International Journal of Education, Modern Management, Applied Science & Social Science (IJEMMASSS)
ISSN : 2581-9925, Impact Factor: 6.882, Volume 06, No. 01(III), January - March, 2024, pp. 85-92

AN EMPIRICAL STUDY ON FINANCIAL PERFORMANCE WITH REFERENCE TO DPS, CASA, ROCE, NET PROFIT MARGIN OF INDUSLAND BANK LTD. PRIOR TO AND POST ACQUISITION OF BHARAT FINANCIAL (SKS MICROFINANCE)

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ABSTRACT

This paper is related to an acquisition occurs when a larger corporation buys a smaller one. The purchase of a firm by another also referred to as a buyout or takeover. Acquisitions or takeovers happen between the target company and the entity placing the bid. Takeovers can be beneficial or aggressive. The study was conducted from 2015–2016 to 2019–2023, with preacquisition taking place from 2015 to 2019 and post acquisition from 2019 to 2023. Indusland Bank and Bharat Financial-SKS Microfinance in the purchase process served as the study's sample. Analysis and interpretation of the above-mentioned ratio will be used. The goals are to compare the financial performance of Indusland Bank Ltd. with Bharat Financial-SKS Microfinance before and after the purchase. The variables that have been chosen are dividend per share, current account and savings account ratios, return on capital employed, and net profit margin. Four criteria in all are considered in this study. The first is the dividend per share ratio, which has a 50% positive and negative impact on acquisition and has no effect on the performance. There is no difference as a result of acquisition since the second variable, the ratio of current to savings accounts, has the same influence as the first because acquisition has a 50% positive and negative impact. An alternative hypothesis is selected since the third variable, return on capital employed, demonstrates that it is 100% favorably influenced by the minor acquisition adjustment. Since only 25% of the final variable-net profit margin-is positively correlated, the null hypothesis is accepted. The purchase affects every one of the selected factors, but it has no long-term effects on the business. While there could be long-term advantages to a company merger, the purchase hasn't really resulted in any noteworthy progress in this area.

Keywords: *Financial Performance, Microfinance, Null Hypothesis, Alternative Hypothesis.*

Introduction

A merger is defined as the amalgamation of two or more businesses into a unified system, with one remaining and the others ceasing to exist. The survivor assumes all of the assets and responsibilities of the merged business or firms. In most circumstances, the surviving company is the buyer, while the destroyed company is the seller. A merger is sometimes referred to as an amalgamation. A merger is the

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The paper was presented in the National Multidisciplinary Conference organised by Maharani Shree Nandkuverba Mahila College, Bhavnagar, Gujarat on 21st January, 2024.

combination of two or more existing companies. The transferee firm receives payment in the form of equity shares, debentures, cash, or a mix of the aforementioned modalities in return for all of the assets, liabilities, and stock of the transferee firm. An acquisition may be achieved through an agreement with persons holding a majority interest in the company's management, such as members of the board or major shareholders commanding a majority of the voting power, the purchase of shares in the open market, the making of a takeover offer to the general body of shareholders, the purchase of new shares by private treaty, or the acquisition of share capital through the following forms of consideration, namely cash, loan capital, or in-kind contributions. An acquisition is the purchase of a smaller company by a larger firm. The acquisition of one company by another known as a takeover or a buyout. Acquisitions or takeovers occur between the firm bidding and the target company. Takeovers might be aggressive or advantageous. In general, acquisition refers to acquiring property ownership. In the context of business combinations, an acquisition is the purchase of a controlling position in the share capital of another existing corporation by one company.

Profile of Banking Sector

Modern banking in India started around the middle of the eighteenth century. The Bank of Hindustan, founded in 1770 and liquidated in 1829-32, was among the first banks, as was the General Bank of India, founded in 1786 but collapsed in 1791. The State Bank of India is the largest and oldest bank currently in operation (SBI). In mid-June 1806 it was founded and began operations as the Bank of Calcutta. It was called the Bank of Bengal in 1809. The Bank of Bombay, established in 1840, and the Bank of Madras, established in 1843, were the other two banks established by a presidency government.

The three banks combined in 1921 to become the Imperial Bank of India, which became the State Bank of India in 1955 after India's independence. For many years, the presidency banks and their successors served as quasi-central banks until the Reserve Bank of India was founded in 1935 under the Reserve Bank of India Act, 1934. With the State Bank of India Act of 1959, the State Banks of India were handed management of eight state-associated banks in 1960. Nevertheless, the merger of these affiliated banks with SBI took effect on April 1, 2017.

The Government of India nationalized 14 major commercial banks in 1969, including Bank of India. Six additional private banks were nationalized in 1980. Banking in India is generally mature in terms of supply, product diversity, and reach—though reaching rural India and the poor remains a struggle. The government has launched steps to solve this, including the expansion of the State Bank of India's branch network and the National Bank for Agricultural and Rural Development (NABARD) with services such as microfinance.

About Indusland Bank Ltd.

Under the presidency of S. P. Hinduja, the bank commenced operations on April 17, 1994, with the primary goal of serving the NRI population. IndusInd Bank Ltd is a Mumbai-based Indian financial services company. It provides commercial, transactional, and electronic banking services. Manmohan Singh, then Federal Finance Minister, launched IndusInd Bank in April 1994. IndusInd Bank is the first of India's new-generation private banks. The bank began with a capital of 100 crores, of which 60 crores were raised by Indian citizens and 40 crores by non-resident Indians. The bank focuses on retail banking services and is seeking to grow its branch network across the country. It gets its name from the Indus Valley culture. IndusInd Bank, which began operations in 1994, serves both individual and business clients. Its technology base allows for multi-channel distribution. IndusInd Bank has 2,015 branches/banking outlets and 2,886 ATMs distributed across 760 physical areas in the nation as of September 30, 2021. The bank also has branches in London, Dubai, and Abu Dhabi. The bank thinks that technology can help it grow its company. It is a settlement bank for the BSE and NSE, as well as the country's main commodity markets, including the MCX, NCDEX, and NMCE. On April 1, 2013, IndusInd Bank was added to the NIFTY 50 benchmark market. Banking services provided by bank are: Banking in a branch, Finance for consumers, Business money and banking, Services for Finance Handling (CMS), Utility for Commerce Businesses (TSU), Operation of a depository and Asset administration.

About Bharat Financial (SKS Microfinance)

Bharat Financial Inclusion Limited (formerly known as SKS MFI Limited) BFIL is a Reserve Bank of India-licensed banking and finance business. Vikram Akula established it in 1997 and served as its executive director until he retired. The goal of the business is to provide financial services to the poor on the assumption that giving financial services to poor debtors aids in poverty alleviation. In 2011, the business was present in 11 Indian states. Vikram Akula established Swayam Krishi Sangham (SKS

Society) as a non-profit group in 1997, inspired by Grameen Bank. Unlike Grameen Bank, SKS used an aggressive compensation-based system to promote loans, resulting in the formation of a network of loan marketers who were not direct workers of SKS but operated on a fee basis in smaller villages throughout Andhra Pradesh. SKS pursued defaulters through a network of debt scammers. Akula established a for-profit subsidiary called SKS MFI Private Limited in 2003. To finance the new venture, Akula created the SKS Mutual Benefit Trusts (MBTs), which collected funds from women in Andhra Pradesh villages.

The Mutual Benefit Trusts were used as vehicles to transfer funds from the non-profit SKS Society to the for-profit SKS Microfinance, which would have been unlawful if done directly. SKS Microfinance accumulates enough money in 2005 to become a non-banking financial business. SKS workers were connected to at least seven creditor deaths in Andhra Pradesh, according to an independent inquiry commissioned by the firm. According to a second inquiry, SKS may have been engaged in two other suicides. SKS Microfinance cut 1200 employees and shuttered 78 locations in Andhra Pradesh in 2012. Conversations with dead family members, SKS Microfinance was called Bharat Financial Inclusion Ltd in 2016. In 2017, the business introduced an Adhaar-based loan approval system to minimise the time and expense associated with the loan approval process. In the same year, it also introduced its Kirana store [general store] service, which enabled customers to conduct financial operations at designated shops. Later that year, the firm began talks with IndusInd Bank about a potential merger. Later in 2018, the combination was approved by the Central Bank of India, the National Stock Exchange of India, and the Bombay Stock Exchange.

Literature Review

Kumar and Rajib (2007) wanted to clarify the characteristics of organizations that classified them as acquirers or targets and give a logit regression predictive model. The purchasing corporations have better book value, liquid assets, cash flows, and P/E ratios, as well as fewer indebtedness. The target corporations, on the other hand, have lower P/E ratios, dividends, and growth rates, as well as being smaller in size.

Sharma (2008) estimated the relative production performances of cement businesses with more than 1% market share in the industry using data envelopment analysis. Companies were evaluated based on technological and scale efficiency, with the goal of minimising inputs while producing the appropriate output levels. With a sample of 20 firms accounting for 85% of the market, the industry average scores for technical and scale levels were 0.96 and 0.97, respectively, and more than half of the companies scored well on both efficiency levels. In terms of installed capacity utilization, approximately 25% of enterprises operate at a low level, while the remaining 25% operate at a high level. As a result, there is plenty of room for improvement in terms of efficiency.

Kumar and Bansal (2008) examined mergers and acquisitions in India based on performance metrics including as liquidity, operational and overall efficiency, shareholder equity returns, and debt to equity ratio. More than half of the merger transactions improved financial criteria. In around 60% of the cases, purchase transactions resulted in better outcomes. Consequently, synergies have been achieved in the majority of M&A transactions, but thorough analysis must be performed previously.

Ramakrishnan (2010) investigated 87 pairs of domestic enterprises that merged in India between 1996 and 2002. The data gathered is examined using a regression model, which demonstrates that mergers improve long-term performance through maximising input usage. The results of unconnected mergers were better, yet the majority belonged to the same commercial conglomerate. The viability of acquired businesses also had a direct influence on post-merger performance.

Bhayani (2010) attempted to examine organisational efficiency using profitability studies. Profits appear to be affected by factors such as organisation size, inflation rate, liquidity position, growth potential, management aim, and cost components. A backward regression study of all the factors of the listed cement businesses from 2001 to 2008 found that liquidity, interest rate, inflation rate, company age, and operational profits all played major roles in determining the profitability of cement manufacturing companies.

Maksimovic et al. (2011) investigated the restructuring phenomena and efficiency of US manufacturing enterprises following acquisitions. Within the first three years, the enterprises undergo reorganisation, with the acquirers keeping more than half of the buyouts. Acquirers' competencies aid in the management of acquired assets, allowing them to profit from long-term productivity growth. Also, if financial leverage is used, cash payment purchases are maintained. The target firms are kept in such a way that they benefit the purchasers.

Madura, Ngo, and Viale (2012) explained takeover premiums using industry and macroeconomic parameters. Firm merger premiums are greater when the sector is booming, there is room for R&D, and the member businesses differ little from one another. Similarly, company capital liquidity attracts a larger price. The economy's volatility and competitiveness will have varying effects on demand for target companies.

According to Leepsa and Mishra (2012), profitability improved dramatically in manufacturing enterprises following mergers. The indicators of solvency, liquidity, and profitability were used to evaluate the effect of the merger over a three-year period for comparison with the t test. Following merger, current, interest coverage, fast, return on capital ratio, and other metrics improved, although the increase was insignificant, casting doubt on the motivation for mergers.

According to Harrison, Hart, and Oler (2013), leverage has a beneficial influence on business performance because it discourages managers from allocating resources to wasteful purposes and puts pressure on them to perform well. The similar effect has been explored in terms of acquisition. The firm's post-purchase performance was shown to be worsening with leverage, which was exacerbated by the acquisition process.

Srinivasa Reddy et al. (2013) examined the performance before and after mergers in the industrial and service sectors of India. Post-merger data from acquiring corporations show significant improvements in both industries and favourable balance sheet growth over time. There are no variations in shareholder returns when comparing the manufacture and service areas.

According to Alhenawi and Stilwell (2017), the value created by a merger is based not only on the target company's worth, but also on the acquirer's competences and talents in managing such companies. There are several instances in the literature that demonstrate that merger success is dependent on the qualities of the target firm. They developed a model that revealed how unique acquirer characteristics, as well as offer variables, influence merger outcomes. The acquirer's financial ratios, excess value, Tobin's Q, and cumulative abnormal returns served as the foundation for this framework's investigation of the causes for the successful merger.

According to Mishra, 2019 financial performance has been unaffected by market structure or mergers due to the multidirectional character of the manufacturing sector's businesses. Commercial methods including cutting-edge technology, marketing activities, and capital intensity appear to have an impact on financial outcomes. The author recommends that M&As be scrutinised carefully since they improve efficiency but not performance and should be analysed at a deeper firm level in terms of transaction kinds and firm sizes.

Mantravadi, 2020 attempted to identify how bidder operational values operated in different sorts of mergers and sectors. The study considers horizontal, vertical, or conglomerate mergers that occurred between 1991 and 2015 in 10 distinct economic sectors. Profitability improved in the banks and related industries, but dropped in the chemical industry, with slight reductions in other sectors. In the Indian context, distinct operational gains have been recorded when purchasing enterprises from various industry sectors. Due to increasing breadth and assets, horizontal mergers driven by scale were unable to generate synergies. Vertical mergers are the least preferred, while conglomerate mergers have somewhat better profitability.

Research Methodology

Tools & Technique

- Time duration for the study: 2015-2016 to 2019-2023
- [Pre acquisition 2015 to 2019 and post acquisition 2019 to 2023]
- Data collection: based on secondary method of selected company's annual report
- Hypothesis will be tested at 5% level of significance by t-testing (paired t test)
- Basis of sample – Indusland bank and Bharat Financial-SKS Microfinance in the acquisition process. The analysis will done through above mention ratio analysis and interpretation
- Objective: to find the difference in financial performance of prior to and post acquisition of Indusland bank ltd with Bharat Financial-SKS Microfinance
- Variable: 1] dividend per share, 2] current account & saving account ratio,3] Return on capital employed and 4] Net Profit Margin

Objectives

- To study dividend per share of the company pre and post acquisition
- To study current account & saving account ratio of the company pre and post acquisition
- To study Return on capital employed of the company pre and post acquisition
- To study Net Profit Marginof the company pre and post acquisition

Hypothesis

$H0_1$: There is no significant difference between dividend per share prior to and post acquisition.

$H1_1$: There is significant difference between dividend per share prior to and post acquisition.

$H0_2$: There is no significant difference between current account & saving account ratio prior to and post acquisition.

$H1_2$: There is significant difference between current account & saving account ratio prior to and post acquisition.

$H0_3$: There is no significant difference between Roce prior to and post acquisition.

$H1_3$: There is significant difference between Roce prior to and post acquisition.

$H0_4$: There is no significant difference between Net Profit Margin prior to and post acquisition.

$H1_4$: There is significant difference between Net Profit Margin prior to and post acquisition.

Data Analysis

Table 1: Dividend Per Share

Year	Prior to acquisition	Post acquisition	d(B-A)	Impact after Merger
1	4.5	00	-4.5	Negative
2	6	5	-1	Negative
3	7.5	8.5	1	Positive
4	7.5	14	6.5	Positive

Source: annual balance sheet of company & moneycontrol.com

t-Test: Paired Two Sample for Means	*Prior-acquisition*	*Post-acquisition*
Mean	6.375	6.875
Variance	2.0625	34.72916667
Observations	4	4
Pearson Correlation	0.923093878	
Hypothesized Mean Difference	0	
Df	3	
t Stat	-0.217357067	
P(T<=t) one-tail	0.420936875	
t Critical one-tail	2.353363435	
P(T<=t) two-tail	0.841873751	
t Critical two-tail	3.182446305	

[Compiled from SPSS]

In the above case P (T<=t) one-tail and two-tail is more than 0.05. Hence null hypothesis is accepted. In other word we can say that researcher fails to reject the null hypothesis. In another way, it can be found out that dividend per share is going constant rise after acquisition. It is clearly indicate that in the first and second year it is going to increase zero to 5 times, in the third year, compare two second year it was increased 3.5 almost 70% and last year it was almost double. comparison between 3rd and 4th year of pre and post acquisition it is also clearly found that post acquisitions ratio is better than pre acquisition. So There is significant difference between dividend per share prior to and post alternative hypothesis is selected.

Table 2: Current Account & Saving Account Ratio

Year	Prior to Acquisition	Post Acquisition	d(B-A)	Impact after Merger
1	35.18	40.37	5.19	Positive
2	36.85	41.81	4.96	Positive
3	44	42.78	-1.22	Negative
4	43.14	00	-43.14	Negative

Source: annual balance sheet of company & moneycontrol.com

t-Test: Paired Two Sample for Means	*Prior-Acquisition*	*Post-Acquisition*
Mean	39.7925	31.24
Variance	19.61409167	434.7303333
Observations	4	4
Pearson Correlation	-0.466516676	
Hypothesized Mean Difference	0	
Df	3	
t Stat	0.735740399	
P(T<=t) one-tail	0.257596315	
t Critical one-tail	2.353363435	
P(T<=t) two-tail	0.51519263	
t Critical two-tail	3.182446305	

[Compiled from SPSS]

In the above case P (T<=t) one-tail and two-tail is more than 0.05. Hence null hypothesis is accepted. In other word we can say that researcher fails to reject the null hypothesis. Another approach to discover this is that the current account and savings account both increase by 50% after purchase and then again after reduction. There is little doubt that the nominal margin will rise in the first and second years, and it will do so again in the third. Since it was null in the previous four years, it will completely decrease from the previous acquisition. Therefore, null hypothesis is accepted, and it can be concluded that acquisition has no effect on the ratio of current to savings accounts.

Table 3: Return on Capital Employed Ratio

Year	Prior to Acquisition	Post Acquisition	d(B-A)	Impact after Merger
1	3.11	3.62	0.51	Positive
2	3.21	3.34	0.13	Positive
3	3.11	3.30	0.19	Positive
4	3.00	3.26	0.26	Positive

Source: annual balance sheet of company & moneycontrol.com

t-Test: Paired Two Sample for Means	Prior-Acquisition	Post-Acquisition
Mean	3.1075	3.38
Variance	0.007358333	0.026666667
Observations	4	4
Pearson Correlation	0.218923548	
Hypothesized Mean Difference	0	
Df	3	
t Stat	-3.263317043	
P(T<=t) one-tail	0.023506799	
t Critical one-tail	2.353363435	
P(T<=t) two-tail	0.047013598	
t Critical two-tail	3.182446305	

[Compiled from SPSS]

In the above case P (T<=t) one-tail and two-tail is more than 0.05. Hence null hypothesis is accepted. In other word we can say that researcher fails to reject the null hypothesis. In a different sense, the return on capital employed ratio is significantly higher than it was before the acquisition. It is good after 4 years, somewhat better, and has improved since the acquisition. between roughly 0.20 and 0.50. Therefore, null hypothesis is accepted, and it may be concluded that either there is little to no change in the current account to savings account ratio as a result of the acquisition.

Table 4: Net Profit Marginratio

Year	Prior to Acquisition	Post Acquisition	d(B-A)	Impact after Merger
1	19.74	15.34	-4.4	Negative
2	19.90	9.78	-10.12	Negative
3	20.86	14.96	-5.9	Negative
4	14.86	20.31	5.45	Positive

Source: annual balance sheet of company & moneycontrol.com

t-Test: Paired Two Sample for Means	Prior-Acquisition	Post-Acquisition
Mean	18.84	15.0975
Variance	7.2848	18.50789167
Observations	4	4
Pearson Correlation	-0.759071124	
Hypothesized Mean Difference	0	
Df	3	
t Stat	1.135910471	
P(T<=t) one-tail	0.16926414	
t Critical one-tail	2.353363435	
P(T<=t) two-tail	0.338528281	
t Critical two-tail	3.182446305	

[Compiled from SPSS]

In the above case P(T<=t) one-tail and two-tail is more than 0.05. Hence null hypothesis is accepted. In other word we can say that researcher fails to reject the null hypothesis. In another context, the net profit margin ratio is the fourth research variable. Comparing pre and after acquisition, it can be seen that the post acquisition ratio decreased over the first three years and only increased during the fourth. This ratio will decline over the first three years and only increase in the most recent year. There is no change in the net profit margin ratio as a result of the acquisition because only 25% of the variables are positively altered and 75% of the variables are negatively modified.

Conclusion

In this study, a total of four factors are taken into account. The first is the dividend per share ratio, which has no impact on the results because it has a 50% positive and negative impact on acquisition. The second variable, the ratio of current to savings accounts, has the same impact as the first, with acquisition having a 50% positive and negative impact, therefore there is no difference as a result of acquisition. The third variable, return on capital employed, shows that it is 100% positively impacted by the tiny acquisition adjustment, hence an alternate hypothesis is chosen. The final variable, net profit margin, plainly shows that only 25% is positive, hence the null hypothesis is accepted. All of the variables in the chosen variables are impacted by the acquisition; however there is no long-term impact on the company. Although a firm merger may have long-term benefits, there has been little notable advancement here as a result of the acquisition.

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