

****M&A Readiness Report****

****Company Overview:****

The target company, HDFC Bank, has recently undergone a merger with HDFC Limited, impacting the comparability of financial numbers. Post-merger, the bank shows stability in asset quality, healthy capital adequacy ratio, and consistent return on assets and equity. However, there are notable anomalies and red flags that require further investigation.

****Key Financial Findings:****

1. The figures in the consolidated income statement for Q1 FY25 do not add up due to rounding, indicating potential inconsistencies in financial reporting.
2. A significant decrease in non-interest income in Q1 FY25 despite an increase in net revenue raises concerns.
3. Adjusted Profit After Tax (PAT) differs from reported PAT, suggesting undisclosed adjustments.
4. A substantial decrease in Cash & equivalents from Q4 FY24 to Q1 FY25 raises liquidity and cash flow concerns.

****Identified Red Flags:****

1. In Q1 FY25, there are discrepancies in reported figures, potential adjustments, and liquidity issues.
2. The merger impact on financial comparability requires careful consideration.
3. Rapid growth in net revenue and profit after tax raises sustainability concerns.
4. Decrease in provisions despite increased business activities may indicate underestimation of risks.

****Potential Risks:****

1. Inconsistencies in financial reporting processes may lead to inaccurate decision-making.
2. Undisclosed adjustments and potential liquidity issues could impact financial stability.
3. Rapid growth without clear reasons and underestimation of risks pose sustainability risks post-merger.

****Recommendations:****

1. Conduct a thorough audit to reconcile reported figures and disclose any adjustments made.

2. Investigate the reasons behind the decrease in non-interest income and potential liquidity issues.
3. Assess the sustainability of rapid growth and ensure adequate risk provisioning.
4. Monitor asset quality post-merger and implement robust risk management practices.

****Conclusion:****

While HDFC Bank shows positive indicators post-merger, the identified red flags and anomalies necessitate a detailed analysis and proactive risk management approach to ensure a successful acquisition process.