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THE IMPACT OF MERGERS ON PROFITABILITY IN THE BANKING SECTOR

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Abstract: The paper discusses the impact of mergers and acquisitions (M&A) in the tertiary industry, particularly in the banking sector. It highlights that M&A can lead to market share growth and cost reduction, but can also result in increased prices and communication gaps. The authors note that India's M&A market is evolving, with a focus on digitalization, sustainability, cross-border mergers, strategic partnerships, and increased regulatory scrutiny. They also investigate the long-term profitability of bank mergers, finding that 77.7% of mergers lead to profits and 22.3% cause losses. They suggest that banks under losses should undergo mergers to survive in the market, as they can increase consumer base, reduce maintenance costs, and make the industry more profitable.

Index Terms –Mergers, Acquisitions, Profitability, Banks, Indian financial system.

Introduction

The tertiary industry, also known as the service sector, is a crucial part of the global economy, providing essential services to consumers and businesses. It is the largest sector in most developed countries, employing more people than the primary and secondary sectors combined. The tertiary industry can be divided into business services and consumer services, which are essential for creating jobs and boosting economic growth.
The tertiary industry faces several challenges, including competition, globalization, and technological change. Competition makes it difficult for businesses to differentiate themselves and attract customers. Globalization leads to increased competition from foreign businesses, making it difficult for domestic businesses to compete on price and quality. Technological change constantly disrupts the tertiary industry, necessitating businesses to invest in new technologies and adapt their business models.
The future of the tertiary industry is expected to continue growing due to factors such as the aging population, the rise of the middle class in developing countries, and the growth of the digital economy. The aging population will increase demand for healthcare and other services that cater to older people, while the rise of the middle class in developing countries will create new opportunities for businesses in the tertiary sector.
The banking industry, a sub-sector of the tertiary industry, provides financial services to consumers and businesses. Banks play a vital role in the economy by providing loans, mortgages, and investment services. They are highly regulated to protect consumers and ensure financial system stability. Technological innovation and globalization have led to increased competition from foreign banks and non-bank financial institutions, but the banking industry is expected to continue growing due to the growing demand for financial services from consumers and businesses worldwide.

Mergers are common in the tertiary industry, as businesses seek to expand operations, gain market share, and reduce costs. Some of the largest mergers in history involve companies in the tertiary sector, such as AT&T and Time Warner in 2018 and Disney and Fox in 2019. Mergers can have benefits such as increased market share, reduced costs, expanded product and service offerings, and access to new markets. However, they can also lead to job losses, higher prices for consumers, and reduced innovation.

In conclusion, mergers can be valuable tools for businesses in the tertiary industry, but careful consideration of potential benefits and drawbacks is necessary before making a decision.

Literature survey: -

KA Goyal, Vijay Joshi (2011):
This review article investigates banks' reasons for mergers & acquisitions in the Indian banking sector, focusing on 17 post-liberalization mergers. The study examines factors such as branch count, market penetration by geography, and merger advantages. The article raises concerns about managerial behaviour, human resources management, and financial aspects, and lays the groundwork for future research on mergers and acquisitions from a new perspective.

TERESA D. HARRISON (2011):
This essay compares prospective and actual cost reductions from hospital mergers, separating variations in realised savings from systematic changes and scale-related cost reductions. Results show that hospitals consolidating immediately have economies of scale, lowering costs. As time passes, the amount saved decreases, and the percentage of hospitals experiencing a gain decreases.

Przemysław Jeziorski (2014):
This paper calculates fixed-cost efficiencies from mergers using a dynamic oligopoly model, focusing on cost synergies. The results can be castoff to assess the impact of mergers on overall well-being. The framework evaluates cost savings from 1996 to 2006, showing that mergers saved $1.2 billion in costs per year, divided evenly between economies of scale and cost synergies.

William S. Comanora, F.M. Scherer (2013):
The pharmaceutical sector faces challenges due to decreased innovation productivity and specialized businesses driving R&D. Some businesses have turned to mergers & acquisitions to hide fading prospects or obtain R&D synergies. The decreased pace of innovation may be a result of increased concentration from recent mergers. The article emphases on the potential effect of these mergers on innovation rates and whether they have been self-defeating or worsening industry outcomes.

Matt Schmitt, UCLA Anderson (2017):
Hospital mergers often lead to significant cost reductions, but there is limited systematic research supporting these claims. A study comparing cost trends at acquired hospitals and those without changes found substantial cost reductions of 4-7 per cent in the years after the merger. The findings propose that these discounts are resistant to post-merger changes in service and patient mix.

Bruno Jullien, Yassine Lefouili (2018):
This essay explores the influence of horizontal mergers on innovation, highlighting both positive and negative effects. It highlights policy conclusions for competition authorities to address innovation impacts in merger control and contrasts it with price effects studies.

C. SCOTT HEMPHILL & NANCY L. ROSE (2018):
This article examines antitrust laws for mergers causing harm to sellers, focusing on two mechanisms: growing monopsony power and bargaining leverage. It argues that diminished upstream competition damages the competitive process and is actionable. The article also argues that antitrust claims must be supported by evidence of harm to downstream buyers and that alleged "efficiencies" based on the decline in buy-side competition are not efficiencies.

Axel Gautier, Joe Lamesch (2021):
Between 2015 and 2017, Google, Amazon, Facebook, Apple, and Microsoft (GAFAM) acquired 175 companies for billions of dollars. This essay presents data and statistics on GAFAM's merger activities and the characteristics of the acquired companies. Often, the target's product is discontinued after the acquisition, especially for younger enterprises. This is due to factors such as not performing as expected, being driven more by the target's assets or R&D efforts than the product, or removing a potential competitive threat. The research shows that most businesses fail in their early stages, requiring stricter competition authorities' participation in merger situations involving major technology companies.

Vincenzo Denicolò and Michele Polo (2017):
Horizontal mergers can promote innovation in the Federico, Langus, and Valletti model by minimizing duplication of R&D activities. Higher invention value leads to a slower return on R&D investment, and more closely connected initiatives increase this possibility. Federico, Langus, and Valletti (2017) only consider the scenario where merged firms distribute R&D spending equally among their research units, which is ideal only if returns decline quickly.

Giulio Federico, Gregor Langus, Tommaso Valletti (2017):
This study examines the impact of mergers on innovation incentives, finding that merging parties reduce innovation efforts, while non-merging parties increase them. This results in less overall innovation, and

consumers lose out. The model questions whether the "inverted-U" link between innovation and competitiveness holds in merger environments

3.1 RESEARCH GAP

Earlier research concentrated more on studying the outcomes of Bothe mergers and acquisitions, but very less emphasis is given to examining the outcomes of only mergers. This has helped us to draw the objectives of the study and carry out further research

3.2 STATEMENT OF THE PROBLEM:

"The is very little research done on mergers of banks"

H0: The merger of banks does not lead to profitability
H1: The merger of banks leads to profitability

Objectives:

1. To study the profitability of mergers in banking sector.
2. To Study the factors affecting profitability of mergers in different banks.
3. To shady the profitability of mergers during 2010-2021 in banking sector.

3.3 RESEARCH METHODOLOGY:

TYPE OF RESEARCH: - Exploratory Research

DATA COLLECTION PROCEDURE:

The two sources of data collection are:
Primary data collection
Secondary data collection
PRIMARY DATA: the data are collected through survey, observation, and questionnaire.
SECONDARY DATA: the data collected through website, articles.

IV. RESULTS AND DISCUSSION

4.1 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account State Bank of India:

YEARS (2000's)	14	15	16	17	18	19
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	10,891.51	13,101.90	9,950.98	10,484.42	(12,954.83)	(14,216.34)

In the above table, this bank's Profit before the merger is for years 2014 - 10,891.51 Cr. ,2015 -13,101.90 Cr., and 2016 – 9,950.98 Cr. After the merger is for the year 2017 - 10,484.42 Cr. ,2018 – (-12,954.83 Cr.) and 2019 – (-14,216.34 Cr.). According to the above table, the profit of this bank decreased year on year after the merger of the bank.

4.2 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account ICICI Bank:

YEARS (2000's)	08	09	10	11	12	13
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	6,729	9121	9161	8265	11707	15,379.71

YEARS (2000's)	18	19	20	21	22	23
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	-5,247	-2,947.45	-2,897.78	2,905.97	5,232.10	8,433.27

In the above table, this bank's Profit before the merger is for years 2008 - 6,729 Cr., 2009 -9121 Cr., and 2010 – 9161 Cr. After the merger is for the years 2011 – 8265 Cr., 2012 – 11707 Cr. and 2013 – 15,379.71 Cr. According to the above table, the profit of this bank increases year on year after the merger of the bank.

4.3 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account Punjab National Bank:

In the above table, this bank's Profit before the merger is for years 2018 – (-12,283Cr.), 2019 – (-9,975.49 Cr.), and 2020 – 336.19 Cr. After the merger is for the years 2021 – 2,021.62 Cr., 2022 – 3,456.96 Cr. and 2013 – 2,507.20 Cr. According to the above table, the profit of this bank increases year on year after the merger of the bank.

4.4 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account Union Bank of India:

YEARS (2000's)	18	19	20	21	22	23
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	-12,283	-9,975.49	336.19	2,021.62	3,456.96	2,507.20

in the above table, the Bank of India's Profit before the merger is for the years 2018 – (-5,247 Cr.), 2019 – (-2,947.45 Cr.), and 2020 – (-2,897.78 Cr.) After the merger is for the years 2021 – 2,905.97 Cr., 2022 – 5,232.10 Cr. and 2013 – 8,433.27 Cr. According to the above table, the profit of this bank increases year on year after the merger of the bank.

4.5 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account Bank of Baroda:

YEARS (2000's)	18	19	20	21	22	23
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	-2,432	433.52	546.19	828.96	7,272.28	14,109.62

In the above table, this bank's Profit before the merger is for years 2018 – (-2,432Cr.), 2019 – 433.52 Cr., and 2020 – 546.19 Cr. After the merger is for the years 2021 – 828.96 Cr., 2022 – 7,272.28 Cr. and 2013 – 14,109.62 Cr. According to the above table, the profit of this bank increases year on year after the merger of the bank.

4.6 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account IDFC Bank:

YEARS (2000's)	16	17	18	19	20	21
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	467	1,019.74	859.3	-1,944.18	-2,864.21	452.28

In the above table, this bank's Profit before the merger is for years 2016 – 467 Cr., 2017 – 1,019.74 Cr., and 2018 – 859.30 Cr. After the merger is for the years 2019 – (-1,944.18 Cr.), 2020 – (-2,864.21 Cr.) and 2021 – 452.28 Cr. According to the above table, the profit of this bank decreases year on year after the merger of the bank.

4.7 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account Kotak Mahindra Bank Ltd:

YEARS (2000's)	12	13	14	15	16	17
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	1,085	1,360.72	1,502.52	1,865.98	2,089.78	3,411.50

In the above table, this bank's Profit before the merger is for years 2012 – 1,085 Cr., 2013 – 1,360.72 Cr., and 2014 – 1,502.52 Cr. After the merger is for the years 2015 – 1,865.98 Cr., 2016 – 2,089.78 Cr. and 2017 – 3,411.50 Cr. According to the above table, the profit of this bank increases year on year after the merger of the bank.

4.8 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account Canara Bank:

YEARS (2000's)	18	19	20	21	22	23
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	-4,222.24	347.02	-2,235.72	2,557.58	5,678.41	10,603.76

In the above table, this bank's Profit before the merger is for years 2018 – (-4,222.24 Cr.), 2019 – 347.02, and 2020 – (-2,235.72Cr.) After the merger is for the years 2021 – 2,557.58 Cr., 2022 – 5,678.41 Cr. and 2023 – 10,603.76 Cr. According to the above table, the profit of this bank increases year on year after the merger of the bank.

4.9 Results of Descriptive Statics of Study Variables of Table of Profit & Loss Account Indian Bank:

YEARS (2000's)	18	19	20	21	22	23
PROFIT & LOSS ACCOUNT (in Rs. Cr.)	1,258.99	321.95	753.36	3,004.68	3,944.82	5,281.70

In the above table, this bank's Profit before the merger is for years 2018 – 1258.99 Cr. 2019 – 321.95, and 2020 – 753.36 Cr After the merger is for the years 2021 – 3004.68 Cr., 2022 – 3944.82 Cr. and 2023 – 5287.70 Cr. According to the above table, the profit of this bank increases year on year after the merger of the bank.

Overall Analysis:

In the above data, the banks which are merged more than 75% of banks have led to profitability except few banks. From the above 9 samples of merger banks, 7 gets profitable and 2 of the banks get loss after mergers

5.1 FINDINGS:

- In SBI the profit after the merger has reduced. After 1 year of the merger, the bank incurred losses
- In ICICI Bank the profit after the merger has increased gradually year on year.
- In Punjab National Bank the profit after the merger has increased gradually year on year and after 2 years the profit has reduced
- In Union Bank of India, the profit after the merger has increased gradually year on year.
- In the Bank of Baroda, the profit after the merger has increased gradually year on year.
- In IDFC Bank, the profit after the merger has reduced, and leads to losses for 2 years and it has gone into profit.
- In Kotak Mahindra Bank Ltd, the profit after the merger has increased gradually year on year.
- In Canara Bank, the profit after the merger has increased gradually year on year.
- In Indian Bank, the profit after the merger has increased gradually year on year.
- The merger has been overall profitable for the Banking sectors.
- The profit leads to reaching more customers in the country.

5.2 SUGGESTIONS:

I suggest that the mergers are a good and the banks which are under losses must undergo the mergers with other banks that will help to survive in the market for a long period

Conclusion

According to my study, the merger has a positive and leads to profits for the banking sectors as 77.7% leads to profits for the banks and 22.3% has the chance of getting into losses but in the long run, it has turned its losses into profits. So, mergers are good for the banking sectors, they also increased the consumer base of the banks, & the cost of maintenance also reduces and makes more profitable in the long run the banking industry..

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