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Analysing Premerger and Post merger Financial Performance: Merger and Acquisition between Centurion Bank of Punjab and HDFC

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Abstract—*Volume of M&A in India in 2009 have grew two fold from 2008 and four times compared to 2007. (M&As) activities of Indian companies slowed down in 2013 to a total of nearly 500 deals worth $27 billion, but the momentum is set to pick up in 2014 especially after the elections. Important M&A in India in banking sector in recent years include the merger between IDBI (Industrial Development bank of India) and its own*
Subsidiary IDBI Bank. Another important merger was between Centurion Bank and Bank of Punjab in 2005 this merger led to the creation of the Centurion Bank of Punjab and later on 25 Feb, 2008 HDFC Bank acquired the Centurion Bank of Punjab (CBoP) for Rs 9,510 crore is one of the largest merger in the financial sector in India.
The objective of the project was to find out whether the merger and acquisition deal between the two banks (Centurion Bank and Bank of Punjab and HDFC) was successful or not. On an all this merger shows good result on their balance sheet and improves in their profitability, solvency, leverage ratios etc.

1. INTRODUCTION

A merger is the combination of two similarly sized companies combined to form a new company. The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock is called a merger. A fundamental characteristic of merger is that the acquiring company (existing or new) takes over the ownership of other companies and combines their operations with its own operations.

On the other hand acquisition occurs when one company clearly purchases another and becomes the new owner. Mergers and acquisitions are strategic decisions taken for maximisation of a company's growth by enhancing its production and marketing operations. They are being used in a wide array of fields such as information technology, telecommunications, and Banking sector in order to gain strength, expand the customer base, cut competition or enter into a new market.

M & A in the banking sector it has the capacity to ensure efficiency, profitability and synergy. Deregulation in the financial market, market liberalization and a number of other factors have played important role behind the growth of mergers and acquisitions in the banking sector. Though, there are many challenges that are still to be overcome through appropriate measures. Mergers and acquisitions in banking sector are forms of horizontal merger because the merging entities are involved in the same kind of business or commercial activities. Banks can achieve significant growth in their operations and minimize their expenses to a considerable extent.

In the banking sector, important mergers and acquisitions in India in recent years include the merger between IDBI (Industrial Development bank of India) and its own subsidiary IDBI Bank. The deal was worth $ 174.6 million (Rs. 7.6 billion in Indian currency). Another important merger was between Centurion Bank and Bank of Punjab worth $82.1 million (Rs. 3.6 billion in Indian currency), this merger led to the creation of the Centurion Bank of Punjab with 235 branches in different regions all over India.

2. PROFILE OF THE CENTURION BANK OF PUNJAB

Centurion Bank was incorporated on 30 June 1994 and received its certificate of Commencement of Business on 20 July. Centurion Bank was a joint venture between 20th Century Finance Corporation and its associates, and Keppel Group of Singapore through Kephinance Investment (Mauritius). Centurion had a network of ten branches, which grew to 29 branches the next year. Also in 1995 Centurion Bank amalgamated 20th Century Finance Corporation.

On 29 June 2005, the boards of directors of Centurion Bank and Bank of Punjab agreed to a merger of the two banks. The combined bank took as its name **Centurion Bank of Punjab**. Bank of Punjab had been founded in 1994. The next year Centurion Bank of Punjab acquired Kochi based Lord Krishna bank.

The **Centurion Bank of Punjab** (formerly **Centurion Bank**) was an Indian private sector banks that provided retail and corporate banking services. It operated on a strong nationwide franchise of 403 branches and had over 5,000 employees. The bank listed its shares on the major Indian stock exchanges and on the Luxembourg Stock Exchange. On 23 May 2008 HDFC acquired Centurion Bank of Punjab. As per the scheme of amalgamation, shareholders of CBoP received 1 share of HDFC Bank for every 29 shares of CBoP.

The amalgamation added significant value to HDFC Bank in terms of increased branch network, geographic reach, and customer base, and a bigger pool of skilled manpower

Profile of HDFC bank

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of RBI's liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

HDFC Bank is headquartered in Mumbai. As of March 31, 2015, the Bank's distribution network was at 4,014 branches in 2,464 cities. All branches are linked on an online real-time basis. Customers across India are also serviced through multiple delivery channels such as Phone Banking, Net Banking, Mobile Banking and SMS based banking. The Bank's expansion plans take into account the need to have a presence in all major industrial and commercial centres, where its corporate customers are located, as well as the need to build a strong retail customer base for both deposits and loan products. Being a clearing / settlement bank to various leading stock exchanges, the Bank has branches in centres where the NSE / BSE have a strong and active member base.

The Bank also has a network of 11,766 ATMs across India. HDFC Bank's ATM network can be accessed by all domestic and international Visa / MasterCard, Visa Electron / Maestro, Plus / Cirrus and American Express Credit / Charge cardholders.

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3. OBJECTIVES OF THE STUDY

1. To analysis what is the effect of merger on the merged company in its growth and size and on its profit and loss account, whether its net profit has increase/decrease or to see whether the expenses has increase/ decrease.
2. The purpose of this piece of research was to find out the overall impact of the post merger and acquisition on the overall industry and to see whether this merger was successful or not.
3. Financial analysis has been done, it is a process of identifying strength and weakness of the firm properly an establishing relationship between the items of the balance sheet and the profit & loss account.

4. RESEARCH METHODOLOGY

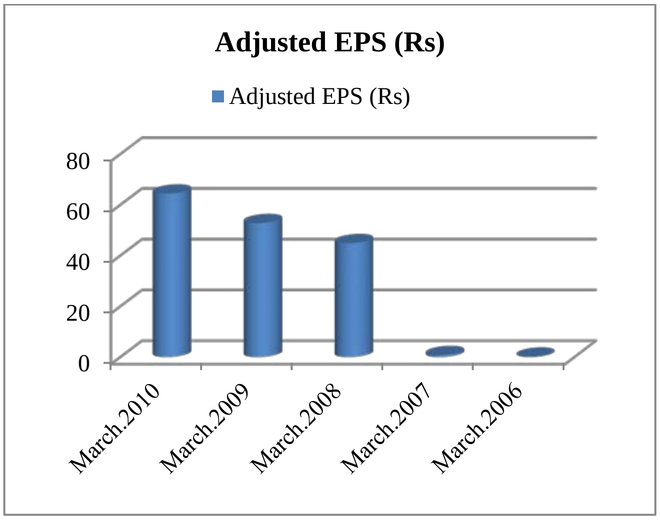
The research methodology applied in the study is descriptive in nature.

Secondary Data is used. It is considered as year from March 2006- march 2010. Profitability, solvency, liquidity and other ratios are use for the analysis purpose. It includes EPS, NET WORTH, GROSS PROFIT MARGIN, CURRENT RATIO etc.

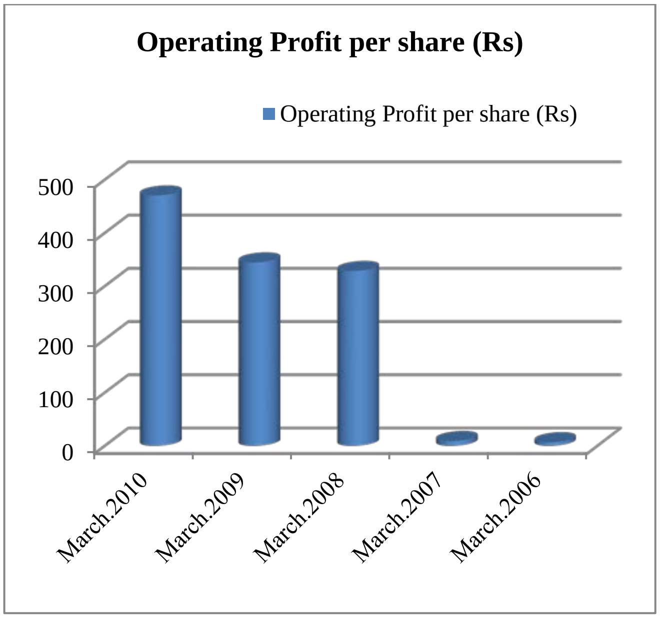
Ratio of Centurion Bank of Punjab and HDFC

	Mar 2010	Mar 2009	Mar 2008	Mar 2007	Mar 2006
Per Share Ratio					
Adjusted EPS (Rs)	**64.42**	**52.77**	**44.87**	**0.76**	**0.16**
Operating Profit per share (Rs)	**106.25**	**92.36**	**107.32**	**1.65**	**0.80**
Book value (Excl Rev Res) per share (Rs)	**470.19**	**344.44**	**328.38**	**8.91**	**6.61**
Net operating income per share (Rs)	**436.03**	**464.77**	**348.57**	**10.51**	**7.41**
Profitability Ratio					
Net profit margin (%)	**14.76**	**11.35**	**12.82**	**7.25**	**8.28**
Adjusted return on net worth (%)	**13.68**	**15.29**	**13.82**	**8.61**	**2.54**
Leverage ratio					
Total debt/equity	**7.78**	**9.75**	**8.76**	**10.65**	**10.09**
Fixed assets turnover ratio	**0.11**	**0.14**	**0.13**	**1.77**	**1.18**
Liquidity ratio					
Current ratio	**0.03**	**0.04**	**0.04**	**0.63**	**0.54**
Quick ratio	**7.14**	**5.23**	**4.89**	**10.15**	**8.03**

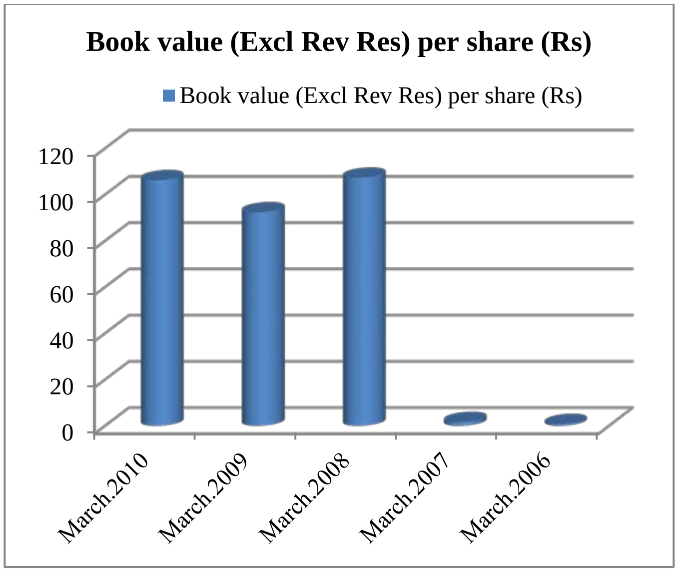
Data analysing and interpretation



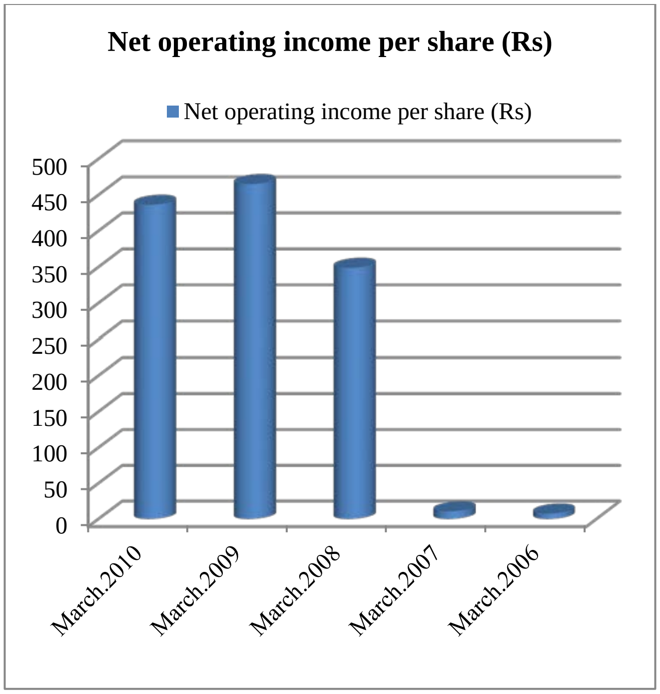
EPS is the portion of a company profit allocated to each of its outstanding share. EPS is low in March 2006 and 2007 but after merger it is improving continuously. It is a good sign of merger.



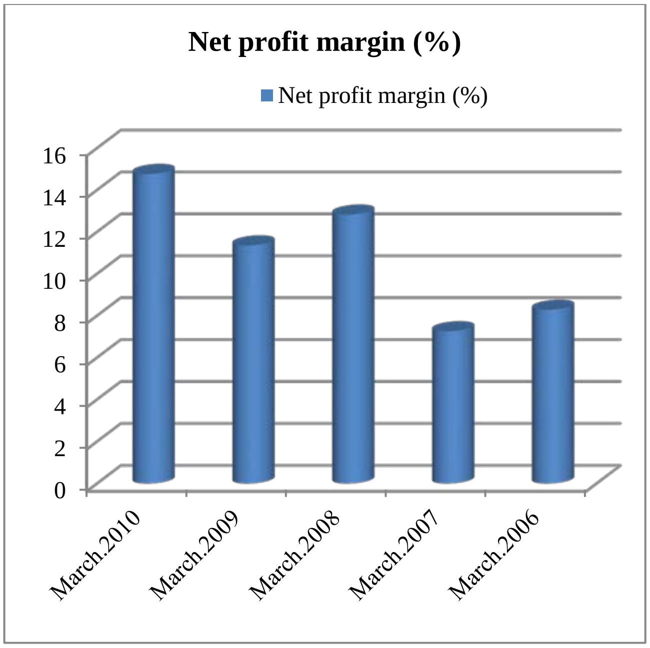
Operating profit is profit earned from a firm's normal core business operations. Profit after tax subtracts expenses such as market expenses, COGS, administrative and many more. In 2006 and 2007 operating profit is low but after the merger it shows a high jump and reaches to 106.25. Higher the operating profit good will be the financial position of the company.



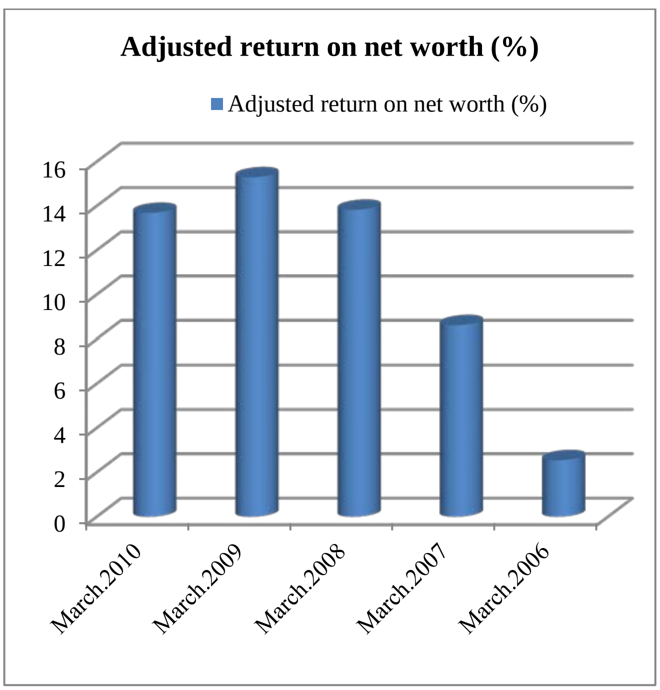
Book value is the value of the asset as appear on the balance sheet which is equal to the cost subtracted accumulated depreciation. The fig. clearly shows that Book value goes to increase from 2006 to 2010 which is a positive financial indicator and continuous growth.



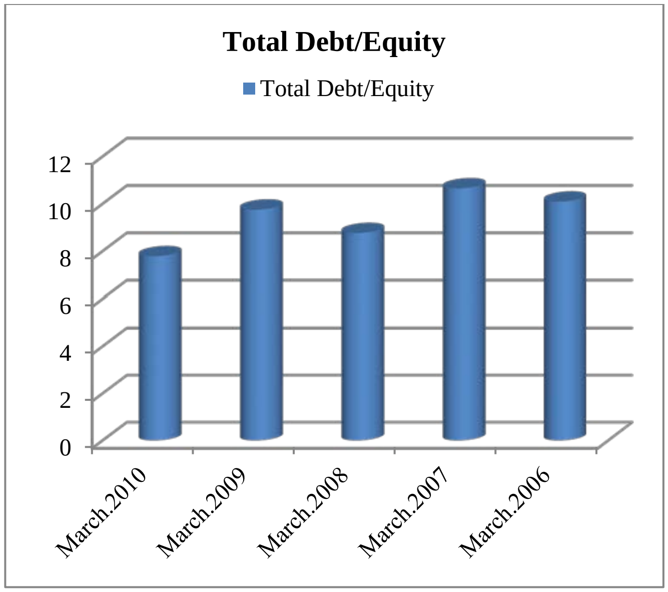
A company's **operating income** after operating expenses are deducted, but before income taxes and interest are deducted. If this is a positive value, it is referred to as net operating income, while a negative value is called a net operating loss (NOL) .NOI also shows positive sign from 2006 to 2009 and slight low in 2010. Thus it indicates that NOI of the bank has increased after merger.



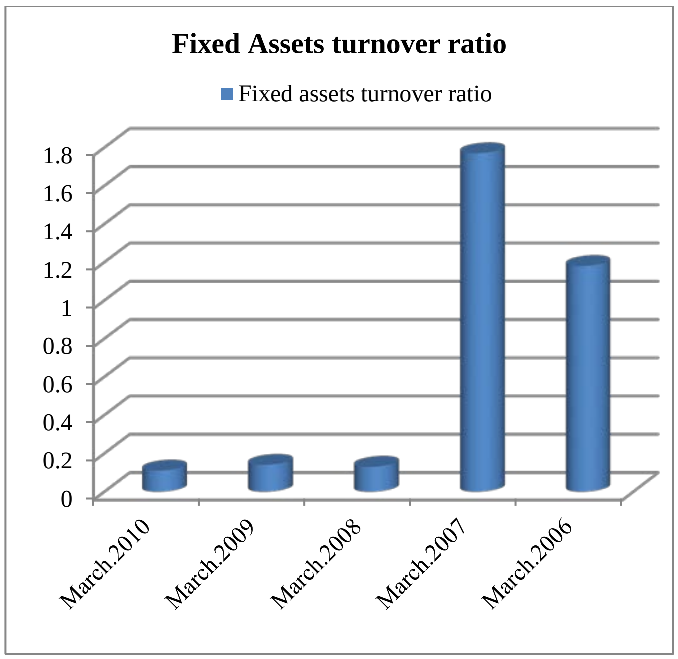
Shareholders look at **net profit margin** closely because it shows how good a company is at converting revenue into profits available for the shareholders. This fig. depicts that net profit margin has increased from 2006 to 2010 and continuously increasing shows that management is very effective.



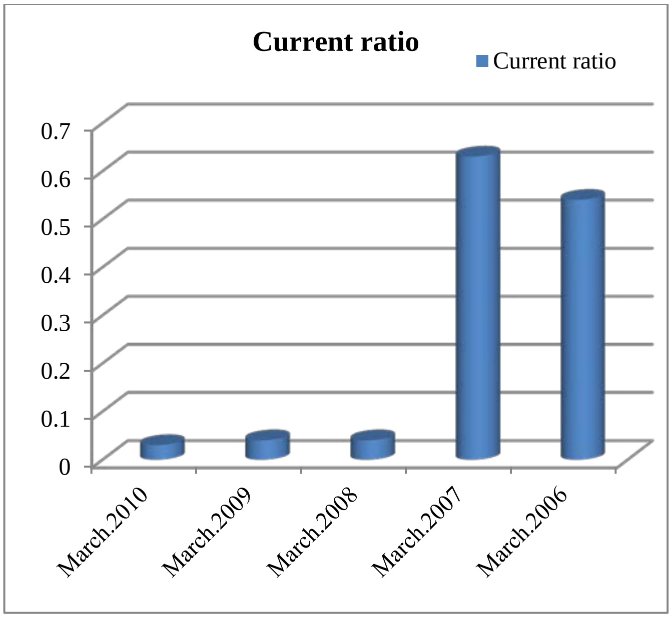
Net worth can be used to determine creditworthiness because it gives a snapshot of the company's investment history. Here Net worth improves from 2006 to 2009 after merger which is a good indicator. But in 2010 it decreases.



Debt-equity ratio indicates what proportion of equity and debt the company is using to finance its assets. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense. In the fig. debt equity ratio is going down after merger but in 2009 it increased and in 2010 again falls down to the lowest.

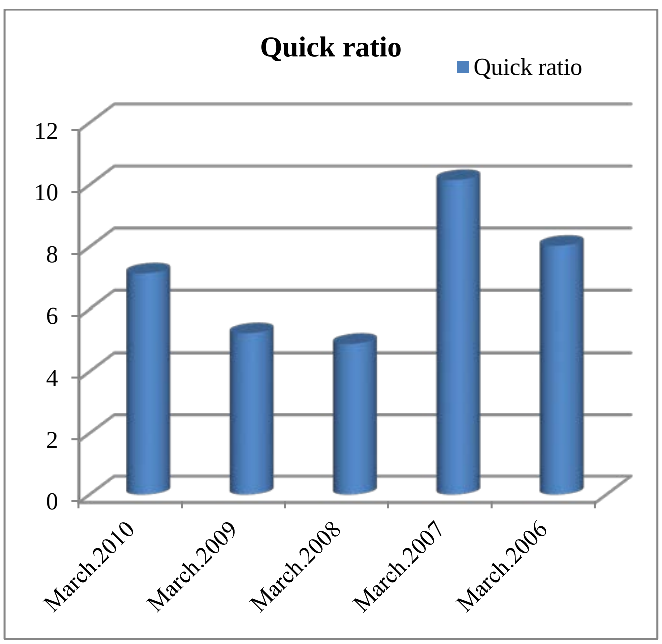


Fixed asset turnover ratio helps in knowing the efficiency of utilizing fixed assets. This ratio helps the firm ability in generating sales from the financial resources to total asset. Here turnover is keep on falling after the merger which means that the bank can not generate more of the revenue from their fixed assets.



Current ratio measures a company ability to pay short term obligation .Higher the ratio more capable the company is paying its obligation. In this case the current ratio is going down after merger; it shows that the bank is not very good in paying its short term obligations.

Quick ratio established a relationship between liquid asset and current liabilities. A asset become liquid if it converted into a cash immediately. Generally quick ratio of 1 to 1 is considered satisfactory. In this fig. quick ratio falls after merger but from 2009 to 2010 showing the increase. A company with high quick ratio can suffer from the shortage of funds and company with low quick ratio is prospering and paying current obligation on time.



5. CONCLUSION

Evidence indicates clearly that on average there is a statistically significant gain in value or in the performance of Banks after merger activity. It is true by looks at accounting data. The bank's profitability also improved. The combined entity have a nationwide network of 1,148 branches (the largest among private sector banks) a strong deposit base of around Rs. 1,200 billion and net advances of around Rs. 850 billion. (At the time of merger).

All these analysis, ratios and the post merger impact shows that the merger activity has become good for both the banks. They overall efficiency and the productivity increases. The services and the value of the 2 combine bank has seen a rapidly positive change .So this merger was a successful for these banks.

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