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Pre and Post-Merger Bank Performance: A Case of Mega Bank Ltd.

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Abstract: ***The paper equates the before and after merger position of profitability, performance and efficiency with respect to selected Mega Bank for a period of six years. The study found a negative impact of merger on price-earnings ratio (P/E Ratio) and current account to saving account ratio (CASA). However, variables, namely, net profit margin, return on assets, earnings per share, return on equity. Capital adequacy ratio, credit deposit ratio and cost to income ratio have shown positive trend and grown after the merger. The results indicate that the overall financial performance of Mega bank in the area of profitability, performance and efficiency has been reasonable but not significantly except couple of indicators after merger and acquisition. It indicates that merger and acquisition deals success to improve the overall financial performance of the bank.***

Keywords: Mega Bank Ltd., performance, efficiency, profitability, financial ratios

1. INTRODUCTION

The merger is the combination of at any rate two components through a purchase acquiring or pooling of interests, it is one of a kind in connection to cementing, as there is no new component is produced using merger. The objectives behind mergers and acquisitions are expansion of business, minimization of competition and effective utilization of available resources. Because of these reasons, banks met with one another or centered by verifying bank. Bank, when all is said in done stating, is implied as a budgetary association or an organization, which is endorsed by the central government to oversee money, by accepting deposits, giving out loan and investing in securities. The principal parts of Banks are Economics growth, Expansion of the economy and offer resources for investment. In the resent times banking sector has been undergoing many changes in terms of regulation and effects of globalization. These movements have affected this sector both structurally and strategically. With the changing Environment, different systems have been grasped by this division to remain successful and to surge ahead in the overall field. One such strategy is through the technique of consolidation of banks created as the most valuable procedure. There are a couple of various approaches to harden the keeping banking industry; the most generally adopted by banks is merger.

Most of the research struggling to identify the factors that affect the feat of mergers as a premeditated alternative mention the importance of more refined issues (Lubatkin, 1983, 1987; Marks, 1982). However, there appears to be a gap between the research about the various categorizations of mergers and the research about the role culture plays in the overall application of mergers.

Mergers and acquisitions are trades in which the obligation regarding, diverse business affiliations or their working units are traded or joined. As a piece of the fundamental organization, M and A can empower dares to create, specialist, and change the possibility of their business or centered position.

In Nepalese banking sector Mergers and acquisitions has turned out to be the respected pattern all through the nation. A large number of private sector bank and other financial institutions are occupied with mergers and acquisitions exercises in Nepal. The Main thought process behind Mergers and acquisitions in the banking sector is to produce the benefit of economies of scales. Merger and acquisitions related establishments are a remarkably bothersome and testing task. Merger is the rising issue of Nepalese setting. Merger is normal as an instrument for strengthening bank's capacity and level of execution. The research addresses the following issue: What is the impact of merger and acquisition on the profitability of the Bank?

2. LITERATURE REVIEW

The fundamental objective of M and A is to provide strong company capability of meeting customer satisfaction, and also to reduce aggressive competition and evolve into technological development that will enhance better performance and realization of substantial profits (Moktar & Xiaofang, 2014). The merger is an arrangement where the assets of two companies become vested in or under the control of one company, which may or may not be one of the original two companies, which has all or substantially all, the shareholders of the two companies (Weinberg, Blank, Greystoke & Dick, 1979).

Different examinations on the effect of bank mergers on execution have been driven in various countries with various discoveries. Mixed confirmations were found on the costs and points of interest examination of bank mergers and acquisitions. Assorted instruments and banking parameters were used by below-referenced specialists for evaluating the bank execution. Some studies (Shaffer 1993; Akhavein, Berger, and Humphrey, 1997) discovered that mergers could possibly cut down costs and addition advantage adequacy, while different papers (Berger & Humphrey, 1992; Rhoades, 1993) concluded that mergers have not achieved any huge post-merger upgrades in proficiency. Rhoades (1993) found that horizontal (in market) mergers during 1980-86 did not improve full-scale cost.

Earlier examinations in the region of mergers and acquisitions (M&A) broke down returns to financial specialists of both target and bidder firms (Jensen & Ruback, 1983; Malatesta, 1983). A few examinations have explored bank mergers by assessing the impacts of mergers on capability, Productivity, etc., or recognized clarifications behind express mergers from relevant examinations (Calomiris & Karceski, 1998). M and A may in like manner help empty wealth limit more capably than part 11 or distinctive techniques for exit somewhat by sparing the earlier foundation estimations of the consolidating firms (Berger, Demsetz & Strahan, 1999).

Possibly not shocking, given that acquirers generally pay premiums to obtain targets, results exhibited that target financial specialists overall fared well, normally experiencing basic positive returns (Asquith & Kim, 1982; Datta, Pinches & Narayanan, 1992; Hansen & Lott, 1996; Malatesta, 1983). Notwithstanding target execution, analysts furthermore reviewed the effects of acquisitions on joined bidder and target returns (Bradley, Desai, & Kim, 1988; Bruner, 1988; Carow, Heron, & Saxton, 2004; Healy, Palepu, & Ruback, 1992; Wright, Kroll, Lado, & Van Ness, 2002). While these examinations largely demonstrated that acquisitions produce positive consolidated returns, altogether, crumbling of these joint outcomes revealed that targets spoke to the vast majority of those increases, with obtaining firms contributing objectives or negative returns (Bradley, Desai & Kim, 1988; Houston, James, & Ryngaert, 2001; Leeth & Borg, 2000).

Patel (2018) has examined earning per share (EPS), yield on advance (YOA), yield on investment (YOI), return on assets (ROA), return on equity (ROE), net profit ratio (NPR) and profit per employee (PPE) and business per employee (BPE) before and after merger. Bank of Baroda, IDBI Bank, Indian Overseas Bank and Oriental Bank of Commerce have experienced a negative impact of the mergers on most of the variables and a positive impact on few variables. The profitability of all four banks have been decreased after merger. However, the EPS, PPE and BPE have been increased after merger. Assets, equity, investment and advances of all the banks have been increased after merger.

3. RESEARCH MATERIALS AND METHODS

The main purpose of the study is to answer "*Does merger of the banks increases the profitability*?" It also discovers the influence of merger on profitability of the bank by using different financial ratios. For this purpose, profitability ratios and stability ratios have been considered as the most reliable and efficient ratios to check the profitability of the bank. These financial ratios also help in making rational decisions and future planning for the advancement of the bank.

The descriptive and correlational research design have been used to test the objectives of the study. It trusts upon open data that is collected form yearly reports of selected bank. Mega Bank has been taken as a sample bank for the purpose of the study. The bank has been chosen as a purposive technique out of twenty seven commercial banks in Nepal. The study has used six year data consisting of three years pre and three year post-merger data for the purpose of analysis.

For evaluating the financial and operating performance of the merger and acquisition, different ratios have been considered to evaluate the influence of mergers. In order to analyses the financial performance of banks pre and post-merger, the financial and accounting ratios like Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE), Cost to Income Ratio (CI Ratio), Price Earnings Ratio P/E Ratio), etc. have been used.

4. RESULTS AND DISCUSSION

The study is performed using two sets of analysis. 1) The pre- and post-merger relative percentage change in financial performance 2) Comparative Analysis

TABLE 1: Average of different parameters of MEGA Bank Limited.

Indicators	Pre-Merger	Post-Merger	Change	Relative Change (%)
NPM	30.07	40.58	10.51	34.95
ROA	1.47	2.04	0.57	38.78
EPS	13.19	15.06	1.87	14.18
P/E Ratio	32.005	19.60	-12.405	-38.76
ROE	11.20	11.98	0.78	6.96
CAR	15.49	16.39	0.90	5.81
CDR	85.98	89.92	3.94	4.58
CASA	35.73	27.91	-7.82	-21.89
CI Ratio	40.55	40.11	-0.44	-1.085

Source: (Researcher Computed)

Interpreting the aggregated results using the means for pre and post-merger the most important ratios like, net profit margin, return on assets, and return on equity have positive change by

34.95%, 38.78%, and 6.96% respectively that is a significant change. It is also found by the researchers based on earnings per share, capital adequacy ratio, and credit deposit ratios have a positive impact on the performance of the bank.

It can be seen that neither price-earnings ratio nor CASA show significant or diverting changes show these are not main drivers for the improvement because P/E ratio and CASA have decreased by 38.76% and 21.89% respectively. In addition, the cost-income ratio also did not change significantly. A decreased in the cost to income ratio has 1.085% but it is not worse than that of price-earnings ratio and CASA. Then, the overall interpretation of the Mega Bank Limited after the study is mentioned in Table 2

TABLE 2: Mean and standard deviation of Mega Bank Limited.

		Mean	**SD**	**t-value**	**p-value**	**Interpretation**
Profitability Ratios						
NPM	Pre	30.07	0.32	3.409	0.038	S
	Post	40.58	3.07			
ROA	Pre	1.47	0.09	1.819	0.105	NS
	Post	2.04	0.30			
EPS	Pre	13.19	0.08	0.831	0.247	NS
	Post	15.06	2.25			
Performance Indicators						
P/E Ratio	Pre	32.005	3.16	1.717	0.114	NS
	Post	19.60	9.72			
ROE	Pre	11.20	0.06	0.501	0.3329	NS
	Post	11.98	1.55			
CAR	Pre	15.49	0.57	0.522	0.326	NS
	Post	16.36	1.56			
Efficiency Indicators						
CDR	Pre	85.98	0.81	4.238	0.025	S
	Post	89.92	0.47			
CASA	Pre	35.73	1.25	2.533	0.063	NS
	Post	27.91	2.83			
CI Ratio	Pre	40.55	0.13	2.564	0.062	NS
	Post	40.11	0.12			

Source: Researcher's accumulation based on table 1

After calculating t-ratios for various performance indicators, they are compared with the tabulated value at 5% level of significance and for 2 degrees of freedom. The tabulated value at 5% level of significance and for 2 df. is 2.920. In the event that the determined worth is not exactly the arranged worth, at that point the invalid theory is acknowledged and there is no critical improvement in that factor in the post-merger period. Be that as it may, if the determined worth is more than the classified worth, the invalid theory is rejected and the elective speculation is acknowledged for example there is a noteworthy improvement in that factor in the post-merger period.

Table 2 indicates that net profit margin (mean value 30.07 vs 40.58 with t-value 3.409), which is statistically significant at a 5% significance level as the critical t-value is 2.920. It has shown insignificant improvement during the post-merger period depicting that favorable changes have taken place in the banks' profitability. Consequently, H_o (null hypotheses) is rejected and H_1 (alternative hypotheses) is accepted. As far as the mean values of return on assets and earnings per share has increased but they are statistically not significant with t-values of 1.819 and 0.831 respectively. Therefore, H_o (null hypotheses) is accepted which leads us to infer that there is no significant difference between pre and post-merger ROA and EPS.

In the performance indicator, the average price-earnings ratio has decreased from 32.005% to 19.60% and t-value 1.717, which is not statistically significant. So, H_1 (alternate hypotheses) is rejected leading to the acceptance of H_o (null hypotheses). On the other hand, the mean values of both returns on equity (11.20% vs. 11.98%) and capital adequacy ratio (15.49% vs. 16.36%) have increased but they are statistically not significant with t-values of 0.501 and 0.522 respectively. Therefore, H_o (null hypotheses) is accepted which indicates the negative impact of merger.

As of the efficiency indicator, the credit deposit ratio has significantly increased from 85.98% to 89.92% with t-value 4.238 indicating there is a significant difference between pre and post-merger performance in terms of credit deposit ratio leading to the acceptance of H_1 (alternate hypotheses). The performance of bank has non significantly decreased in terms of CASA from a mean value of 35.73% before merger to 27.91% post-merger with t-value 2.533 which is statistically non-significant and consequently H1 (alternate hypotheses) is rejected and Ho (null hypotheses) is accepted at 5% level of significance. Cost to income ratio has declined from 40.55% to 40.11%. The change is not significant with t-value 2.564, resulting in the rejection of H1 (alternate hypotheses) and acceptance of Ho (null hypotheses) indicating the negative impact of merger. The above finding suggests that in the second case of merger of Mega Bank Limited, consolidation through merger has a negative impact on the financial performance of banks.

Return on assets, earnings per share, P/E ratio, ROE, capital adequacy ratio, CASA, and cost to income ratio the p-value is greater than 5%, it can be concluded that there is no significant difference in these ratios before and after a merger. For net profit margin and credit deposit ratio, the p-value was less than 5% so it can be concluded that there is significant difference before and after merger.

5. CONCLUSION

The outcomes disclose that post-merger most of the financial indicators have not revealed any basic improvement in the both of cases while a couple of indicators have shown massive improvement yet it may be possible that there is an enhancement in these extents in later years as only three years financial extents are considered. Mergers and acquisitions are one of the most broadly utilized corporate methodologies pursued by associations searching for improved worth creation. The present investigation endeavored to break down the effect of mergers and acquisitions in the monetary exhibition. The analyses show that net profit margin and credit deposit ratio have shown significant improvement but no significant change has been seen a return on assets, earnings per share, price-earnings ratio, and return on equity, capital adequacy ratio, CASA ratio, and Cost to income ratio shows a negative change in post-merger period.

6. IMPLICATION

A merger and acquisition in corporate environment have an effect in companies with long term perspectives. Specially, merger and acquisition increase concerns in companies that make this kind of investment because the significant risk involved. In this sense, our results show empirically that when one company buys the other company or make merger between companies with similar economies, post-event operational risk is significantly reduced.

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