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The Study of Post-Merger Financial Analysis of IDFC FIRST Bank

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Abstract:

This study on post-merger status of IDFC First Bank is intended to find out whether the merger is fruitful or having ill effects on the financial status of the bank. The researcher has adopted four criterions for the analysis. The banks total income, profit, earning per share and CASA ratio have been considered for the period pre-merger and post-merger. The merger of IDFC Bank and Capital First has proven to be a prolific with reference to growth and diversification. This study highlights key financial improvements post-merger, including enhanced profitability, increased in total income and a more robust customer base. As IDFC First Bank continues to leverage the advantages of this merger, it is poised for continued success and stability in an increasingly competitive market.

Key Words: Pre-merger and Post Merger, IDFC First Bank and Financial Analysis.

Introduction:

'Togetherness' is the sign of a mighty world. In this highly competitive business environment, corporations, business houses and financial institutions are 'coming together' with a spirit for 'growing together'. In 2018, IDFC Bank and Capital First merged to form IDFC First Bank, marking a significant event in the Indian banking sector. The union aimed to create a comprehensive banking entity offering a wide range of services, from retail banking to SME and corporate banking. This merger was driven by the vision to leverage synergies, enhance financial inclusion and build a robust banking institution capable of competing with established players in the industry. This study is intended to analyze the post-merger financial status of IDFC First Bank from 2018-19 to 2022-23.

Review of Literature:

Richard A. Brealey and Stewart C. Myers (1981) have defined merger as "A merger is a combination of two companies where one corporation is completely absorbed by another corporation. The less important company loses its identity and becomes part of the more important corporation, which retains its identity."[1]

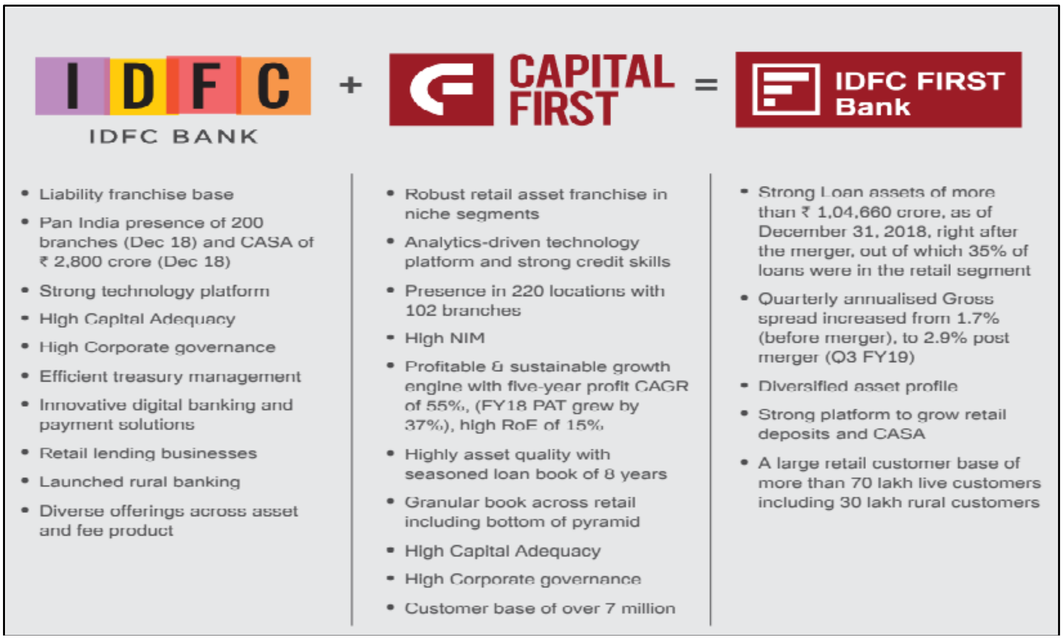
One of the earliest recorded bank mergers in the world occurred in 1864 in the United States[2]. This merger involved the Bank of Pennsylvania and the Western Bank of Philadelphia, leading to the creation of the First National Bank of Philadelphia. This merger is notable for being one of the first instances where two banking institutions combined their operations and resources to form a single entity. Whereas in Indian context, the first significant merger in the Indian banking sector was the consolidation of the Bank of Bengal, the Bank of Bombay and the Bank of Madras in 1921 to form the Imperial Bank of India[3].

Shiv Swarup Za and Premanand (2023)[4] have conducted a study on merger of Syndicate Bank with Canara Bank. This study have found that due to merger there is an increase in the operational efficiency however at the same time there in an increase in Gross NPA of the bank. Dr Nirmala M. and Anantha Padmanaba S (2017)[5] have completed an empirical study wherein they found out that market share expansion, risk diversification and economies of scale are the main driving forces behind the merger which contribute to the financial success of the banks. They have used Total Income, Net Profit, Interest Earning as parameters to analyze financial performance in pre and post-merger period. Mayurkumar V. Dadresha (2023)[6] in his study used the EAGLE Model to evaluate the financial performance of selected Indian companies before and after a merger, focusing on the Union Bank of India. He found that there is an increase in the earning capacity of Union Bank of India.

Discussion and Result:

The figure given below shows the essential strengths of IDFC Bank and Capital First which helped them to multiply and formed a new entity 'IDFC First Bank'. With these common and distinguished essentials, they were able to increase their customer base of more than seventy lakhs out of which 42.86% customers are rural customers.

Figure – 1. Essentials behind Merger of IDFC Bank and Capital First



Source: Annual Report of IDFC First Bank, 2018-19, Pg.29

After a related literature review of banking mergers in India, the researcher has selected four main criterions to conduct the financial analysis of IDFC First Bank in post-merger period of five years. They are the total income of the bank, the net profit after tax, the earning per share and the Current Accounts and Saving Accounts (CASA) ratio.

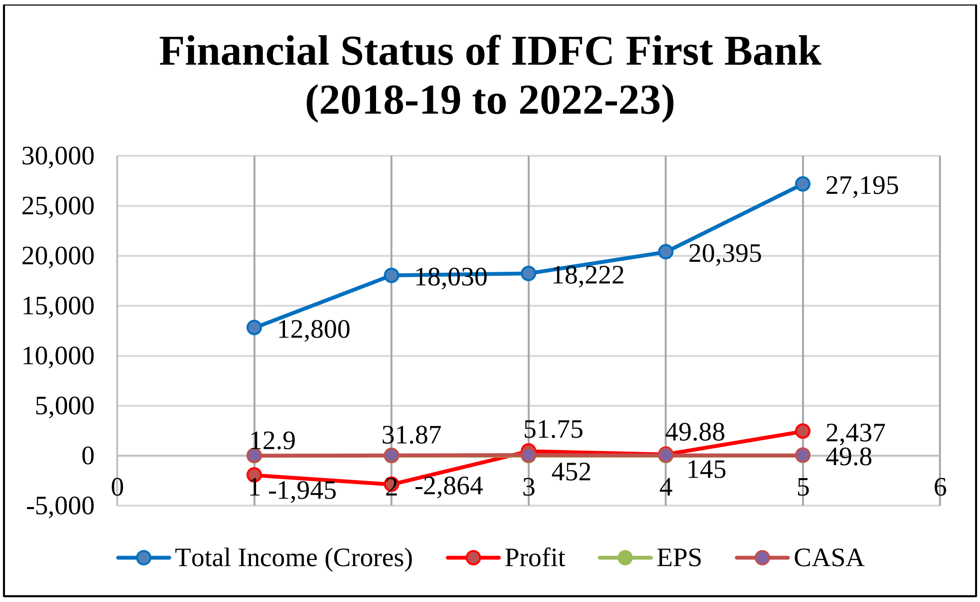
Table- 1. Pre-Merger Period Financial Status of IDFC Bank i.e. before 2018-19

Years	Total Income (Crores)	Profit (Crores)	EPS (%)	CASA (%)
2016-17	9,546	1,019	3	4.1
2017-18	10,048	859	2.53	11.8

Source: Compiled from Annual Reports (2016-17; 2017-18) of IDFC Bank

During pre-merger period, especially during the period of two years before merger, the IDFC Bank's financial position is not strong. As compare to 2016-17, in the year 2017-18 there is increased in total income by 5% however, the profit has decreased in 2017-18 by 15.70%. Earning Per Share (EPS) is also showing a decreasing trend. As far as CASA ratio is concern it has increased by 7.7%.

Figure – 2 Post-Merger Period Financial Status of IDFC First Bank i.e. After 2018-19



Source: Compiled from Annual Reports (from 2018-19 to 2022-23) of IDFC First Bank

After the merger, there is continuous increase in total income of the IDFC First Bank. During the period of five years, considering 2018-19 as base year, the total income has been increased by 112.46% . The bank successfully doubled its total income. However, during the first two years of the post-merger period, the bank failed to avoid losses due to which earning per share is negative in the same years. Since 2020-21, bank stared getting positive fruits of merger. There is an increase in net profit after tax by 439%. Earning Per Share is also raised from 0.82 to 3.91 i.e. by 3.09%. There is an tremendous increase in CASA ratio from 12.9% to 49.80%. It means there is an increase in banks' efficiency as they were in a position to bring down their cost of fund.

Main Findings of the study

This study has found out that

- There is increase in total income or revenue, operating profit and net profit after tax.
- There is an increase in number of current accounts and saving accounts.
- As CASA Ratio is high, there is a decreased in cost of fund raised which indirectly resulted into improved efficiency.
- There is increased in the number of customers especially in rural areas.
- It's show that there is an increase in the operational coverage of the Bank.
- The bank is also successful to march on the path of economies of scale.

Conclusion:

The merger of IDFC Bank and Capital First has proven to be a prolific with reference to growth and diversification. This study highlights key financial improvements post-merger, including enhanced profitability, increased in total income and a more robust customer base. The integration of infrastructure, technology and expertise from both entities has enabled IDFC FIRST Bank to expand its product offerings and customer base, positioning it competitively in the banking sector. This study underscores the value of strategic mergers in the banking industry, demonstrating how well-executed mergers can lead to substantial financial and operational benefits. As IDFC First Bank continues to leverage the advantages of this merger, it is poised for continued success and stability in an increasingly competitive market.

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