluation resulted in sharp increase in the year Dec 2010, it also stood positive in the previous 4 years.
- And the efficiency ratios resulted in increase and decrease in the value.
- The inventory turnover ratio resulted an increase values in the year march 2008, 2009, 2010. Except in the year Dec 2010 after the post - merger and before pre – merger March 2007 there was a slight decrease in the values.
- After the post – merger the Debtors Turnover ratio decreased by 3% in the year Dec 2010, when compared to the previous year it was increased in good numbers.
- The fixed assets turnover ratio, total assets turnover, asset turnover ratio, the values decreased after the post- merger, except that of debtors' turnover ratio.
- The t- test output resulted that there is no significant changes in post synergetic performance in post- acquisition.
- The company needs to concentrate on gross profit margin to increase the profits after post-merger.
- Since the post- merger the profitability ratios and efficiency ratios were decreased, therefore the company needs to analyze more on increasing the efficiency and business.
- Also the company needs to find an alternative in case if it cannot perform well even after the post-merger.
- Since Bell Orient is the acquirer, the company can design its own way of expanding and diversifying the business around the country.

VIII. CONCLUSION

The company can make a good turnover if it concentrates more on Profitability Ratios and Efficient Ratios, the company needs to follow a good strategy for achieving the desired result since the ratio turnover are varying when it was merged it needs to focus on how to improve its performance and bounce back in the market to provide good services to the customers also it needs to increase its brand image to survive in the market, since it was new acquisition the company needs to adjust with new strategies and achieve them within the targeted time.

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