International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor 7.098 Volume 11, Issue 03, March 2024

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# The Story Behind the Merger of HDFC and HDFC Bank

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**ABSTRACT**: The research study attempts to discover the reasons behind the merger of HDFC Ltd and HDFC Bank. The purpose of this study is to find out the implications of the union on the financial performance of the merged entity. The study also tried to find out the impact of consolidation on shareholders, depositors and borrowers of HDFC Ltd. After the thorough study of both entities, it is observed that the merger will be beneficial to shareholder, depositors, and borrowers the HDFC Ltd. After the merger market capitalisation of HDFC Bank will go up and it will become the 4th largest bank in the world as well as number one private bank in India

**KEYWORD:** HDFC Ltd, HDFC Bank, Merger, Impact of Merger, Consolidation.

## I.INTRODUCTION:

HDFC was founded under the leadership of H T Parekh, also known as Hasmukhbhai, Born on March 10, 1911, Hasmukhbhai went on to study Banking and Finance at the London School of Economics. After returning to India in 1936 Parekh began his career in finance with a stock broking firm Harkisandass Lukhmidass. He served the firm for two decades.
In 1955 Hasmukhbhai played a key role in the foundation of the Industrial Credit and Investment Corporation of India, now known as ICICI Bank. He retired from ICICI's Board in 1976 as the Chairman. It was after his retirement he went on to lay the foundation of HDFC.

### HDFC Limited

HDFC Limited is a deposit-taking housing finance company registered with NHB and its shares are listed on BSE Limited and National Stock Exchange of India Limited. Established in 1977, HDFC Limited is India's largest housing finance company established as the first specialized Mortgage Company in India, over the period of 45 years, HDFC Limited is a pioneer in the business of providing housing finance and mortgage facilities to individuals and corporate for the purchase and construction of residential houses, real estate, rural housing, etc. HDFC Limited is registered with the RBI as a Non-Banking Finance Company - Housing Finance Company (NBFC-HFC). As of March 31, 2022, the market cap of HDFC Limited is INR 4,333 Billion (approx. USD 57 Billion) and the gross outstanding loan book stands at INR 6,539.02 Billion (approx. USD 86.15 Billion) with an average loan term of 12 years . With over 15 subsidiaries across India and overseas, HDFC

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Limited is a financial conglomerate that operates in various segments such as life and general insurance, asset management, venture capital, realty, education, etc. with over 464 operating branches across the country. Currently, HDFC Limited has 100% public shareholding comprising of foreign portfolio investors, financial institutions, and banks, mutual funds, etc. and is listed on the NSE and BSE.

**HDFC Bank**

HDFC Bank is a banking company licensed by the RBI under the provisions of the Banking Regulation Act, 1949. The equity shares warrants and NCDs issued by the HDFC Bank are listed on BSE and NSE and the ADRs issued by HDFC Bank are listed on NYSE.

Established in 1994, HDFC Bank is one of the first banks to receive in-principle approval from RBI to set up a private sector bank as a part of RBI's scheme of liberalization of the Indian banking industry. HDFC Bank undertakes business of providing financial and banking services including wholesale banking,

retail banking and treasury operations. HDFC Bank is the second largest bank in India after State Bank of India with a market cap of approx USD 107 Billion (as on 31 March 2022) and a banking network of 6,342 branches in 3,188 cities and towns.

As on 30 June 2022, HDFC Bank's advances aggregated to approx. INR 13.68 Lakh Crores (approx. USD 171Billion), deposits aggregated to approx. INR 15.59 Lakh Crores (approx. USD 194.875 Billion) and CASA

deposits aggregated to approx. INR 7.34 Crores (approx. USD 917.5 Thousand). HDFC Bank's total net profit as of March 2022 was INR 36,961.3 Crores (approx. USD 4.62 Billion). After the implementation of the Scheme, HDFC Bank's market share is expected to improve from 11% to 15% and it will be one of the most valuable banks in the world.

**TYPES OF MERGER**

**Vertical Mergers**

In a vertical merger, the business grows either forward toward the client or backward toward the raw material source. Using a supplier's or a buyer's product or intermediate material in the final production process allows for this. When a company merges or acquires another, it is said to have integrated its supply chain backwards, but when it integrates its supply chain forwards, it is said to have integrated its demand chain.

**Horizontal Mergers**

When two firms that operate in the same market, cater to the same type of consumer, or are in the same phase of production combine into one, it is considered a horizontal merger. In plain English, a horizontal merger occurs when two competitive businesses combine

**Conglomerate Mergers**

A conglomerate merger is merger of two businesses operating in unrelated industries. Utilization of financial resources, expansion of debt-acquiring capacity, diversification of company risks, entry into new rising areas, and exploitation of managerial synergies are all motives for such mergers

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**Reverse Merger**

Reverse merger can be understood in two different ways. First, the most common kind of reverse merger combines a healthy organization with a failing or losing business. Technically speaking, it is categorized as a "tax-friendly merger." A reverse merger occurs when a smaller, private company acquires a larger, publicly listed company. Also known as a reverse takeover, the “reverse” term refers to the uncommon process of a smaller company acquiring a larger one

**MERGER OF HDFC LTD WITH HDFC BANK**

It is a kind of reverse merger as the HDFC Ltd is going to merge into HDFC Bank which is its subsidiary. The proposed merger is structured as a two-fold Scheme under Sections 230 to 232 of the Companies Act 2013 and provisions of the Banking Regulation Act.

**First Merger** Under the first leg of the Scheme, the identified wholly-owned subsidiaries of HDFC Limited i.e., HDFC Investments and HDFC Holdings will merge into HDFC Limited along with its business, assets, properties, investments and liabilities. **Second Merger** HDFC Limited will merge into HDFC Bank, along with its business, assets, properties, investments and liabilities.

Upon the Scheme becoming effective, the shareholders of the HDFC Limited will receive shares of HDFC Bank as per the Share Exchange Ratio. The equity shares held by HDFC Investments and HDFC Holdings in

HDFC Limited and the equity shares held by HDFC Limited in HDFC Bank will be extinguished as per the Scheme.

HDFC, India’s largest housing finance Company, has merged with HDFC Bank, the country’s largest private sector Bank. The merger is effective from July 1, 2023. This merger of HDFC with HDFC Bank has created India’s third-largest entity as far as market capitalization is concerned.

**II. REVIEW OF LITERATURE**

1. Prannath Singh Yadaw and Ayushi Agarwal (2023) stated that recent mergers and acquisitions in the banking industry have resulted in the formation of a number of big worldwide corporations. There were not many variations between the profitability ratios of a few Indian banks selected for mergers and acquisitions before and after the study period, according to the current research. Comparable decreases in performance are observed among matched firms. Consequently, the merger cannot be held wholly responsible for the decline in performance of the merging organizations. However, there is a significant possibility that future profitability will improve. However, overall statistics indicate that merging banks was more cost-effective. Mergers between strong and struggling banks did not result in any significant efficiency gains for participating institutions. However, the forced merger of these banks was effective in protecting the depositors of weak institutions, but the stakeholders of these banks have not established any merger advantages. The empirical findings of this study suggest that the trend of bank mergers in India has thus far been restricted to the reorganization of financially challenged and weak institutions. Because they operate on both

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domestic and foreign markets, India's largest banks are exposed to a number of hazards. Future mergers in the Indian banking sector were primarily driven by the challenges of free convertibility and the necessity for large investment banks. In order to reap the benefits of economies of size and scope, the government and policymakers must be more cautious when pushing for mergers.

**2.Chetan Kashyap** explained the reasons for bank Mergers and Acquisitions in the Indian banking sector. It also studies Bank of Baroda and its Associate's merger with Vijaya Bank and Dena Bank, the timeline of the merger and acquisition of BOB, the effects of Mega-merger on BOB and analyzing the Operational and financial performance of Bank of Baroda through Pre and Post-Merger period with the help of various parameters. The findings suggest that to some extent M&A has been successful in the Indian banking sector. The conclusion of this study is that the mergers of BOB would help in better management of capital. Along with the merger, the focus should be on adequate reforms in the governance and management of these banks. Finally, the area of service is widened due to the merger. Bank of Baroda has experienced a positive impact due to the merger. This comparative study includes data collected from secondary sources such as websites, articles and annual reports and analysis has been shown with the help of charts.

3. **Ishwarya** J (2019) tried to understand the resulting synergies and the long term implications of the merger on Indian Banking Sector. The paper also analyses emerging trends and recommends steps that banks should consider for future. With the help of secondary data the study covers the area of performance evaluation of M&A’s in Indian banking sector during the period. The study compares pre and post merger financial performance of merged banks with the help of financial parameters. The findings suggest that to some extent M&A’s has been successful in Indian banking sector. The Government and Policy makers should not promote merger between strong and distressed banks as a way to promote the interest of the depositors of distressed banks, as it will have adverse effect upon the asset quality of the stronger banks. It also studies the State Bank of India and its Associates merger with the pros and cons of the banks and the employees of the banks.

4. **Smita Meena, Pushpender Kumar** (2014) stated that to some extent M&A’s has been successful in Indian banking sector. The Government and Policy makers should not promote merger between strong and distressed banks as a way to promote the interest of the depositors of distressed banks, as it will have adverse effect upon the asset quality of the stronger banks. The study covers the area of performance evaluation of M&A’s in Indian banking sector during the period from 2000 to 2013. The paper compares pre and post merger financial performance of merged banks with the help of financial parameters like, Net Profit margin, operating Profit margin, Return on Capital Employed, Return on equity, earnings per share, capital adequacy ratio, dividend per share etc.

5. K.Naveen Kumar and Manali Upadhyay (2022) found out that most the financial ratios did not indicate any increase after the mergers and acquisition. This research study aims at studying the impact of mergers and acquisitions in India Services Industry with special reference to the Banking companies. To achieve this goal pre-merger and post –merger analysis of key financial parameters specific to banks was used evaluate the selected ratios

such as: Return on Assets, Capital Adequacy Ratio, Return on Equity, Net Interest Margin and Loan- to- Assets Ratio. The statistical tools and techniques used are statistical mean and regression analysis.

## III.RESEARCH METHODOLOGY

### OBJECTIVES OF STUDY

1. To analyse the strategic reasons behind the merger of HDFC Ltd and HDFC Bank
2. To study what are the future perspectives of the merged entity after this decision of consolidation
3. To understand why the shareholders of HDFC Ltd are happy with the decision of merger
4 To study the impact of the merger on employees of HDFC Ltd
5. To study the impact of the merger on present customers **of HDFC Ltd**

### SAMPLE SELECTION

The study analyses the HDFC Ltd and HDFC Bank undergone merger

### SOURCES OF DATA

The secondary data is collected for the study. The required data for the study were collected and compiled from research journals, magazines websites business news channels and the annual reports of the banks.

### LIMITATION

1. The study ignores the impact of possible differences in the accounting methods adopted by different companies.
2. The factors which effect the M & A performance may not be same for all companies.
3. The cost of acquisition for mergers is not considered in the methodology

## IV. STRATEGIC REASONS OF MERGER

### Source of Low Cost fund

In 2021, a series of regulatory measures by RBI has over the years nullified HDFC Limited's advantages of remaining as NBFC and made raising money for NBFCs difficult. HDFC Limited had to rely on wholesale fund-raising from the market or borrowings from banks, both of which are relatively costly. Therefore, the merged entity will be able to improve its loan book with the help of HDFC Bank's low cost funding base.

### Harmonization of financial regulations

Further, recent harmonization of financial regulations governing banking institutions and NBFCs has also played a role in making the merger seamless. Regulations applicable to banking institutions are now applicable to NBFCs as well such as introduction of liquidity coverage ratios for NBFCs, similar asset quality norms, norms for non-performing assets, etc. Further, the eased SLR and CRR from a combined 27% to 22% and an additional INR 80,000 Crores (approx. USD 10 Billion) of liquidity cushion created a conducive environment for the amalgamation of the two entities.

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**Cross Selling Opportunities**

70% of HDFC Limited's customers do not bank with HDFC Bank and of the 68 million customers of HDFC Bank, only 2% have a mortgage from HDFC Limited. Further, HDFC Bank sources home loans for a fee to HDFC Limited, upon the merger of the two entities, HDFC Bank will be able to cross-sell into the large housing loan customer base of HDFC Limited. HDFC Limited's domain expertise in housing finance complemented by HDFC Bank's low-cost funding base due to high level of CASA deposits will help HDFC Bank for growing the long tenor loan book and to provide flexible mortgage offerings at competitive prices.

**Combination of Operating Efficiencies**

HDFC Bank has a banking network of 6,342 branches in 3,188 cities and towns and a customer base of 68 million; this will help HDFC Limited in leveraging the power of distribution in urban, semi-urban and rural geographies. In lieu, HDFC Bank can capitalise on the loan management system, comprising of rule engines, IT tools and rules, agents connected through a central system. By leveraging on the technological capabilities of one another, the HDFC twins can symbiotically excel in financing various customer segments.

## V. IMPACT OF MERGER ON STAKEHOLDERS

**How this merger will be beneficial for shareholders?**

The merged entity will provide more scalability, down costs of funds will make available the mortgage business, HDFC Bank gets loan servicing process of HDFC, 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. This merger may also boost Shareholder's value by strengthening the balance of both companies.

**What does this merger mean for the 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.

**Change occurs by merger.**

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%. where for the same tenure and amount HDFC Bank will offer only a 5.6% rate of interest.

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When Senior citizens invest in Fixed Deposits for below 2 crore rupees for tenure of 66 months then HDFC Ltd will offer the interest rate of 6.80% where 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 the FD with HDFC Bank he will get lower than what he got with HDFC Ltd. But there will be more safety in HDFC Bank of deposits and interest under the DIGC (Deposits Insurance and Credit Guarantee Corporation).

**What does this merger mean for the 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, then 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 below credit score threshold then 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 the 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 by submitting post-dated. This will ensure auto- debit Instalments of home loan EMIs easily.

**What does this merger mean for the the Employees?**

All the 3,599 employees (as on 31 March 2022) of HDFC Limited shall on and from the Effective Date, become employees of HDFC Bank. HDFC Bank shall issue stock options to eligible employees. Options granted by HDFC Limited to its employees shall automatically stand cancelled as on the Appointed Date and fresh options shall be granted by HDFC Bank to eligible employees after taking into consideration, the Share Exchange Ratio and the terms and conditions that are existing and are in force in the stock option plans of HDFC Limited

## VI.Conclusion

The merger of HDFC and HDFC Bank will create a financial services behemoth as the merged entity will be the largest bank in India by assets and deposits. The merger is seen as benefiting customers, shareholders, and employees of both companies.
For customers, the merger will mean a wider range of products and services, as well as access to a larger branch network. Shareholders of both companies will benefit from the increased size and scale of the merged entity, which is expected to lead to higher earnings and dividends. Employees of both companies will benefit from the merger through increased opportunities for growth and development.

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