Impact of Mergers & Acquisitions on Operating Performance, Financial Performance & Shareholders Wealth: A Case Study of Centurion Bank and Bank of Punjab Merger

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Abstract

The mergers and acquisitions have acquired a prominent position in the corporate sector throughout the world. Mergers and acquisitions (M&A's) is one of the important strategies used by the corporate entities to attain growth and diversification, to enjoy operational synergy and to conquer new markets. The global integration has further forced the business organizations to follow the policy of mergers and acquisitions to survive and grow. The Indian corporate sector has also shown keen interest in this new business strategy. There has been an increase in both the number and size of mergers and acquisitions in the Indian corporate sector. However, in all the years, banking sector has emerged as one of the most opportunistic sectors in the sense that good number of M&A's have taken place in this sector. The merger of Centurion Bank and Bank of Punjab is regarded as one of the important merger deals in the Indian corporate sector. Keeping in view the size and significance of this merger, an effort has been made to assess the operating, financial performance and shareholders' wealth of this merger. To test the hypotheses that the merger has a positive impact on the operating and financial performance as well as on the shareholders wealth of both the financial institutions, financial ratios and relevant statistical tools have been used. The study is mainly based on the secondary data which has been collected from the annual reports available on various official websites. The study has revealed an insignificant positive impact on the shareholders wealth as well as on the operating & financial performance of the merging entity.

Keywords: Mergers and Acquisitions, Financial Ratios, Shareholders Wealth

Introduction

A firm can achieve growth either internally or externally. Internal growth can be achieved if a firm expands its operations or scales up its capacities by establishing new units or by entering newmarkets. But internal growth may be faced by several challenges such as limited size of the existing market or obsolete product category or government restrictions. Again firm may not have specialized knowledge to enter in to a new product/ market and above all it takes a longer period to establish new markets and yield positive returns. In such cases, external mechanism of growth namely merger and acquisitions (M&A's), takeovers or joint ventures may be utilized. In the globalized economy, merger and acquisition acts as an important tool for the behind the M&A's is to create synergy, which implies that one plus one is greater than two and this rationale beguiles the companies for merger at the tough times. Companies are confronted with the facts that only big players can survive as there is a cut throat competition in the market and the success of the merger depends on how well the two companies integrate themselves in carrying out day to day operations. One size does not fit for all; therefore many companies find the best way to go ahead is through merger and acquisitions. M&A's are generally aimed at achieving economies of scale, diversification, synergy and financial planning.

Indian economy has undergone a major transformation and structural change following the economic reforms introduced by the Government of India in 1991. Since then, the M&A movement in India has picked up momentum. In the liberalized economic and business environment, 'magnitude and competence' have become the focal points of every business enterprise in India, as companies have realized the need to grow and expand in business that they understand well as Indian corporate sector has under taken restructuring exercise to sell off non-core business and to create stronger presence in their core areas of business interest. M&A's emerged as one of the most effective methods of such corporate restructuring and have, therefore become an integral part of the long term business strategy of corporates in India.

Three distinct trends can be seen in the M&A activity in India after the reforms in 1991. Initially, there was intense investment activity, a wave of consolidation within the Indian industry, as companies tried to prepare for the potentially aggressive competition in the domestic and overseas market, through M&A's. In the second trend, visible since, 1995, there was an increased activity in consolidation of subsidiaries by multinational companies through the acquisition route. With liberalized norms in place for foreign direct investments (FDI's),Indian companies focused on capital and business restructuring, and cleaned up their balance sheets. There was consolidation in the domestic industries such as steel, cement and telecom. The third wave of M&A's in India, evident since 2002, is that of Indian companies venturing abroad and making acquisition in developed markets for gaining entry into the international markets. Indian companies have been actively pursuing overseas acquisitions in recent years. The opening up of Indian economy and financial sector, huge cash reserves following some years of great profits, and enhanced competiveness in the global markets have given greater confidence for big Indian companies to venture abroad for market expansion. Surge in economic growth and fall in interest rates have made the financing of such deals cheaper. Changes in regulations made by the finance ministry in India pertaining to overseas investments by Indian companies have also made it easier for the companies to acquire abroad. The past seven years have seen Indian corporates in several international merger and acquisition deals in developed and emerging markets. The rapid increase in number indicates that the mergers and acquisitions are being accepted as a vital means of corporate restructuring to achieve growth by expanding locally and internationally.

There has been an increase in both the number and size of mergers and acquisitions in different corporate sectors of Indian economy. However, in all the years, banking sector has emerged as one of the most opportunistic sectors in the sense that good numbers of M&A's have taken place in this sector. The banking sector is one of the most important instruments of the national development, thus occupies a unique place in a nation's economy. Economic development of the country is evident through the soundness of the banking system. Economic reforms have witnessed astounding changes in banking industry leading to incredible competitiveness and technological sophistication. Since then, every bank is relentless in their endeavour to become financially strong and operationally efficient and effective. Indian banks are the dominant financial intermediaries in the country. For expanding the operations and cutting costs, banks are using merger and acquisitions as a strategy for achieving larger size, increased market share, faster growth, and synergy for becoming more competitive.

Mergers And Acquisitions In The Indian Banking Sector

The Banking system in India started in 1770 with the establishment of first bank namely Bank of Hindustan. Later on, some more banks like the Bank of Bombay-1840, the Bank of Madras-1843 and the Bank of Calcutta-1840 were established under the charter of British East India Company. These Banks were merged in 1921 and took the form of a new bank known as the Imperial Bank of India. For the development of banking facilities in the rural areas, the Imperial Bank of India was partially nationalized on 1 July 1955, and named as the State Bank of India along with its 8 associate banks (at present 7). Later on, the State Bank of Bikaner and the State Bank of Jaipur merged and formed the State Bank of Bikaner and Jaipur. The history of Indian banking sector can be divided into two eras, the pre-liberalization era and the post-liberalization era. In pre-liberalization era, government of India nationalized 14 banks on 19 July 1969 and later on 6 more commercial banks were nationalized on 15 April 1980. In the year 1993, government merged “The New Bank of India” and “The Punjab National Bank” and this was the only merger between nationalized banks. In post-liberalization regime, government had initiated the policy of liberalization and licenses were issued to the private banks as well, which lead to the growth of Indian banking sector. The second Narasimham Committee (1998) had suggested mergers among strong banks, both in the public and private sectors.

During pre-nationalization period from 1961to 1968, 46 mergers have taken place, in the nationalized period from 1969 to 1992, the number of mergers were 13. During the post reform period i.e. from 1993 to 2006, 21 mergers have taken place.

Literature Review

Mergers and Acquisitions (M&A's) continue to be a significant force in the restructuring of the financial services industry. The Indian commercial banking sector has played a pivotal role in the country's economic development. With the onset of economic reforms, the banking sector in India has embarked upon mergers and acquisitions to capture the synergistic benefits like economies of scale and scope, in the face of increasing competition from domestic as well as foreign players and rapid technological developments. Several research studies have been conducted to study the various aspects of mergers and acquisitions. A brief review of some of the studies of M & A's in the banking sector has been given in the following para's with the purpose to get some perspective about the impact of M&A's on financial and other aspects of banking industry.

Mantravadi and Reddy (2008), found a positive impact of the mergers on the profitability of firms in the banking and finance industry in India. They studied a sample of firms in the period 1991 to 2003. The average pre-merger and post-merger performance of a set of financial ratios such as operating profit margin, gross profit margin, net profit margin, return on net worth, return on capital employed and debt-equity ratio were compared with the help of t-test for two-samples. However, the statistical test could not find any significant change in the performance of these financial ratios.

Mylonidis and Kelnikola (2005), examined the merging activity in the Greek banking system over the period 1999-2000. They took a sample of four acquirers and five target banks that were of relatively the same size and the non-merging banks that comprised of two large banks and two small banks were referred to as the control group. One of the major findings emerged from the study was that the profit, operating efficiency and labour productivity ratios of the acquirer and acquired banks did not show any post-merger improvement, when the comparison was made with the corresponding ratios of the control group.

Campa and Hernando (2006), while analysing European M&A's in the financial industry has found that the results were more aligned with the US results in terms of generating positive returns only for target banks and with slightly positive value creation for the bidder firms but economically not significant.

Antony Akhil (2011), examined the impact of mergers on profitability of selected banks in India from 1999 to 2011. Between 1999 and 2011, around 18 mergers took place in the Indian banking sector. Six merging banks were selected for the study, three of them were public sector banks and three were private sector banks. The findings of the study indicated that there was a significant improvement in the profitability ratios like of merging banks inthe post-merger scenario. The increase in profitability of banks was due to an increase in employee turnover and subsequent reduction in operation expenses.

Priya Bhalla (2012), studied the impact of mergers and acquisition on both the acquiring and the acquired firms belonging to the financial services sector for the period 1997-98 to 2007-08 .The study has revealed that the acquiring firms were indeed the one's characterized by greater size, better capital position, and asset management.

Adel A. Al-Sharkas, M. Kabir Hassan and Shari Lawrence (2008), studied the cost and profit efficiency effects of bank mergers in the US banking industry. The results indicated that mergers had improved the cost and profit efficiencies of the merged banks. The merging banks had lower costs than non-merged banks because of technical efficiency as well as a locative efficiency. Mergers allow the banking industry to take advantage of the opportunities created by improved technology and lead to efficiency gains by changing the input-output mix in a manner that optimized costs and revenues. It was also found that cost efficiency improvements for small bank mergers were greater as compared to large banks. However, mergers improved profit efficiency equally for both large and small banks.

Rhoades (1998), examined the efficiency effects of nine bank mergers during the early 1990's and found that four of the nine mergers were clearly successful in improving cost efficiency while others were not able to achieve their cost cutting goals, the reason being difficulty in integrating data processing systems and operations.

Muhammad Ahmed, Zahid Ahmed (2014), also analysed the post-merger financial performance of the merging banks in Pakistan during the period 2006-2010.It has been found that the financial performance of merging banks insignificantly improved in the post- merger period. Post-merger profitability improved insignificantly, liquidity significantly, capital leverage insignificantly while as assets quality parameter showed a significant deterioration.

Rehana Kouser, Irum Saba (2011), evaluated the effects of merger on profitability of the banks in Pakistan that faced M&A during the period 1999 to 2010 by using six financial ratios (Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return on Capital Employed, Return on Net Worth, Debt Equity Ratio). The study has revealed a decline in the operating and financial performance post-merger across all ratios.

Bert, Robert Wit (2004), measured short term wealth effects of European and US bank merger and acquisition deals to both target and bidding bank shareholders during the period 1990-2000. The results revealed that target shareholders' earned positive returns in Europe whereas bidding firms earned slightly positive returns. In contrast, US target firms earned high returns whereas the bidding firms earned negative abnormal returns from mergers. Target shareholders' return in US was more as compared to returns to shareholders' in Europe.

Muhammad Usman Kemal(2011), analysed the financial performance of Royal bank of Scotland taking a case study of the merger of ABN AMRO Bank with Royal Bank of Scotland (RBS). It has been found that the merger deal failed to improve the financial performance of RBS across 20 vital ratios studied. The financial performance of the merging bank was measured in the areas of liquidity ratios, profitability ratios, return on investment ratios, solvency ratios and market stock ratios.

Hicham Meghouar and Hicham Sbai (2003), analysed the post-merger profitability of the combined entity taking a case study of the merger between the Commercial Bank and Wafa bank who took place in Morocco in 2003. The results revealed an improvement in profitability (ROA, ROE, ROCE)and productivity parameters(loan to assets, sales per employee, asset per employee, income per employee) of the merged entity.

Deo and Shah (2011), studied the financial implications on the acquirer and target shareholders wealth in the Indian Information Technology Industry (IT) that have taken place from January 2000 to June 2010 taking a sample of 28 acquisition announcements. The study has revealed that acquisition announcements in the IT sector have no significant impact on the bidder portfolio, while as it has been found that acquisition has generated significant positive abnormal returns for target shareholders only.

Dutta and Dawn (2012), analysed the performance of merging banks in terms of growth in total assets, profits, revenues, deposits, and number of employees taking four years of prior-merger period and four years of post-merger period. The study has revealed that the mergers have resulted into significant increases in total assets, profits, revenues, deposits, and in the number of employees.

The brief review of the above related studies have revealed that since the liberalisation of the Indian economy in 1991 and more importantly easing out of regulatory norms, the activity of mergers and acquisitions have picked up in the Indian corporate sector including Indian banking industry. The other fact that becomes evident is that though the numbers of merger and acquisitions have grown up in the Indianbanking industry but the number of studies conducted to be taken into the different aspects of M&A's are still limited. Added to it, just a few case studies have been made on individual M&A's in the Indian financial sector. Guided by these and other limitations of the existing literature on M&A's, an attempt has been made to make a case study of the merger of Bank of Punjab and Centurion Bank into Centurion Bank of Punjab limited.

Brief Profile Of Bank Of Punjab And Centurion Bank

Bank of Punjab (BoP) which was founded in 1995 with its first branch in Chandigarhhad expanded and grown in size over a period of time. It offered wide range of products and services across all segments of customers, however, with more focus on agricultural sector. In the FY05, lending to direct agriculture doubled and it's lending to SSI's and traders increased to46% and 19% respectively. Also lending to medium and large scale industries and the retail segment increased to21% each. As on march 2005,the bank had a net worth of Rs. 181 crores. On June 2005, BoP and Centurion Bank merged at a swap ratio of 4:9. This means that for every four shares of Bank of Punjab, its shareholders received nine shares of Centurion Bank and formed new bank by the name Centurion Bank of Punjab(CBoP).

Centurion bank (CB), a joint venture between 20thCentury Finance Corporation and Keppel Group of Singapore, was established on June 30, 1994. Centurion Bank was one of the leading private sector banks in India providing retail and corporate banking products and services. Initially, it started with a network of 10 branches. In 1995, Centurion bank amalgamated 20th Century Finance Corporation. It had an extensive network of branches spread across the country. The shares of Centurion Bank were listed on the major stock exchanges in India. These were also listed on the Luxembourg Stock Exchange. Centurion Bank had a network of 99 banking offices across India. The bank, with staff strength of 1,374, reported a net profit of Rs 25.11 crore in the financial year ended March 31, 2005 as against a loss of Rs 105.14 crore in the previous year. Centurion bank offered a wide array of products and services to its customers across the nation.

Financials Of The Merging Entity- Centurion Bank Of Punjab

- The cost of deposit of BoP were lower than Centurion bank, while Centurion had a net interest margin of around 5.8% .The net interest margin of the merged entity was around at 4.8%.
- The combined entity had net non-performing assets (NPAs) of about 3.6 per cent as per performa balance sheet of March 2005. Centurion bank's net NPAs as on 31 March 2005 stood at 2.49 per cent while for Bank of Punjab, the figure stood at 4.6 per cent.
- The combined entity had adequate capital adequacy of 16.1 per cent to provide for its growth plans. Centurion bank's capital adequacy on a standalone basis stood at 23.1 per cent while for Bank of Punjab, the figure stood

at 9.21per cent.

- The performa net worth of combined entity as on March 2005 stood at Rs 696 crore with Centurion's net worth at Rs 511 crore and Bank of Punjab's net worth at Rs 181 crore, and the combined entity (Centurion Bank of Punjab) had total asset worth Rs 9,395 crore, deposit worth Rs 7837crore and operating profit of Rs 43 crore.
- The merged entity had paid up share capital of Rs 130 crore and a net worth of Rs 696 cr.
- The merged entity had 235 branches & extension counters, 382 ATM's and 2.2 million customers.

Why Merger

The merger of the two banks was guided by the fact that both the banks had synergies which complement each other very well. Bank of Punjab had a strong presence in North India and Centurion Bank in the West and the South. The merger would have ensured that the combined banking entity will have good footprint across the country. In the words of Rana Talwar, Chairman, Centurion Bank, “The merger is a win-win situation for the shareholders, customers and staff of the two banks. The reason for the merger is the fantastic fit in terms of achieving scale and geographical presence. There would be a crossover of products and services”. The similar views were expressed by Mr. Tejbir Singh, Executive Director, Bank of Punjab, by saying that the combined bank would produce "electrifying results" and represented a perfect fit.

Key benefits expected from the Merger

- Combined entity, Centurion Bank of Punjab would be the among the top 10 private sector banks in the country.
- Merging entity would benefit from the fact that Centurion Bank had recently written of its bad loans against equity.
- Branch network of the two banks will complement each other. The combined entity would have a nationwide reach.
- Centurion Bank was strong in South India, Maharashtra and Goa whereas Bank of Punjab was strong in Punjab, Haryana and Delhi. While Centurion Bank has 82 per cent of its business coming from retail, Bank of Punjab was strong in the small and medium enterprises (SMEs) segment and agricultural sector.
- The book value of the bank would also go up to around Rs 300 crore. The higher book value should help the combined entity to mobilize funds at lower rate.
- The combined bank would be full-service commercial bank with a strong presence in the retail, SME and agricultural segments.
- The capital adequacy ratio of the combined entity would be 16.1 per cent, thus an extremely well capitalized bank.
- The merging bank (Centurion Bank of Punjab) would provide all the banking and financial needs of its customers through multiple delivery channels, using latest technology. The bank would offer a full suite of NRI banking products to overseas Indians. The bank would provide services for individual consumers, small and medium businesses and large corporations with a full range of financial products and services for investing, lending and advice on financial planning through its strong network of the branches.
- The merged entity would be a pioneer in foreign exchange services, personal loans, mortgages, education loans and agricultural loans, and credit cards.

Research Objectives

This paper is aimed to achieve the following specific objectives:

- To review the related literature on mergers and acquisitions in the financial sector to get a perspective of the subject matter.
- To analyze the impact of merger of Punjab Bank and Centurion Bank into Centurion Bank of Punjab on the following

parameters: Operating

performance Financial

performance

Shareholders wealth.

To conclude and to make valuable suggestions.

Hypotheses

In line with the above stated objectives, the following hypotheses have been set for the study.

·There has been a significant impact of the merger of the two banks on the operating performance, of the merging bank across all variables.

·There has been a significant impact of the merger on the financial performance of the merging company and the wealth of the shareholders.

Materials And Methods

The study is based on the secondary data which has been collected from the official websites of the banks under study and other websites like moneycontrol.com, sify-finance etc. To test the hypotheses, five years data, three years prior to the merger i.e. 2003, 2004 % 2005 and two years post-merger i.e2006 & 2007 has been used. The post-merger data has been compared with pre-merger data to draw meaningful inferences about the impact of the merger under study on operating & financial performance and shareholders' wealth.

The data so collected has been analysed using the following ratios:

For measuring the operating performance, the following ratios have been used;

- Deposits to total assets ratio
- Total advances to total deposits ratio
- Spread or NIM to total assets ratio
- Operating profit to total assets ratio
- Operating profit margin ratio
- Non- interest income to total income ratio
- Interest income to total income ratio

The financial performance has been measured using the following ratios;

- Debt -Equity ratio
- Liquid asset to total deposit ratio
- Net profit margin ratio
- Return on assets(ROA)

Impact of merger on shareholder's wealth has been analyzed using the following ratios:

- Earnings per share
- Return on Equity (ROE)
- Book value per share
- Dividend Yield

Results And Discussions

Mergers and acquisitions are generally aimed at adding more value to shareholder's wealth. However, M&A's are successful in creating more wealth only when merging entities synergistically complement each other. The merger of Bank of Punjab and Centurion Bank was assumed as a perfect fit. Bank of Punjab had a strong presence in North and Centurion Bank in the West and the South, thus merger was aimed at having good footprints across the country. Rana Talwar, chairman, Centurion Bank had held that the reason for the merger is that the two entities were fantastic fit in terms of achieving scale and geographical presence. Given the above stated synergies, the merger of the two banks was expected to have produced positive impact on operating and financial parameters of the merging entity i.e. Centurion Bank of Punjab which in turn would have created more wealth for shareowners of the new entity. Whether in actual the merger of the two banks had a positive impact on operating and financial performance of the new entity is the research question, which has been analysed and the results of which has been presented in the following para's.

Operating Performance

The operations of a bank include mobilising deposits, deploying funds in a portfolio of assets that yields maximum return at a minimum risk. Modern banks also focus on the generation of more and more non interest incomes. Therefore, to assess the impact of the merger under study on the operating performance of merging bank, namely Centurion Bank of Punjab, measures like deposits to total asset ratio, total advances to total deposits ratio, spread, operating profit to total assets ratio, operating profit margin ratio, and ratio of interest and non-interest income to total income have been used. Each of these ratios has been briefly explained as under:

- **Deposits to total assets ratio**

A deposit-to-asset ratio of 0.8:1 is considered satisfactory. Bank highly capable of mobilizing funds; maintain high deposit to assets ratio. As a stable source of funding, a higher percentage of deposits are usually related to lower risk levels. However, banks with higher fluctuation of the deposit levels may get exposed to higher risk, so a lower deposit to assets ratio is preferred.

- **Total advances to total deposits ratio**

This ratio measures the efficiency and effectiveness of the management in converting the available deposits with the bank into advances. This ratio should be higher because the core business of the banks is to convert deposits into advances and investments. Thus, earning capacity of a bank depends to a great extent on its ability to convert its deposits into viable advances. As such, a higher ratio would reveal greater efficiency of the management in terms of efficient lending.

- **Spread or net interest margin (NIM) to total assets ratio**

NIM is the difference between the interest income and the interest expended. This ratio shows the ability of a bank to keep the interest on deposits low and interest on advances high. It is an important measure of a bank's core income (income from lending operations). A higher spread indicates the better earnings, given the total assets.

- **Operating profit to total assets ratio**

This ratio reflects how much a bank can earn profit from its operations for every rupee invested in its total assets. Higher ratio would mean better profitability of an investment made in the assets of a bank.

- **Operating profit margin ratio**

Operating profit margin is used to measure a bank's operating efficiency. A high operating profit margin is better as it indicates that a bank is able to control its expenses.

- **Interest income to total income ratio**

Interest income is considered as prime source of revenue for banks. The interest income to total income reflects the capability of the bank in generating income from its lending business. Therefore, well managed banks generally have higher interest income to total income ratio.

- **Non- interest income to total income ratio**

It reflects any income that banks earn from activities other than their core operations. Modern banks in order to diversify their operating risks focus on the generation of non- interest income as well. A gradual and a constant increase in non-interest income is considered a healthy sign for modern banks operating in a highly competitive environment.

In order to conclude whether there was any statistical change in the operating performance, financial performance and shareholders' wealth, the average post- merger variables have been compared with the pre- merger variables, using ratio analysis and paired sample t-test at significance level of 5%, the details of which have been presented in the below tables.

Pre and Post-Merger Operating Ratios of BoP, CB & CBoP for the period 2003-2007

TABLE I	BANK OF PUNJAB				CENTURION BANK				AVG. MEAN	CENTURION BANK OF PUNJAB			t-STATISTIC	p-VALUE (SIG-2 TAILED)
RATIOS	Mar 03	Mar 04	Mar 05	Mean	Mar 03	Mar 04	Mar 05	Mean		Mar 06	Mar 07	MEAN		
Deposits to total assets(%)	83	85	87	85	83	85	76	81	**83**	82	80	**81**	2.00	**0.295**
Total advances to total deposits (%)	50	56.8	56.1	54.3	46.3	51.3	62.1	53.23	**53.76**	69.5	75.4	**72.45**	-5.36	**0.117**
Spread or NIM to total assets (%)	2.3	2.64	2.75	2.56	3.01	3.66	3.85	3.50	**3.03**	3.51	3.08	**3.29**	-0.38	**0.765**
Operating profit to total assets (%)	1.15	1.28	-2.09	.11	0.65	-1.09	.98	.18	**0.14**	1	1.39	**1 .19**	-6.56	**0.096**
Operating profit margin (%)	10.11	13.35	-26.7	-1.08	4.75	-9.3	10.75	2.06	**0.49**	10.69	15.45	**13.07**	-15.53	**0.041***
Non-interest income to total income (%)	27.68	28.03	20.51	25.40	17.70	15.87	17.26	16.94	**21.17**	27.94	25.78	**26.86**	-1.80	**0.322**
Interest- income to total income (%)	72.32	71.97	72.49	72.26	82.29	84.12	82.73	83.04	**77.65**	72.06	74.21	**73.13**	1.04	**0.486**

Source: money control, sify finance
*Statistically Significant

Perusal of the data detailed out in the table I reveals a positive impact of the merger on the operating performance across all operating measures except deposits to total assets ratio, net interest income to total assets ratio and interest income to total income ratio. It can be seen that before merger, the operating profit margin ratio and operating profit to total assets ratio of BoP and CB was suffering from greater degree of instability. However, after merger, these two ratios have not only witnessed stability but have also shown sufficient improvement. The mean operating profit margin ratio of BoP and CB has increased from 0.49% to 13.07% post-merger. The operating profit margin ratio of the combined entity (CBOP) which was 10.69% in 2006 has increased to 15.45% thereby having registered an increase of around 5%. The mean operating profit to total assets ratio of BoP & CB had also recorded an improvement after

merger, witnessing an increase from 0.14% (pre-merger) to 1.19% (post-merger).Similar improvements were found in case of mean total advances to total deposits and non-interest income to total income ratio. The mean total advances to total deposits ratio of BoP and CB recorded an increase from 53.76% to 69.5% in 2006 which further increased to 75.4% in 2007.This reflected the increased ability of the new entity (CBOP) to deploy more and more funds. In case of non-interest income to total income, an increase from 21.17% to 26.86% was recorded. It also becomes clear from the above referred table that the pre and post net interest margin to total assets almost remained at the same level. The mean net interest margin to total assets ratio of BoP and CB was around 3.03% over a three year period. After the merger, the interest margin ratio of the new entity had increased to 3.51% in 2006 which then declined to
3.08% in 2007 thereby reflecting a marginal increase only Out of all the improved operating variables, the mean differences of operating profit to total assets ratio, total advances to total deposits ratio, non-interest income to total income ratio and interest margin ratio were found to be statistically insignificant (p>0.05) while as operating profit margin ratio improved at a significant level (p<0.05). There has been an improvement in the total advances to total deposits ratio (TA/TD) as well after the merger. Compared to the above ratios, the merger was found to have little or no impact on the deposits of the new entity. It becomes clear from the above table that before the merger, the average deposits to total assets ratio of BoP and CB was around 83% which had declined to 82% and 80% in 2006 and 2007 respectively after the merger. However, the decline was not statistically significant (p>0.05). Similar picture emerged about the interest income to total income ratio. The mean ratio of interest income to total income of BoP and CB was found to be 77.65% which declined to 72.06% in 2006 and then increased to 74.21%, averaging to 73.13% post-merger. It reflected the inability of the bank in generating income from its primary business. The mean of the deteriorating deposits to total assets and interest income to total income ratio were both statistically insignificant (p>0.05). From the above discussion, it was seen that total assets to total deposits ratio improved (insignificantly),net interest margin ratio improved (insignificantly),operating profit to total assets ratio improved (insignificantly), operating profit margin ratio improved (significantly),interest and non-interest income to total income deteriorated (insignificantly). Except operating profit margin ratio, all the other variables had p-values greater than 5%. As such, it could be safely concluded that there was no significant difference in the ratios before and after the merger. Therefore the hypothesis is rejected.

Financial Performance

Financial health of a business entity including financial companies is reflected in the financial position, quality of assets, rate of return earned on the assets given and the risk to which the owners and creditors have been exposed. The financial position and riskiness of a bank is indicated by the debt-equity ratio, liquid assets to total deposits ratio and capital adequacy ratio. The profitability of the assets is measured in terms of the net profit margin ratio and rate of return on total assets, and profit per employee. Besides, the quality of assets of a bank is determined by the non-performing asset ratio like gross NPA and net NPA ratios.

** Net profit margin ratio**

Net profit margin is the percentage of revenue remaining after all operating expenses, interest and taxes. The higher the net profit margin, the better it is. When a bank has a low net profit margin, it means that it spends a large portion of its revenue to maintain its operations or its spread is thin.

** Debt -Equity ratio**

This ratio represents the degree of financial leverage of a bank. It shows how much proportion of the bank business is financed through equity and how much through debt. Higher ratio is an indication of less protection to the depositors and creditors and vice-versa.

** Return on Assets (ROA)**

This ratio reflects the efficiency in the utilization of assets in terms of rate of return earned on capital employed. Higher ratio reflects better profitability of assets and vice-versa.

** Liquid asset to total deposits ratio**

This ratio reveals the liquidity available to the depositors of a bank. More precisely it measures the ability of a bank to honour its obligations efficiently, effectively and economically. There should be neither more nor less liquidity, but always sufficient liquidity.

Pre and Post-Merger Operating Ratios of BoP, CB & CBoP for the period 2003-2007

TABLE II	BANK OF PUNJAB				CENTURION BANK				AVG. MEAN	CENTURION BANK OF PUNJAB			t-STATISTIC	p-VALUE (SIG-2 TAILED)
RATIOS	Mar 03	Mar 04	Mar05	Mean	Mar 03	Mar 04	Mar05	Mean		Mar 06	Mar 07	MEAN		
Net profit Margin (%)	6.50	7.94	-15.94	-.05	-5.47	-25.07	5.96	-8.19	**-4.12**	8.28	7.25	**7.76**	-3.34	**0.185**

Debt-Equity (%)	16.73	16.97	17.86	17.18	15.9	16.4	16.05	16.11	**16.64**	10.14	11.3	**10.72**	5.31	**0.118**
Return on Assets (%)	15.04	14.7	-25.3	1.48	-1.04	-2.2	0.54	-0.09	**0.69**	0.77	0.06	**0.41**	0.651	**0.633**
Liquid Assets to Total Deposits (%)	14.75	12.07	13.47	13.43	16.87	16.58	12.95	15.46	**14.44**	11.06	9.42	**10.24**	2.29	**0.262**

Source: money control, sify finance

Table II presents the data about the parameters of financial performance discussed above. It becomes clear from the data detailed out in the table IIthat the debt-equity ratio has declined after the merger.Before the merger, the average debt- equity ratio of BoP and CB was around 16.64% over a three year period (2003-2005) which had declined to 10.14%in 2006, which, however increased to 11.3% in 2007.The decline in the debt-equity ratio after the merger reflects an increase in the protection to the depositors and other creditors of the new entity.It can also be seen from the above referred table that the ratio of liquid assets to total deposits has also declined after the merger.This ratio in case of BoP had remained in the range between 12% to 14% and in case of CB between 12% to 16%.The mean liquid assets to total deposits of BoP and CB was found to be 14.44% pre-merger. But after the merger, it had remained 11.06% in 2006 which further declined to 9.42% in 2007.The ratio of 9.42% compares with the industry average;thereby a decline reflected the improvement in the efficiency of the new entity in utilising its funds profitability. However, the improvement in performance of both these ratios was not statistically significant ($p>0.05$).

The analysis of the impact of the merger under study has revealed a positive though not significant impact on the majority of operating performance, which is expected to get reflected in the profitability of the new entity. As can be seen from the data presented in table II,the merger of BoP and CB had a positive impact on the net profit margin ratio of the new entity i.e CBoP .The mean net profit margin ratio of BoP& CBwas found to be -4.12% before the merger.But after the merger, the net profit margin ratio of the new entity improved to 8.28% &7.25% in 2006 and 2007 respectively, but not with statistically significant values ($p>0.05$). However,similar picture does not emerge with regard to the return on assets.The mean return on total assets of BoP and CB was0.69% which after the merger further declinedto 0.41%, however the decline was not statistically significant($p>0.05$).What becomes clear from the above discussion is that except ROA, which had a marginal insignificant negative impact post-merger, all the other ratios showed positive impact though not with statistical significant values. Hence the hypothesis is rejected.

Shareholders' Wealth

The ultimate goal of modern corporate entities is the creation of more wealth for its shareowners.Towards this goal, numbers of financial and non-financial strategies are employed by corporate entities.One such financial strategy is the merger of two or more entities to produce synergic benefits.The merger of Punjab Bank ltd. and Centurion Bank ltd. were presumed to have synergies which complement each other.As such, the merger was expected to produce better results on all fronts thereby creating more wealth for the shareowners of the two banks.The wealth of the shareholders is represented by market value of the shareholding and any dividend received or to be received.The market price and dividend yield are the determinants of net earnings for shareholders.Therefore to assess the impact of the merger under study on shareholders wealth, measures like EPS, ROE, P/E ratio, dividend yield, market value of a share and book value of a share have been used.

- **Earnings per share(EPS)**

EPS shows how much has been earned per share.In other words, it shows the earning power of a business entity.More the EPS, better is the performance and prospect of a firm.More EPS would also mean higher the return to shareholders',thereby more wealth.

- **Return on Equity(ROE)**

Return on Equity is similar to EPS,the only difference is that it measures the profitability of owners' equity in percentage terms.

- **Dividend Yield**

Dividend yield reveals payoff in terms of cash dividend to shareowners in percentage terms.More dividend yield,b therefore, the shareholders have received more earnings in cash.

- **Market Value of a Share**

Market price is the value of a company's share that it commands at a particular date in the market.Therefore, if the merger causes an increase in the market value of share,it means that the wealth of the shareholders has improved.But to draw a conclusion in this regard, one would be required to take the average price of a certain period of time post-merger

Price- Earnings Ratio

The price-earnings ratioreveals how the market is revealing the present and future performance of a company.If a company is expected to perform better in future, its share will most likely enjoy a better price relative to its earnings.

Book value per share(BV)

Book value per share is also an interesting financial parameter for managers or owners of a company.Itreveals an amount per share that a shareholder would receive presently if a firm is dissolved. Higher the book value per share, higher would be the amount that a holder of a common share would get if a company were to liquidate.

Pre & Post -Merger Shareowner Net Return Ratio of BoP, CB & CBoP for the year 2003-2007

TABLE III	BANK OF PUNJAB				CENTURION BANK				AVG. MEAN	CENTURION BANK OF PUNJAB			t-STATISTIC	p-VALUE (SIG-2 TAILED)
RATIOS	Mar 03	Mar 04	Mar05	Mean	Mar 03	Mar 04	Mar05	Mean		Mar 06	Mar 07	MEAN		
EPS	3.03	3.52	-5.83	0.24	-1.66	-1.85	0.24	-1.09	**-0.42**	0.62	0.77	**0.69**	-1.51	**0.372**
BookValue Per Share	20.44	23.21	22.97	22.20	11.53	3.4	5.54	6.82	**14.51**	6.61	8.91	**7.76**	0.77	**0.581**
Return on Equity (%)	15.04	14.7	-25.3	1.48	-11.6	-34.5	4.06	-14.01	**-6.26**	2.54	8.61	**5.57**	-1.09	**0.470**
Dividend Payout	.22	.18	0	.13	0	0	0	0	**0.06**	0	0	0	1.00	**0.500**

*Source: money control, sify finance

The details of the above ratios have been presented in table III.These ratios have been calculated for the merged entities and merging bank for a five year period,the details of which have been presented in the above table (table3).The post-merger ratios have been compared with the pre-merger ratios to assess whether there has been positive or negative impact of the merger on the wealth of the shareholders.

Perusal of the data presented in the referred table reveals positive impact on the wealth of the shareholders of the entities under study across all measures,however with varying degrees.It can be seen from the table that the EPS of BoP had declined from Rs 3.03 in 2003 to Rs -5.83 in 2005 with a mean value of Rs 0.24 over a three year period.In case of Centurion Bank, the EPS which was Rs -1.66 in 2003 had increased to Rs 0.24 in 2005 with a mean EPS of Rs -1.09 over a three period time. After the merger,the EPS of the new entity was Rs 0.62 and Rs 0.77 in 2006 and 2007 respectively with a mean value of Rs 0.69 which is better than the mean pre-merger EPS of BoP and CB(Rs-0.42).The ROE which reveals earnings for shareholders in percentage terms reveals similar picture. It can be seen from the data presented in the table III that the mean ROE of BoP and CB over a three year period time (2003-05)was 6.26%,which after the merger had increased to 2.54% in 2006 and further to 8.61% in 2007, with a mean ROE of 5.57% over a two year period. However, the mean difference in case of both the ratios(EPS &ROE) was not statistically significant ($p>0.05$).Book value per share gives a snap shot of firm's present situation and reveals an amount per share that a shareholder would receive presently if a firm is dissolved.It also reflects the past earnings of a firm.The data detailed out in table III about book value per share confirms the findings about the impact of the merger on EPS and ROE. As can be seen from the table that the weighted average book value per share of new entity which was Rs 5.54 at the time of merger in 2005, has increased to Rs 6.61 and Rs 8.91 post merger in 2006 and 2007 respectively.This in turn reveals that the merger had a positive impact on book value per share as well but the positive impact was not found to be statistically significant ($p>0.05$).

Overall it was seen that the merger had an insignificant positive impact across majority of the parameters studied. As such, it was concluded that there has been no significant impact of the merger of the two banks on the operating performance, financial performance and shareholders' wealth of the merging entity i.e Centurion Bank of Punjab.

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