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A Study on Merger of HDFC Twins

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Abstract

The researcher's major goal was to determine the effects of the merger between HDFC Bank and HDFC Ltd.

The main objectives of this merger are to expand into new markets, lower operating expenses, bring together shared products, grow revenues, and boost profits while also achieving strategic expansion in terms of clientele and client base. The purpose of the study was to ascertain the factors that led to the merger as well as the advantages that resulted from the merger. Information was gathered from secondary sources, including articles, websites, and merger reports.

The study shows that as a consequence of these banks' merger, their financial performance, growth, and effectiveness have all greatly increased.

Keywords: Merger, HDFC twins, bank

Introduction

An entrepreneur has two options for expanding their business: internally or externally. When a company expands internally, it does so gradually throughout its operations through the acquisition of new assets, the replacement of technologically outdated equipment, and the introduction of new product lines. However, with external expansion, a company buys an existing company and expands quickly through corporate mergers. These combinations, which include takeovers, mergers, acquisitions, amalgamations, and other similar transactions, are now crucial components of corporate restructuring.

They have gained popularity as a result of increased competition, the removal of trade restrictions, the unrestricted flow of cash, and the globalization of corporations. Due to their increased exposure to domestic and international competition in the aftermath of economic reforms, Indian industries have also begun to restructure their operations around their main business activities through mergers, acquisitions, and takeovers.

Companies today should merge to avoid competition and benefit from a temporary monopoly. Indian businesses are engaging in mergers and acquisitions to combat unhealthy rivalry and meet global challenges as the economy has become more competitive.

Nowadays, the majority of businesses consider mergers and acquisitions as an easy method to expand financially and strategically. In addition to having a significant impact on a company's financial results, mergers and acquisitions also have a significant impact on the acquirer company's stock price.

The international economy has recently become driven by mergers and acquisitions, which have also been a key component of many banks' strategies in recent years. Numerous studies in this field have demonstrated the diversity of the causes for mergers; as a result, studies often uncover multiple motives and reasons for mergers rather than just one. The primary drivers behind mergers can be both internal and external, such as increasing the value of the acquiring company through globalization, deregulatory reform, and technological advancement.

The astonishing rise of HDFC Bank from a small private bank to a major financial force has altered Indian banking. The HDFC Bank established the way for the nation's private banking industry with its innovative leadership, groundbreaking tactics, and unrelenting pursuit of quality. As a company, HDFC Bank keeps redefining banking standards, fostering client trust, and establishing new performance benchmarks, advancing India toward a better and more affluent future.

HDFC Twins Merger

The merger of India's largest private sector bank, HDFC Bank, with one of the country's largest housing financing providers, HDFC Ltd., was announced on April 4, 2022. Within 18 months of the announcement, the event will be put into action.

The merger event was also approved by the Reserve Bank of India. This merger will enable the HDFC Bank to efficiently offer house loans to a huge customer base, improving the nation's credit growth. The total asset base of this planned merger is around Rs. 18 lakh crore.

The bank increased its PSL mix from 30% to 36% in FY23 by concentrating on its core Priority Sector Lending (PSL). In addition, the CRB segment's GNPA ratio decreased to 1.52% in FY23, indicating an increase in asset quality.

The HDFC, HDFC Bank consolidation made it the world's fourth biggest bank of the world after JP Morgan Pursue and Co., Modern and Business Bank of China Ltd (ICBC), and Bank of America Corp. After this consolidation, HDFC Protections, HDFC AMC, HDFC GIC, HDFC Capital Counselors, and HDFC Extra Security have turned into the vital auxiliaries of HDFC Bank.

Impact on Shareholders of HDFC LTD

Existing HDFC shareholders would own 41% of the combined company after the merger, making public shareholders the sole owners of HDFC Bank. Each shareholder received 42 HDFC Bank shares for every 25 HDFC shares they owned.

HDFC Bank's market share rose to 15% from its previous level of 11%.

HDFC converged with its subsidiary HDFC Bank on July 1, 2023, following what portions of HDFC quit existing on bourses from Thursday, July 13.

Objectives

- i). To know the reasons behind the merger of HDFC Bank and HDFC Ltd.
- ii). To study the impact of merger on the Indian Stock Market.
- iii). To study the impact of the HDFC Twin merger on various stakeholders.

Review of Literature

Dr. Priyanka Ghosh (2022) has researched about the merger of HDFC Bank with HDFC Ltd. The researcher additionally attempted to ascertain whether the merger announcement had resulted in any gains on the event day as well as during the designated pre-and post-event windows. According to the analysis, the merger news caused an unusual return on the event date.

Research Methodology

The entire paper is based on secondary data. Articles, websites, and newspapers have all been gathered and studied for the study's purposes to form a conclusion. Online databases were used for this paper's search, along with online articles and content from numerous websites.

Reasons behind the Merger

Home loans are a highly emotive commodity that also offers the Bank several quick advantages. Inventory levels have decreased as a result of price adjustments in the real estate market. Additionally, as salaries have increased, home loan EMIs as a percentage of income have decreased. As a result, housing will present a significant growth opportunity and serve as one of the major drivers of India's GDP over the ensuing ten years.

Additionally, just 2% of HDFC Bank's clients obtain their mortgages from the bank, while 5% do so from other organizations. Additionally, nearly 70% of HDFC Ltd.'s clients do not bank there.

All of these gave an idea to seize the opportunity that can't be missed. Home loans' long-term nature gives the balance sheet resilience. We must take advantage of this opportunity given

the benefit of lower funding costs and the incredible distribution muscle we have developed.

There have also been some positive aspects. The regulatory disparity between banks and NBFCs has significantly decreased over the last few years. Reserve needs have decreased from 26% to roughly 22% now. Due to their enhanced focus on MSMEs, their ability to make affordable housing loans, and the thriving PSL certificate market, they are now able to increase their lending to key sectors as a result of the merger. All of this implies that additional funding may not be needed to meet reserve requirements on the day of the merger. As a result of the inclusion of the house mortgage portfolio, their balance sheet is now more robust and diversified.

Key Changes that Occurred after Merger on the Indian Stock Exchange:

Table 1: Change in weight in Nifty50, Nifty Bank, Sensex:

Change in Weight	Before Merger		After Merger
	HDFC Bank	HDFC Ltd	HDFC Bank
Nifty 50	8.59	5.93	14.43
Nifty Bank	26.90	---	29.10
Sensex	9.65	6.51	16.70

HDFC Bank has seen a vertical weight modification from 26.90% to 29.10% in Nifty Bank with the change ICICI Bank has seen a downward change in its weightage in Nifty Bank.

The revised weight of HDFC Bank post-merger has increased to 14.43% in Nifty 50, making it the highest weightage in any single constituent in Nifty 50.

Sensex has also shown an upward increment in weight post-merger.

i). Changes in Sensex, Nifty: As HDFC shares failed to exist, portions of LTI Mindtree had their spot in the Nifty50 record while in the Sensex file, JSW Steel supplanted HDFC. Jindal Steel entered the Nifty Next 50 file after the exit of LTI Mindtree from it.

ii). HDFC Bank to Turn Out to be the Second Biggest Firm: The general Market Capitalisation (mcap) of HDFC Bank will currently be more than 14 lakh crore which will make it the second biggest firm, after Dependence Ventures, as far as mcap in India. TCS, which was at the subsequent spot, will presently slip to the third spot with a mcap of almost 12 lakh crore.

HDFC Bank Gain

Huge Home Loan Book: The planned merger will make it possible for HDFC Bank to expand its portfolio of housing loans. The housing loan market offers a reliably secured asset class with highly good risk-adjusted returns as it enters a robust up-cycle with the support of the real estate industry. The merged entity's balance sheet will grow as a result, making it possible for it to approve loans with huge ticket amounts.

Huge Asset Size: The Asset base after the merger has increased to Rs. 18 lakh crore, only second to SBI.

More Weightage: HDFC Bank's weightage in Nifty and Bank Nifty post-merger has increased significantly.

HDFC LTD Gain

For HDFC Ltd., the merger into HDFC Bank has several benefits that will strengthen its standing in the market as well as its expansion prospects.

Lower Costs of Funds: Banks often have lower costs of funds since they accept deposits from the general public, therefore the cost of funds will decrease.

Enhanced Product Portfolio: HDFC's merging with HDFC Bank gives it the chance to expand the range of products it offers. The bank's diverse product offering, which includes wealth management, corporate banking, retail banking, and digital banking solutions, enables HDFC to diversify its services and serve a larger clientele.

Access to a Larger Customer Base: By joining forces with HDFC Bank, HDFC Ltd is given accessibility to the bank's sizable customer base. This exposure expands HDFC's potential client base for its home financing services and goods, creating additional growth opportunities.

Effectiveness in Operation and Cost Savings: The combination enables HDFC to take advantage of HDFC Bank's technological foundation and effectiveness in operation. The combined firm can save money, enhance productivity, and optimize operations, which will raise profitability, by streamlining processes and pooling resources.

Geographic Expansion: Although HDFC Bank has a substantial presence in urban and semi-urban areas, HDFC Ltd. has a greater market penetration in both urban and rural sectors. The united company will be able to service a wider spectrum of customers and tap into untapped areas as a result of the geographic expansion made available by the merger. This broader reach will assist the bank's growth and market penetration.

Gains to Retail Investors

Increased Investment Possibilities: The merger presents a chance for small-scale investors to place their money in a more powerful more diversified financial institution. Greater investor interest may result from the merged entity's larger product line, heightened market dominance, and enhanced stability in its finances.

Possibility of Capital Appreciation: As the outcome of the merger, it is anticipated that the merged entity's market value will increase gradually. Retail investors who own shares of HDFC Ltd. or HDFC Bank may see higher returns as a result of this possibility for capital growth.

A Wider Range of Financial Services: It will be available to retail investors, who will profit from having access to all available services under one roof. Retail investors will be able to conveniently meet their varied investment and financial demands

Enhanced Liquidity: Liquidity could rise as a result of the merger for small-scale investors. Increased business and market presence of the bigger entity.

Table 2: Effects on Shareholders

Short-Term Effect	Long-Term Effects
Both firms' stock prices could be impacted.	Merger provides the merged organization with opportunities for growth and a stronger competitive position.
Investors may review their stock selections.	Enhanced financial capability and increased operational effectiveness
Stock price fluctuations are driven by investor confidence and market sentiment.	Possibility of long-term increased profitability and shareholder value

Gains to Depositors

Customers of HDFC's fixed deposit (FD) would not experience any changes to their Fixed Deposit account

number, rate of interest, method of calculating interest, duration, termination directions, or payouts. The HDFC FD receipt will be valid until mature.

Any FDs with renewal dates will be renewed by HDFC Bank's terms and conditions, and the FD will be subject to the rate of interest in effect on the day of renewal.

Customers of HDFC are going to have access to all current HDFC locations as well as more than 7,500 HDFC Bank locations.

Any current recurring deposit (RD) that you have with HDFC will remain in effect as it was before the merger. One would have to open a savings account with a bank to open a new RD.

Gains to Borrowers

There will be no immediate effects of the merger on the loans HDFC loan borrowers have outstanding. There will be no changes to the loan account number, loan agreement conditions, repayment schedule, or equated monthly instalment (EMI). Additionally, interest rates will not alter, and any future changes will be disclosed to the borrowers.

The merging is unlikely to change any of the terms and circumstances in the existing house loans, which is in keeping with one of the main worries about them since borrowers will continue to pay the EMI by their present repayment schedules.

Using an OTP or the currently used login ID and password, one can access the loan information on the HDFC portal. After the merger, the loan account will be transferred to HDFC Bank, but the HDFC portal will still be active and its loan customers can still log in using their current credentials. Additionally, they can view their loan information by visiting the home loan section on the Bank website

Challenges

Although the acquisition received plaudits from a variety of financial sector stakeholders in India, there are considerable obstacles to the merger and to sustaining its long-term effectiveness.

Obtaining clearances will be the hardest challenge.

There are so many industries that are merging, including banking, asset management, and insurance. The hardest part of this merger will therefore be securing regulatory permission.

Second, the staff at HDFC Ltd. is mostly accustomed to marketing mortgages. It will be quite difficult for them to adjust to a completely new set of products and procedures once they join the banking industry.

Running branches and developing a workable plan for their successful and long-term operation posed a third hurdle.

Ahead of Merger

As part of its attempts to adjust to the digital world, HDFC Bank stated that it intends to modernize its current infrastructure, develop competencies, and create Centers of Excellence (CoE). Broad-based growth prospects are anticipated, principally propelled by technical developments and a growing distribution network. Improved cross-selling efforts are also projected to support revenue growth.

Additionally, the bank intends to provide its digital 10-second personal loan product to new-to-bank (NTB) clients.

With the help of a strong distribution network and a growing branch presence, the bank plans to treble its CRB portfolio over the next three years.

The operations of HDFC Bank are expected to receive consistent investments, including the continuous opening of 1,500 branches annually. While there may be some short-term variations in the cost-to-income (C/I) ratio, the bank anticipates that it will stabilize at roughly 30% over the following ten years. While accelerating deposit growth, the bank seeks to maintain a healthy current and savings account (CASA) ratio in the 40s.

Conclusions

Overall, this Twin Merger is a perfect match, resulting in enhanced scale, a wide range of products, financial robustness, and the capacity to develop synergies across revenue prospects, operating efficiency, and underwriting efficiencies, therefore generating value for stakeholders of both firms.

Following the consolidation, we maintain a positive outlook for HDFC Bank due to the coordination advantages of the consolidation, convincing valuations of the blended element, higher strategically pitching open doors and circulation influence for the bank, and recent prudent lending areas of strength for and establishment of the moneylender. As a result of its increased scale, comprehensive product offering, balance sheet resiliency, ability to generate synergies across revenue opportunities, operating efficiencies, and underwriting efficiencies, the merged entity brings strong complementarities that the two organizations are experiencing together. We acknowledge that HDFC Bank will likely add strongly to the files given its areas of strength and the anticipated unaffected streams from record assets and ETFs.

In the Indian banking sector, this merger represents a significant turning point. The future of expansion and domination for HDFC Bank looks promising. The merger raises concerns about whether other significant NBFCs will adopt a similar strategy of acquisitions and mergers. If there are more of these significant mergers and acquisitions, one would ask how the rivalry in the Indian financial sector will change. It will be interesting to see how this occurrence impacts both major and small company equities in the financial industry.

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