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AN ANALYSIS OF KOTAK MAHINDRA BANK SYNERGY WITH ING –VYSYA BANK

Ms. Ankita Rajput*
Dr. Gautam Prasad**

ABSTRACT

Finance and banking are the lifeblood of trade, commerce, and industry. Nowadays, the banking sector acts as the backbone of modern business. The development of any country mainly depends on its banking system. A bank is a financial institution that deals with deposits, advances, and other related services. The performance of the banking sector is perhaps more closely linked to the economy than that of any other sector. The growth of the Indian economy is estimated to have slowed significantly. The economic slowdown and global developments have affected the banking sector's performance in India in FY12, resulting in moderate business growth. It has forced banks to consolidate their operations, re-adjust their focus, and strive to strengthen their balance sheets. Through the CAMEL model, it is emphasised that the bank under study is solid and adequate in terms of its equity sufficiency, credit risk, managerial capacity, and solvency.

Keywords: *CAMEL, Kotak Mahindra Bank, Indian Economy, Financial Sector.*

Introduction

The performance of commercial banking suggests that, given its major position as a financial intermediary, the state of the banking sector is crucial to capital formation. Commercial banks must therefore receive greater consideration than any other category of economic agents. The capacity of the bank can affect financial instability and failure. The primary financial issues facing regulators are economic crisis and collapse, and they must design a supervisory system that permits them to keep a strategic distance from institutional failures (Weber, 2014)13. The three main financial processes that prevent business failure are the payment system, savings transformations, and the transmission of monetary policy. To determine the SWOT of the banking system, regulators must focus on CAMEL data regarding bank performance.

There were instances of banking issues in 2008 that had an impact on the global economy. As a result of the sudden explosion of the price bubble in the US housing market linked to the subprime mortgage industry, the financial crisis of 2008 occurred. Large financial institutions in the United States, including banks, insurance companies, brokerage firms, and other enterprises, have all failed as a result of this occurrence. The collapse of the American economy swiftly spread to the rest of the world, causing some European banks to fail, a drop in several stock indices, and huge declines in the value of

* Gold Medalist, UGC-NET JRF, Research Scholar, Department of Commerce, School of Commerce & Management, Dr. Harisingh Gour Vishwavidyalaya Sagar (A Central University), Madhya Pradesh, India.
** Assistant Professor, Department of Commerce, School of Commerce & Management, Dr. Harisingh Gour Vishwavidyalaya Sagar (A Central University), Madhya Pradesh, India.

commodities and shares traded globally (Norris, 2008)9. According to certain studies, the absence of the CAMEL model and stress testing as regulatory instruments will result in a financial disaster. The Asian financial crises of 1997 and 2008, which occurred over a 10-year period, provide a specific illustration.

Thus, the stress test is critical. The 2008 fall of Lehman Brothers, which brought about a global economic crisis, had an impact on banks' use of the CAMEL model to predict when and how severe the next financial crisis would be. Does the importance of key factors such as capital, assets, managerial calibre, earnings, and liquidity have an impact on the performance of the bank? The answer to this issue is crucial since it pertains to the bank's capacity to get through challenging times when the impending financial crisis is likely to occur. To examine the impact of CAMEL on bank performance in specific nations, a time series method has been employed in numerous types of existing research.

Since the original banking regulatory framework, CAMEL has been improved to monitor risk levels and the resilience of commercial banks with regard to turnaround, managerial effectiveness, asset quality, earnings quality, and internal control systems. Since 2008, Dang (2010)10 has researched the CAMEL method as a useful and effective tool. While conducting the study, Dang witnessed the US government's financial situation deteriorate. Only the senior management of the bank and the pertinent supervisor are able to directly identify the bank's CAMEL rating. The CAMEL rating has never been made public by authorities, not even in cases with a considerable lag. Private regulatory data gathered during bank inspections will typically not be shared with regulators; in fact, research indicates that these controls serve as a financial market filter.

In addition, the economy's growth is influenced by the state of the banking sector. By putting the regulatory and supervisory framework in place, it is possible to evaluate the banks' overall performance and ranking. By using the CAMEL approach to assess factors including capital sufficiency, asset quality, management quality, earnings, and liquidity, the regulators have enhanced bank supervision. This essay examines how a bank's success is impacted by its capital requirements, asset quality, managerial effectiveness, earning quality, and liquidity. The primary contribution of this study is the addition of evidence on CAMEL's effect on bank performance.

The remaining paper is going to be organised as follows: The second section examines the research on the factors that affect bank performance. The third section deals with objectives; the fourth section outlines hypotheses; and the technique, which outlines the data sources, research variables, and study specification model, is described in section six. The results are presented and discussed in section eight, and the study's conclusions and ramifications are discussed in section nine.

Vysya and Kotak announced their intention to merge their respective businesses on November 20, 2014. On March 31, 2015, the Reserve Bank of India approved this transaction with effect from April 1, 2015. ING was the largest shareholder in Vysya, with a shareholding of 42.7% at the time of the announcement of the merger. Under the terms of the transaction as announced on November 20, 2014, shareholders of Vysya will receive 0.725 shares in Kotak for each Vysya share. ING will hold a stake of 6.5% in the combined company, which will operate under the Kotak brand. ING’s holding in the combined company will be subject to a 1-year lock-up period from the closing of the transaction.

Review of Literature

Due to their control over the supply of currency, which serves as the main stimulus for economic growth, banks play a crucial role in economic development. Implementation or accomplishment, the accomplishment of specific tasks, or the fulfilment of duty are all examples of performance. "Bank performance" is the depiction of how a bank allocates its resources so that it can accomplish its goals. Additionally, the term "bank performance" refers to the utilisation of several metrics that demonstrate the bank's current condition and capability of achieving its intended goals.

Other ratios, such as ROA and ROE, are used in stress testing as a monitoring tool for calculating bank performance. The ROA ratio shows how profitable a bank is relative to its total assets. Additionally, ROA demonstrates how well management uses its resources to produce income. The net income distribution to commercial assets is measured by the ROA. Gul et al. (2011)[16] explain how to handle bank assets so that commercial banking firms can earn the most money per asset. How well the financial ratios used by banks are performing is represented by ROE. A balance sheet and income statement will be used to calculate the financial proportion, which reflects the return in relation to competitors. ROE demonstrates the efficiency with which the bank invests money in its operations, generating profit and significant growth for the bank and investors. The efficiency with which these funds are used by the bank's activities increases with the return on equity.

Five CAMEL model ratios—capital adequacy, asset quality, management quality, earnings, and liquidity—are used in this study to assess the performance of the bank. The first variable group used to determine the bank's capital status is the capital adequacy ratio (CAR). The ratio, which determines the bank's ability to sustain an acceptable loss of operation, is calculated by dividing total capital by total assets. Asset quality (LOA) is a measure of both the risk to assets and the bank's financial stability. The LOA specifies the type of advance payment the bank makes to generate interest income as well as the types of bank borrowers. The increase in non-performing loans is a sign that asset quality is declining, given the highest risk of loan default. The ability of the board and top management to identify, assess, and manage the risk posed by organisational operations and to ensure legal and regulatory compliance is known as management quality (IED) (Uniform Financial Institutions Rating System, 1997). The key factor that affects the bank's future profitability is earnings quality (IIA). The earnings quality, also referred to as the bank's profit indicator, represents the stability and expansion of future bank income as well as bank productivity to uphold these qualities and profits. A bank's main goal is to raise profits and distribute them to shareholders. The only way to define a bank's liquidity (LQD) is its capacity to pay short-term obligations and preserve solvency. The ratio of liquid assets to total deposits indicates the amount of liquidity available to bank depositors. Deposits from banks or other financial institutions, demand deposits, long-term deposits, and savings deposits make up the total deposits.

Gul et al. (2011)[16] examine the Pakistani example, which measures bank performance by examining the effects of socioeconomic and financial parameters on revenue. Gul et al. employed the pooled ordinal least squares approach from 2005 to 2009 and evaluated data from 15 commercial banks. The study reveals important connections between income and both inside and outside influences. When share capital is high, both the economy and the bank grow more quickly and make more money.

Alabede suggests a different study (2012)[4] He researches Nigeria and concludes that, after accounting for the effects of global financial conditions, the only important factors influencing Nigeria's success are market concentration and asset quality. The study suggests lowering non-performing assets and enacting regulations to encourage fair competition among banks.

Khalid (2012)[35] uses ROA as the profit variable from 2006 to 2011 to analyse the impact of asset quality on the earnings of private banking institutions in India. This study examines the relationship between bank operational performance and asset quality using a variety of regression models. The study discovers that there is a poor relationship between the performance of banking operations.

Kamau (2013)[21] shows that the expansion of market studies, especially in the financial sectors, is a result of the introduction of efficient production methods, new product manufacturing, increasing sales volumes, and other factors that are all influenced by the overall management quality.

Oloo (2009)[24] also conducts another research project in Kenya. He looks at the connection between Kenya's expanding commercial banks and operational effectiveness. The purpose of this study is to determine whether Kenya's commercial banks fall within the structural efficiency concept. The study focuses on the operation of Kenya's commercial banks between 1998 and 2007. Forty-two commercial banks with licences from the Central Bank of Kenya and active operations in Kenya are included in the study. The results of this study demonstrate a considerable positive association between the growth and efficiency of Kenyan banks.

Shen et al. (2010)[25] make a statement to the effect that liquidity risk will reduce financial institution profitability, as measured by average returns on assets and average returns on equity. In the market-based financial system, while it has no impact on banks' performance in the banking-based financial system, financial distress has a tenuous relationship with banks' performance.

Objectives of the Study

The study's primary goals are:

- To evaluate the financial performance of Kotak Mahindra Bank before and after the merger with ING Vysya Bank.
- To study the work performance pre- and post-mergering of Kotak Mahindra Bank with ING Vysya Bank.

Hypotheses of the Study

The hypotheses of the study are as follows:

H_{01}: There is no significant impact of capital adequacy on the bank in the pre-merging and post-merging eras.

H_{02}: There is no significant impact of asset quality on the bank in the pre-merging and post-merging eras.

H_{03}: There is no significant impact of management quality on the bank in the pre-merging and post-merging eras.

H_{04}: There is no significant impact of earnings quality on the bank in the pre-merging and post-merging eras.

H_{05}: There is no significant impact of liquidity quality on the bank in the pre-merging and post-merging eras.

Research Methodology

We use a very simplified approach using internationally accepted CAMEL rating parameters to look at the financial soundness and infer the convergence of the commercial banks operating in India. CAMEL is an acronym for five measures: (capital adequacy, asset quality, management soundness, earnings, and liquidity). In this analysis, the five indicators that reflect the soundness of the bank framework are considered.

The bank selected for the study is Kotak Mahindra Bank. The ratios depicting the CAMEL parameters were calculated based on the publicly available information published at the Reserve Bank of India, the Indian Bankers' Association, and Moneycontrol.com. The paper is referred to for further details, the analysis, and the data for the years 2011–12 to 2019–20.

Limitations of the Study

- The statistical constraints on our findings intensify bias.
- Due to definitional changes throughout time, objects that are measured over time change, making comparison challenging.
- Previous documents might not be kept or might be destroyed.

Research Data & Analysis

This study employs a quantitative research design. Total assets, total deposits, total equity, nonperforming loans, interest expense, interest revenue, net income, and liquid assets are the statistics used in this study. Return on assets (ROA), often known as net income or total assets, is a research variable. The equity capital of total assets is used to compute capital adequacy ratios, or CARs. Non-performing loans as a percentage of total assets measure asset quality, and total assets as a proxy measure asset quality. Interest expenditure divided by total deposits equals management quality (IED), which is then oxidised by interest expense or deposits. Net-interest income is calculated as a percentage of all assets and is shown as earnings (IIA). Liquidity (LQD) is the sum of all liquid assets divided by the total assets.

Data Analysis & Interpretation

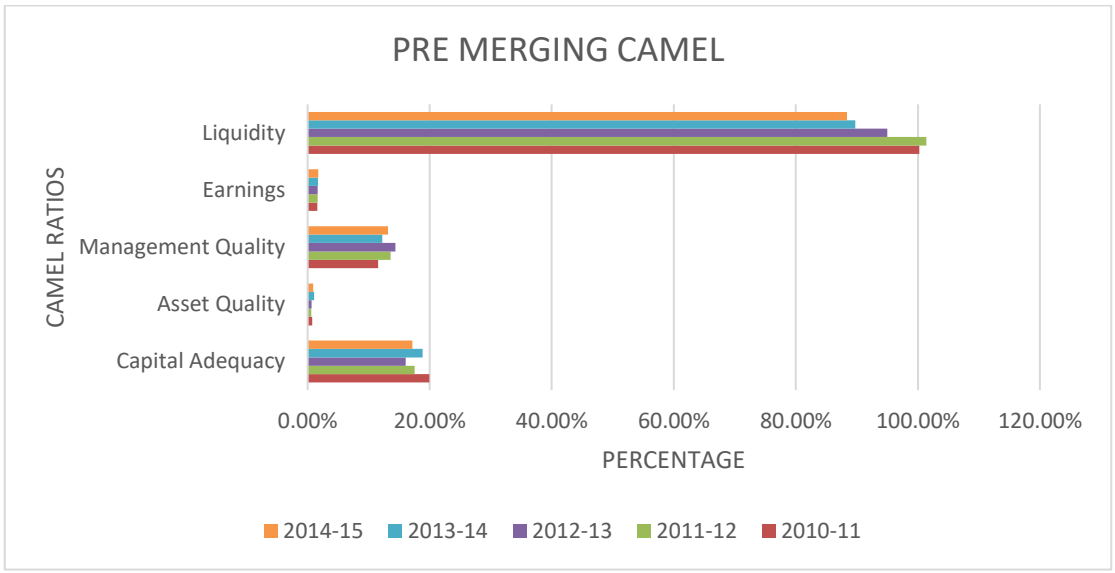
Table 1: Empirical Analysis using CAMEL Approach

(Ratios in 100's)

Year	Capital Adequacy	Assets Quality	Management Quality	Earnings	Liquidity
2010-11	1992.0	072	1157	160	10023
2011-12	1752.0	061	1359	165	10141
2012-13	1605.0	064	1437	162	9498
2013-14	1883.0	108	1223	171	8977
2014-15	1717.0	092	1319	176	8838
2015-16	1634.0	090	872	108	8559
2016-17	1677.0	110	1235	158	8644
2017-18	1822.0	090	1089	154	8810
2018-19	1745.0	070	1147	155	8814
2019-20	1789.0	071	1225	165	8962

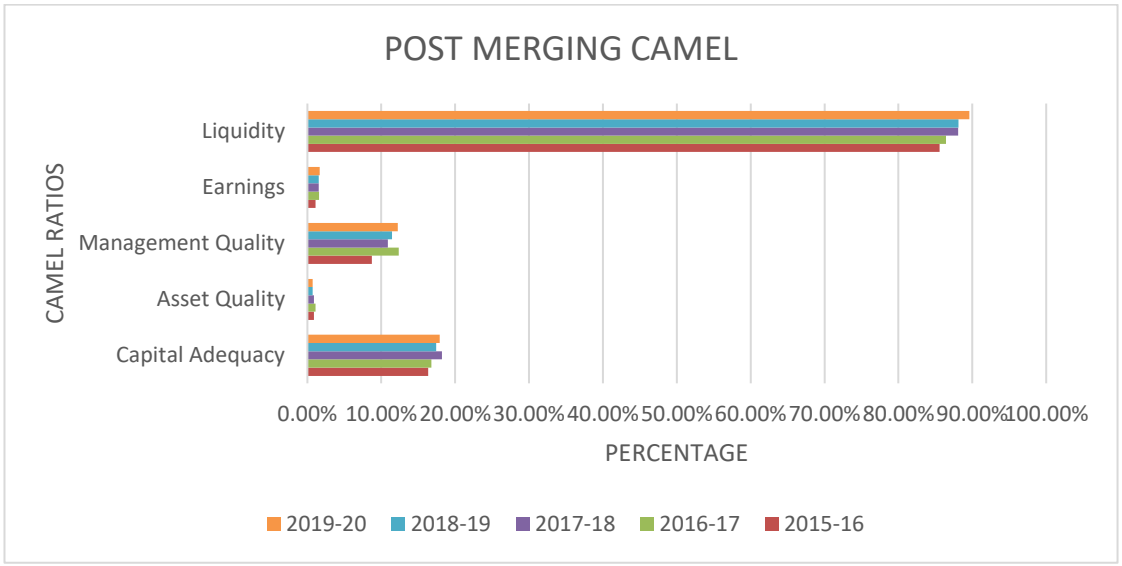
Source: Computed by Authors

Figure 1: Pre-Merging Analysis



Source: Authors

Figure 2: Post-Merging Analysis



Source: Authors

From Table 1 and Figures 1 and 2, it is concluded that to upgrade the execution of banks over some time, it winds up relevant to take fitting measures for keeping up liquidity (from L of CAMEL) of the banks. It has been seen that the danger of liquidity is the reviling of the quality and soundness of the banks in any economy. Banks dependably attempt to ensure that the ventures ought to be made in the territories that guarantee significant yields and are suited to the age of solid profits. The problem of NPAs (from A of CAMEL) emerges with the terrible administration and then again ascends in the net advances with the critical development and enhancement in the benefits nature of booked business banks in India. The asset quality is minimum in 2011–12 and maximum in 2016–17. Hence, it very well may be reasoned that banks are reliably moving in the direction of building feasible conditions for advancement and guaranteeing pay over the period. The worldwide emergency has raised fears about the job and the operational execution of the financial sector in various economies around the world. It has raised concern concerning the claims made by the financial sector for the economic development of nations.

Conclusion & Findings

The study utilised the informational index from 2010–11 to 2019–20 to distinguish the merger of Kotak Mahindra Bank and ING Vysya Bank. The study used a bookkeeping CAMEL model to evaluate the outcomes. There is likewise a need to stress the enhancement of administration quality with the use of improved innovation. The execution of managing an account segment, particularly utilising the CAMEL approach, uncovers that banks have set aside opportunities to get balanced with new administrative conditions. A growing economy like India requires the right blend of risk capital and long-term resources for banks to choose an appropriate mix of debt and equity. It is seen that Kotak Mahindra Bank's liquidity increased after merging. Capital adequacy decreased after merging, asset quality and management quality increased, and earnings decreased after merging.

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