

JKIJMSS

@JK Business School

Vol. 5 Issue No.1 & 2 November 2022

Pages:52-56

ISSN 2581-7337

<https://www.jkbschool.org/research-journals/>

## **CASE STUDY ON MERGER BETWEEN HDFC LTD. AND HDFC BANK**

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The merger between HDFC LTD. and HDFC Bank created the largest private sector bank in India with a market capitalization of INR 14 lac Cr. The deal between HDFC Ltd and HDFC Bank has been in the works since 2014. These entities already have an agreement whereby HDFC Ltd will sell a portion of its home loans to the HDFC Bank every quarter.

On 4th April 2022, The Board of Housing Finance Firm Housing Development Finance Corporation Limited (HDFC Ltd) approved the proposal to merge its subsidiaries and associates with HDFC Bank. As per the announcements made by entities, HDFC Ltd and HDFC Bank will merge. One entity will be dissolved as HDFC Ltd. After this announcement Share Prices of HDFC Bank Ltd and Housing Development Finance Corporation Limited gained 1656 rupees and 2680 rupees respectively.

As competition increases intensively, this merger is likely to have major implications for the financial sector. As per the Transactional Strategy, Housing Development Finance Corporation Limited (HDFC Ltd), the biggest Housing Finance Company in India will be merged into HDFC Bank Ltd, the largest private bank in India. HDFC Ltd has Rs 5.3 trillion worth of Assets under Management (AUM) and Rs 4.45 trillion worth of market cap. HDFC Bank Ltd has Rs 8.35 trillion worth of market cap. The entity will get the strength of a combined balance sheet of Rs. 18 trillion (Rs. 18 lac crore) and a net worth of Rs. 3.3 trillion (Rs. 3.3 lac crore). Around 9 million homes were provided or financed by Housing Development Finance Corporation Limited in the journey of 45 years. While this merger will provide a large customer base to sell the products, HDFC bank will get the leverage of distribution of their products across urban, semi-urban, and rural areas. After the merger, shareholders of HDFC Ltd. will own around 41 % of HDFC Bank Ltd., and HDFC Ltd shareholdings will be extinguished in HDFC Bank Ltd.

**BENEFITS:**

- ❖ This merger will reduce the proportion of unsecured loans provided by HDFC Bank.
- ❖ The merger of HDFC Ltd and HDFC Bank Ltd will be beneficial for both entities. The combination of both entities provides strength to HDFC Bank by adding to the dominating position of HDFC Ltd in the housing finance sector. By improving the scalability, distribution, and cross-sell of products (like housing finance and banking).
- ❖ The announcement of this merger gives a positive impact on share prices and this shows that people have a belief in this merger. It will help the company increase profitability.
- ❖ Since the 2018 Infrastructure Leasing and Financial Services (IL&FS) crisis, RBI has been pushing (NBFCs) to work as a bank, thus this merger became necessary for HDFC Ltd and creates an advantage over the competition.
- ❖ Operating a non-banking financial company (NBFC) with around a net Sale turnover of 50 crores becomes a challenge and by this merger, HDFC Bank will get help to build its housing loan portfolio. By adding to this, HDFC Bank gets a strong base in the real estate market which provides a secured asset class with low risk.
- ❖ Overall, this merger will become beneficial for both the entities by creating increased scale, comprehensive product offering, balance sheet resiliency, and the ability to drive synergies across revenue opportunities, operating efficiencies, and underwriting efficiencies.
- ❖ For HDFC Bank, the portion of home loans increased from 11 percent to 33 percent. This would make HDFC India's 2nd largest bank overall and the largest private-sector bank.

In the long run, this merger will help cut down the cost of loan pricing, cost of operations, and cost of operation of establishments. But this will take around 4 -5 years. Initial years will be difficult for the merged entity. The finance of HDFC bank Ltd may not look good in the initial 2-3 years. Amount of statutory reserves will increase, housing finance comparatively has a low yield, and the clubbing of housing finance book with loan book makes a net margin of four percent which may affect the bank's finance.

Indian Private sector banks need to scale latent demand for credit in the Indian economy since there will be a great boom in the coming decade. The merger of NBFCs with the bank will be the

additional credit for both. The merger of HDFC and HDFC Bank can be a win-win situation for both companies by getting cheaper franchises and funds.

### **Benefits to Shareholders:**

Shareholders of HDFC limited will get the premium the bank trades at to the holding company. The big loan base provided by this merger will act as a natural shield for asset quality. The asset quality is not disturbed due to diversifying loan books. The merged entity will provide more scalability and the lower costs of funds will lead to more funds being available for the mortgage business. HDFC Bank gets loan servicing process of HDFC Ltd., and an increase in share prices will directly benefit the existing shareholders of both entities. After the merger, existing shareholders of HDFC Ltd. Will own around 41 % of HDFC Bank Ltd., and HDFC Ltd shareholdings will be extinguished in HDFC Bank Ltd. Every existing shareholder of HDFC Ltd will get 42 shares in HDFC Bank for 25 Shares held by them in HDFC Ltd. This merger may also boost Shareholder's value by strengthening the balance of both companies.

### **What the merger means for Depositors:**

There are two types of fixed deposits (FD) in HDFC Ltd a) Automatic Renewal and b) Non-Automatic Renewal. In automatic renewal, the Fixed Deposit will automatically be renewed at the operable rate of interest on the maturity date for the same tenure. In Non- Automatic Renewal, the matured amount of Fixed Deposit is transferred to the FD holder's Bank Account.

The Individuals who have an automatic renewal of the Fixed Deposit with HDFC Ltd. Can either withdraw the money or renew FD with HDFC Bank at the interest rate offered by the bank. The interest rate of HDFC bank has been lower than the rate of HDFC Limited.

- When an individual invests in Fixed Deposits for below 2 crore rupees for a tenure of 66 months then HDFC Ltd will offer the interest rate of 6.55%. Whereas for the same tenure and amount HDFC Bank will offer only a 5.6% rate of interest.
- When Senior citizens invest in Fixed Deposits for below 2 crore rupees for a tenure of 66 months then HDFC Ltd will offer the interest rate of 6.80%. Whereas for the same tenure and amount HDFC Bank will offer only a 6.35% rate of interest.
- HDFC Ltd offers an additional 0.05% if individuals renew FD through the online automatic renewal.

Therefore, if somebody renews their FD with HDFC Bank, he will get lower than what he got with HDFC Ltd. But there will be more safety in HDFC Bank deposits and interest under the DIGC (Deposits Insurance and Credit Guarantee Corporation).

### **What the merger means for borrowers:**

There will be no impact on the term and condition of the loan which was taken from HDFC Ltd and if any individual wants to take a loan from HDFC Ltd, the term and conditions remain the same. However, after the merger of HDFC Ltd and HDFC Bank Ltd is approved, the interest rate of home loans will be revised. Currently, HDFC Ltd provides home loans at 6.70% to individuals who have a 750 credit score. If an individual has a credit score below that threshold, the interest rate will be between 6.80% to 7.30%. For women borrowers, HDFC Ltd provides home loans at 6.70% for those with a 750 credit score. If they have a credit score which is below that threshold then the interest rate will be between 6.75% to 7.25%.

So, after the merger, the rate of interest on home loans may be revised. HDFC Bank may mandate the customers of HDFC Ltd to update their KYC and NACH. This will ensure auto-debit installments of home loan EMIs easily.

### **CONCLUSION**

As we concluded, an amalgamated entity will be more secure for depositors, borrowers also get benefits, and the last belief of shareholders shows that this merger will be beneficial. The success of a merger is shown by elements like the company's market growth, shareholder's interest, and corporate growth. Hence by this study, we can say this merger will be beneficial to enhance all these elements.

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