Implications of Ratios in Pre and Post-Acquisition- A Case Study Bank of Baroda and Banaras Bank

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Abstract- **In present days, the concept of merger and acquisitions are more common and an important term for every business to reduce their risks and to get more profits with the different strategies. The purpose of this study is to know the impact of change in BANK OF BARODA AND BANARAS BANK. The study used descriptive statistics and financial (mean, standard deviation, kurtosis and skewness) and T-test as the statistical tools and free cash flow to the firms as financial tool. The study period consisting the 5 years from 2013 to 2017.**

Index Terms- **mergers and acquisition.**

1. 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.

2. BACKGROUND OF THE CASE

BANK OF BARODA
Maharajah of Baroda Sir Sayajirao Gaekwad III founded the bank on July 20, 1908 in the princely state of Baroda, in Gujarat. The bank, along with 13 other major commercial banks of India, was nationalized on 19 July 1969. The bank has been ranked 283rd biggest bank in the world by The Bankers (June 2009), London. Its total global business was Rs. 7,003.30 billion as of 30 Sep 2012. Its headquarter is in Vadodara and corporate headquarter is in Bandra Kurla Complex Mumbai.

BANARES STATE BANK (BSB)
Benares State Bank (BSB) Established in 1946 promoted by the Maharaja of Banaras. It was converted into a public limited company with 3

branches in Varanasi. In 1964 Bareilli Bank Ltd. with 7 branches was merged with this bank. The bank also took over the Lucknow Bank Ltd. in 1968. Benares State Bank had 105 branches, out of which 91 are in Uttar Pradesh. It had a total staff of 1,400. The Banaras State Bank was in loss consecutively for last three years when merger took place on 20.06.2002 and turned insolvent with negative net worth and negative capital adequacy and finally the BOB has taken over 105 branches of BSB under the directive of RBI & Government of India with the objective of safeguarding the interest of depositors of BSB. As at that point of time most banks in India where trying to expand their customer base and thereby increase the consumer banking business. Benares State Bank helped Bank of Baroda in this aspect.

Strategic Focus:
• Vertical Integration
• Focus on Key High Growth Markets
• Growth through M&A
• Cost Efficiency
• R&D and Innovation
• Focus on Customer Satisfaction

3. LITERATURE REVIEW

Mergers and acquisition have become common phenomenon in recent times. Mergers & Acquisitions (M&A) are the strategic growth devices in the hands of more and more Companies not only to stay in the competition but also to extend their margins, market share and dominance globally.

The development of mergers & acquisitions (M&A) is not an invention of recent times. The first appearance of M&A in a high frequency evolved at the end of the 19th century. Since then, cyclic waves are observed with different waves emerging due to radical different strategic motivations. To keep the head high in globalized economy one has to follow the path of growth, which contains various challenges and issues; one has to overpower these challenges and issues to become a success story. When considering the impact of mergers and acquisitions on the market value of shares, the authors study how the performance of the bidder institution or/and the target bank grows or remains the same.

M&A's have many potential benefits, which mainly focus boosting profits and shareholder value through the economies of scale produced by increasing market share, the expended use of an existing distribution network by the acquisition of new products capabilities, the extension of a strong product capabilities into new markets and the diversification of products and market risks. Reasons behind decision to participate in M & A dealers Growth, Synergy and Access to intangible assets The extensive literature on the implications of M&A produces mixed results regarding the merits of M&A on outcomes for specific stakeholder groups, with most attention going to shareholders Acquiring-firm shareholders may suffer from overpayment, while target-firm shareholders may benefit in the short term, although some claim that the question remains unsettled.Some of the Reasons of Failure the mergers and acquisitions are Cultural differences, Lack of Experience and Knowledge, External Environment and Over-optimism.

4. OBJECTIVES OF THE STUDY

To ascertain the changes in leverage position in pre and post-merger and acquisition.

5. RESEARCH METHODOLOGY

5.1Type of research:
Descriptive research – Descriptive research study is used to describe the characteristics of a population or phenomenon being studied. It does not answer questions about how/when/where/why the characteristics occurred.

5.2Sources of data:
Secondary data - Secondary data are data which are already collected and published by others, and they are journals, articles, company records, books, websites, etc.

5.3Sampling design:
It is a part of the target population, which can be an individual element or group from within a statistical resident to estimation the characteristics of the entire population.
Sample:

Acquiring	Acquired	Type of activity	Deal value	Year of occurrence	Strategic motive
Banaras(India)	Bank of Baroda	Merger	$1.7 billions	July 2003	Improving market efficiency as well as performance of both the banks. development in global level and maintain margin of solvency.

5.4 HYPOTHESIS OF THE STUDY

There is no significant change of performance in pre and post-merger and acquisition.

5.5 Tools for the Study:

5.5.1 Statistical Tools –

(i) Descriptive Statistics – These are used to describe the basis features of the data in a study. They provide simple summaries about the sample and the measures.

Mean – Simple or arithmetic average of a range of values or quantities, computed by dividing the total of all values, also called Arithmetic mean.

Standard Deviation – It is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean.

Kurtosis & Skewness

Skewness is a measure of symmetry, or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the same to the left and right of the centre point.

Kurtosis is a measure of whether the data are heavy-tailed or light-tailed relative to a normal distribution.

(ii) T Test –A t-test is an analysis of two populations means through the use of statistical examination; s t-test with two samples is commonly used with small sample sizes, testing the difference between the samples when the variance of two normal distributions are not known.

(iii) Financial tool

Ratios – A ratio is a relationship between two numbers indicating how many times the first number contains the second. It is a quantitative analysis of information contained in a company's financial statements. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency.

6.ANALYSIS AND INTERPRETATION:

The following study is to analyse the impact of changes in ratios in pre-and post acquisition Banaras and bank of Baroda. The study has consisting the period from 2013 to 2017. The study use both statistical and financial tools for data analysis and interpretation.

Table no 6.1

Particulars	2013	2014	2015	2016	2017
Debt Equity Ratio	3.39	3.13	--	9.05	5.88
Long Term Debt Equity Ratio	2.71	2.3	--	6.78	3.95
Interest Cover	-1.9	-0.52	-0.61	3.7	1.96
Financial Charges Coverage Ratio	-1.62	-0.35	-0.43	4.58	2.4
Financial Charges Coverage Ratio Post Tax	-2.54	0.24	-5.63	2.14	1.83

The above table shows that the pre and post-merger of bank is significantly decrease and increase in every year compared to 2013 to 2017, i.e. 3.39-5.88 in debt equity ratios. The pre and post-merger of bank of the bank is also increasing in every year from 2013 to 2017, i.e 2.71 to 3.95 in long term debt equity ratio. the interest cover of the bank decrease and increase in a 2013 to 2017 is -1.91 to 1.96 the financial coverage also decreasing and increasing 2013 to 2017 is-1.62 to 2.4. The company have financial charges in post-tax in a 2013 to 2017, i.e. -2.54 to 1.83.

Descriptive analysis: Table no 6.2

Particulars	Debt-Equity ratio	Long term Debt-Equity ratio	Interest cover	Financial charges coverage ratio	Financial charges coverage ratio post tax
Mean	4.29	3.148	0.526	0.916	-0.792
Standard Deviation	3.381767	2.482714	2.258358	2.523535	3.278654
Kurtosis	0.22822	0.988017	-1.11751	-0.84015	-0.64962
Skewness	0.329954	0.450259	0.652454	0.821371	-0.87781
Minimum	0	0	-1.9	-1.62	-5.63
Maximum	9.05	6.78	3.7	4.58	2.14

The mean of the firm is frequently decreasing from 2013 to 2017, i.e. 4.29 to -0.792 . The change in percentage of the bank is decreased from 2013 to 2017, and in 2017 it has . The kurtosis is negatively high from 2013 to 2017, and in 2015 it has negative value, i.e. (-1.11751). Skewness of the firm is positively skewed in 2013, 2016 and 2017, , it negatively skewed. The minimum value of the firm is in 2013 and 2017 is 0 to -5.63, and the maximum value of the firm is in 2013 to 2017 is 9.05 to 2.14

One-Sample Test Table no 6.3

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
DER	.006	4	.995	.0080	-3.477	3.493
LTDER	1.299	4	.264	.960	-1.092	3.012
INCOV	-1.305	2	.322	-2.223	-9.555	5.108
FCCOV	4.337	4	.012	5.250	1.889	8.610
FCCOVPT	4.171	4	.014	3.204	1.071	5.336

The above table1 the represents the calculation of one sample T test considering the study period of 2013 to 2017. The above table shows that all the variables of the t-test are positive. The degree of freedom of the bank is constant, i.e. 4. The mean differences in all the descriptive are have highly positive values. In equity debt, long term equity, financial equity also. the hypothesis (H0) is rejected, and there is an impact of changes in ratios of pre and post-acquisition. it has more than the standard value, hence hypothesis is rejected, and there is impact of performance in this case.

7. FINDINGS AND RECOMMONDATIONS

- Compared to 2013 to 2017, the ratios of the firm are positively decreased year by year.
- The ratios of the company is highly changes after the acquisition. And there is a highly decreased in it.
- The maximum value of the firm is also very decreased in 2014 to 2017
- There is a highly impact in ratios of the firm after the acquisition
- There is a poor working capital in their business activities
- There is a negative impact in the working capital of the firm
- There is a huge difference in mean of the banks,
- The degree of the freedom is constant in all the cases
- In 2017, ratios positive as well as the negative values, but when compared to 2013, it is highly decreased and the bank may not able to pay the interest and all to their investors
- The company is need to maintain their current assets and current liabilities to manage their day to day business activities properly.

- The company is need to select the best method of capital structure to pay the interest and dividends to their investors
- From the overall, the study observes that there is a highly negative impact in ratios of the of the bank in pre and post-acquisition

8. CONCLUSION

The concept of merger and acquisitions are an important part in the current world. The above study helps to know the impact of performance in pre and post-acquisition in bank of Baroda and Banaras bank. In this study, there is a positive impact of the performance in post-acquisition of bank of Baroda and Banaras. The company have to maintain an effective and best method of capital structure, to pay the interest and dividend to their investors and to run their businesses smoothly.

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