When Two Giants Unite: Inside the HDFC Merger

Executive Summary

The merger of Housing Development Finance Corporation (HDFC) Ltd. with HDFC Bank, which took effect on 1 July 2023, marked a defining moment for India's financial services sector. A story of ambitious consolidation and strategic foresight can be found in the history of the HDFC Bank merger HDFC Ltd. The combination created the largest private-sector banks in India and 7th largest in the world by market capitalization and balance-sheet size, significantly enhancing its market dominance and competitive edge.

Key benefits of the merger included a simplified corporate structure, enhanced scale and balance sheet size, expanded distribution network, significant cross-selling opportunities and improved operational efficiencies.

Housing Development Finance Corporation (HDFC) Ltd. was a Mumbai-based private-sector mortgage lender. It was widely recognised as the largest housing finance company in India.

HDFC Bank was a Mumbai-headquartered banking and financial services company. It was one of India's largest private-sector banks by assets and market capitalization.

Before we proceed, let's understand what is Merger and Acquisition (M&A), what are the types and why companies take this step.

HDFC

Housing Development Finance Corporation Limited

HDFC BANK

Merger & Acquisition

Merger and Acquisition (M&A) is the process in which two or more companies combine their operations. In a merger, two companies join to form a single new entity, while in an acquisition, one company takes over another and establishes itself as the new owner.

There are several types of M&A:

- **Horizontal Merger** - between companies in the same industry to reduce competition.
- **Vertical Merger** - between companies at different stages of the supply chain to improve efficiency.
- **Conglomerate Merger** - between unrelated businesses to diversify risk.
- **Market-extension Merger** - to enter new markets.
- **Product-extension Merger** - to expand product lines.

Companies opt for M&A for multiple reasons. They may want to capture a larger market share, eliminate or neutralize competition, access new technology or talent, achieve economies of scale, or expand globally. Sometimes mergers are defensive or arise from regulatory pressure or financial distress. They can also be deliberate, strategic choices by management to accelerate growth.

Why the HDFC Ltd. - HDFC Bank merger was different?

The HDFC Ltd. and HDFC Bank merger stands out as a reverse merger and a strategic, mutual decision, rather than a forced consolidation. It aimed to create a more robust financial institution by combining the strengths of both - the lending arm of HDFC Ltd. and the banking capabilities of HDFC Bank - for long-term operational synergy, improved customer service, and better capital management. Rather than being driven by distress, it was intended to create a stronger, more efficient financial institution that could offer a seamless mix of banking and housing finance products, improve capital allocation, and broaden the customer base for both businesses.

The strategic goal of creating a financial services behemoth by combining the strengths of both companies was the primary force behind this enormous merger. HDFC Ltd. was the parent company and a pioneering housing finance company. The merger combined HDFC Ltd.'s deep expertise and penetration in housing finance with HDFC Bank's strong deposit franchise and distribution network.

The combined entity benefits from:

- A larger balance sheet and greater capacity to lend money and have a wider range of loans.
- Enhanced cross-selling opportunities across mortgages, retail banking, wealth management and corporate services.
- Cost savings through shared infrastructure, streamlined operations and standardised processes.
- Stronger capital management and improved funding mix by leveraging the bank's low-cost deposits.

By fostering stronger and more holistic financial relationships, the merger aimed to offer customers a seamless experience across housing finance and banking.

To understand why these two companies were different and later why did they merge, let's look at the history of these two companies.

The Origins of HDFC Ltd. and HDFC Bank: A Story of Vision and Persistence

Deepak Parekh, the former chairman of HDFC, is one of the most respected figures in India’s financial sector. Despite his stature and success, he never owned even 1% of the company’s shares. Instead, he worked purely as an employee, accepting only those shares that were granted as part of employee benefits. a testament to his humility and professional integrity.

The seeds of HDFC were sown much earlier by Hasmukh Thakordas Parekh, Deepak’s uncle, who had served as the chairman of ICICI Ltd. After completing his tenure there, Hasmukhbhai decided to start a new venture in housing finance, a sector that was virtually non-existent in India at the time. To bring his vision to life, he reached out to his nephew Deepak Parekh, who was then working in the United States, and urged him to return to India to help establish the company.

In 1977, the concept of borrowing money, especially for buying or building a house, was seen as a social taboo in India. People feared taking loans, and there was little to no institutional or governmental support for housing finance. Deepak’s vision was to change this mindset, to spread awareness, and to introduce the American culture of home loans to India.

HDFC became the first company in India to offer home loans. Initially, it raised funds from international institutions such as the World Bank, which it then lent to individuals. However, there was a problem: borrowing from international banks was expensive. By the time HDFC added its margins, the interest rates for customers became significantly higher.

Deepak saw a solution. If HDFC could obtain a banking licence, it could open current and savings accounts for customers. Current accounts carried 0% interest and savings accounts only 2-5%, meaning access to cheaper funds. This, in turn, would allow HDFC to reduce its lending rates and make home loans more affordable.

However, in 1977, the Indian government did not issue banking licences to private companies. It was only in the 1990s that private banking licences became possible. Seizing the opportunity, Deepak presented his idea to HDFC’s board. The board was initially against it, stating: "*We do not venture into areas we don't understand. We are a housing finance company. let's stick to that.*"

Deepak didn't give up. He persistently explained the long-term importance of having a banking arm. Eventually, the board agreed, but on one condition: a completely new team would be formed to run the bank. Deepak would remain with HDFC Ltd., guiding and advising the bank but not actively managing it.

Deepak accepted the condition, paving the way for the birth of HDFC Bank. The next challenge was to find the right leadership for the new bank. Just as Hasmukhbhai had convinced Deepak to join HDFC, Deepak now persuaded Aditya Puri, then the head of CitiBank in Malaysia, to take the helm.

In 1995, HDFC Bank came into existence, with Deepak Parekh leading HDFC Ltd. and Aditya Puri steering HDFC Bank. What followed was remarkable. HDFC Bank grew rapidly to become India's largest bank by market capitalization. At one point, HDFC's own market cap exceeded the combined market capitalization of 13 public sector banks. including the State Bank of India.

And that is how these two iconic institutions HDFC Ltd. and HDFC Bank came into existence: one born out of the need to make home loans possible, and the other to make those loans more affordable, together reshaping India's financial landscape.

Technical and Regulatory Reason for Keeping HDFC Ltd. and HDFC Bank Separate and Why That Changed

Apart from historical reasons, there was also a technical and regulatory reason why HDFC Ltd. and HDFC Bank functioned as two separate entities for so many years.

HDFC Ltd. operated as a Non-Banking Financial Company (NBFC). As it was not a bank, the regulatory framework applicable to banks did not apply to it. This meant HDFC Ltd. could not open savings accounts, current accounts, or accept fixed deposits from the public. It did not have access to “public money” in the form of low-cost deposits. Instead, it raised funds from other sources, often wholesale markets or international lenders, and then lent these funds to individuals. While this allowed HDFC Ltd. to lend 100% of the funds it raised (because NBFCs are not subject to certain banking reserve requirements), the cost of these funds was higher than what banks typically pay for deposits. Consequently, loans from HDFC Ltd. tended to be slightly more expensive.

On the other hand, banks including HDFC Bank, enjoy a major funding advantage. They can:

- Accept current account deposits (which pay 0% interest).
- Accept savings account deposits (which pay about 2-5% interest).
- Mobilise fixed deposits at competitive rates.

This gives banks access to cheap money, making their lending rates more competitive. However, banks face regulatory constraints. When HDFC Bank was formed in 1995, Indian banking regulations required two key ratios to be maintained:

- Cash Reserve Ratio (CRR): 15% at the time - This meant that 15% of all deposits had to be kept with the Reserve Bank of India and could not be lent out.
- Statutory Liquidity Ratio (SLR): 35% at the time - This required banks to invest 35% of deposits in approved government securities.

Effectively, only 50% of the bank's deposits could be deployed for lending (100% − 15% − 35%). In contrast, HDFC Ltd., as an NBFC, could lend 100% of its funds.

Over time, regulations changed significantly:

- CRR was reduced from 15% to 4.5%.
- SLR was reduced from 35% to 18%.

This meant banks now had to keep aside only 22.5% of deposits, freeing up 77.5% of funds for lending, a substantial improvement compared to the earlier 50%. With these changes, the picture flipped:

- HDFC Bank now had access to more money and at a cheaper cost than HDFC Ltd.
- HDFC Ltd. still had less money available, and at a higher cost.

This made a compelling case for merging the two entities.

Customer Overlap and Cross-Selling Potential

Supporting this merger logic were some revealing statistics:

- Around 70% of HDFC Ltd.'s customers had their primary bank accounts with other banks.
- Only about 2% of HDFC Bank customers took loans from HDFC Ltd., with the majority borrowing elsewhere.

By merging, the combined entity could:

- Dramatically expand its customer base for lending products.
- Offer integrated banking and housing finance solutions under one roof. Create new products and services tailored for homebuyers, such as faster loan approvals, more competitive rates, and customised mortgage packages.
- Furthermore, the merger would allow the bank to leverage HDFC Ltd.'s strong housing finance expertise while offering customers a wider range of financial services, from savings accounts to insurance, improving

service quality, product variety, and accessibility. These are the various reasons of the merger.

Now let’s discuss about the merger.

The HDFC Ltd. – HDFC Bank Merger: A Landmark in Indian Banking

HDFC’s massive $40 billion merger with HDFC Bank officially went into effect on July 1, 2023, marking one of the largest transactions in India’s corporate history. The merger was executed through a comprehensive share-swap arrangement after securing all necessary approvals from shareholders and regulatory bodies.

Under the terms of the scheme, HDFC Ltd. shareholders received 42 equity shares of HDFC Bank for every 25 shares they held in HDFC Ltd. This ratio was meticulously calculated to ensure a fair exchange of value, reflecting the market valuations and future prospects of both entities. As part of this transaction, on the Friday following the merger announcement, HDFC Bank allocated 311.04 crore additional shares to HDFC stockholders.

Upon completion, HDFC Ltd. ceased to exist as a separate entity, with all its assets and liabilities absorbed into HDFC Bank. On July 13, 2023, HDFC Ltd.’s shares were officially delisted from the stock exchange, symbolizing the full integration of the two financial giants.

The merger instantly catapulted the combined company into the global elite. Following the merger, the amalgamated entity became the world’s seventh-most-valued financial institution, boasting a market capitalization of $154 billion (approximately ₹12.66 lakh crore). Domestically, it made HDFC Bank the No. 1 bank in India by market capitalization, reaching ₹14,12,055 crore.

This merger was more than just a financial milestone. It reshaped the competitive landscape of Indian banking. Due in large part to HDFC Ltd.’s deep penetration in the housing finance sector, the combined entity gained a significantly expanded branch network and customer base. It now offers a comprehensive suite of financial products, ranging from mortgages and personal loans to corporate banking, wealth management, and insurance.

The enlarged balance sheet has greatly enhanced the bank's capacity for large-ticket lending, enabling it to support infrastructure projects, corporate expansions, and economic growth at a scale previously unmatched in India's private banking sector. With its broadened reach and diversified product offerings, the new HDFC Bank is poised to strengthen its dominance both in retail and corporate finance setting a new benchmark for the industry.

HDFC Ltd. to merge into HDFC Bank effective July 1, 2023

Mumbai, June 30, 2023: HDFC Bank, India's leading private sector bank, today announced the successful completion of merger of HDFC Ltd., India's premier housing finance company with and into HDFC Bank, following the receipt of all requisite shareholder and regulatory approvals. HDFC Bank and HDFC Ltd. had announced a decision to merge on April 4, 2022, subject to obtaining the requisite consent and approvals and had indicated a time frame of 15 to 18 months for the process to be concluded. The Boards of both the companies at their respective meetings held today noted that the merger would be effective from July 1, 2023.

The merged entity inter-alia brings together significant complementarities that exist between both the entities and is poised to create meaningful value for various stakeholders, including respective customers, employees, and shareholders of both the entities from increased scale, comprehensive product offering, balance sheet resiliency and ability to drive synergies across revenue opportunities, operating efficiencies and underwriting efficiencies. Pursuant to the share exchange ratio as per the merger scheme, HDFC Bank will issue and allot to eligible shareholders 42 new equity shares of the face value of Re. 1/- each, credited as fully paid-up, for every 25 equity shares of the face value of Rs. 2/- each fully paid-up held by such shareholder in HDFC Ltd. as on the Record Date i.e., July 13, 2023.

Timeline of the HDFC Ltd. – HDFC Bank Merger

• **April 4, 2022 — Merger Announcement & Initial Approval**

HDFC Bank and HDFC Ltd. officially announce their plan to merge through a share-swap deal. Under Sections 230 to 232 of the Companies Act, 2013, HDFC Bank's Board of Directors approves the merger scheme. The bank releases a formal communication regarding the decision.

• **May 17, 2022 — RBI Approval**

The Reserve Bank of India (RBI) grants in-principle approval for the merger, marking the first major regulatory clearance for the transaction.

• **November 25, 2022 — Shareholder Meetings**

HDFC Ltd. and HDFC Bank hold separate shareholder meetings to seek and secure shareholder approval for the merger.

• **April 23, 2023 — NCLT Sanction**

The Mumbai Bench of the National Company Law Tribunal (NCLT) sanctions the merger scheme. Additionally, it grants an extension of 90 days from April 27 for filing the order with the Registrar of Companies, allowing HDFC and its subsidiaries to obtain any remaining approvals.

• **May 18, 2023 — Stock Price Surg**e

HDFC Bank's share price rises by 6% on the stock exchanges, reflecting strong investor confidence following merger developments.

• **June 20, 2023 — Milestone Achievement**

HDFC Bank announces that it has reached 100 million customers, solidifying its position as one of the largest banks in India by client base.

• **June 27, 2023 — Global Ranking**

S&P Global ranks HDFC Bank as the 5th largest bank in the world by assets, showcasing its growing international stature.

• **June 30, 2023 — Final Board Approval & Record Dates**

The Board of Directors of both HDFC Ltd. and HDFC Bank give final approval for the merger and announce the record dates for share allotments.

• **July 1, 2023 — Merger Becomes Effective**

The merger officially comes into effect. The combined entity begins operating as a single financial powerhouse.

• **July 13, 2023 — Delisting & Share Allotment**

HDFC Ltd.'s shares are delisted from the stock exchanges. On the same day, HDFC Ltd. shareholders receive 42 shares of HDFC Bank for every 25 shares they previously held in HDFC Ltd.

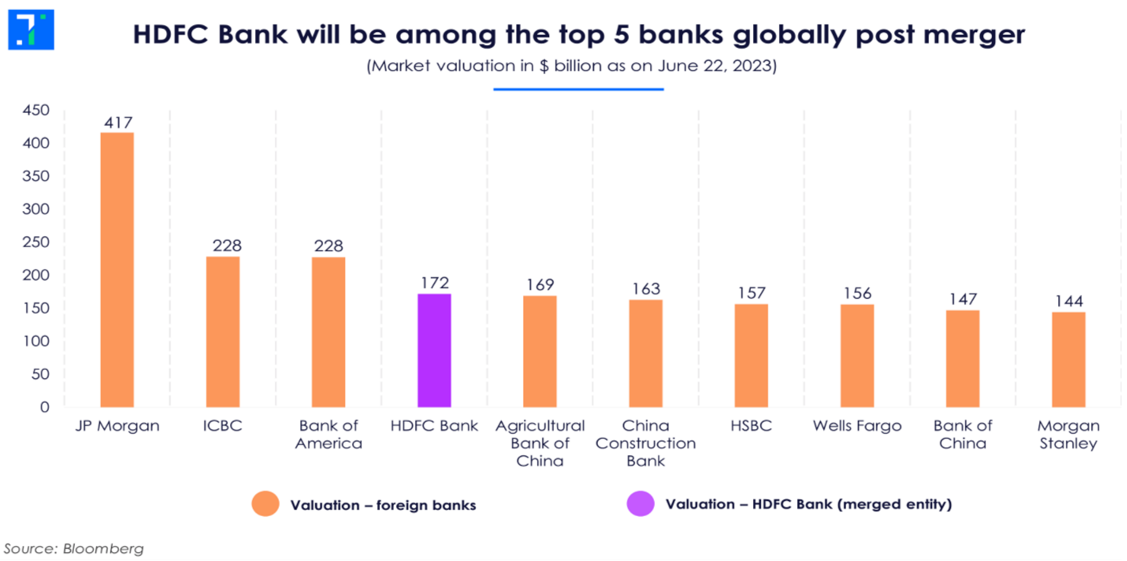
Impact on Key Metrics

capitalmind

	HDFC Bank	HDFC	Combined	Delta
Annualized PAT (in Cr)	46149	27700	73849	60%
Net Worth (in Cr)	247330	133985	381315	54%
Total Advances (in Cr)	1661941	620507	2282448	37%
Equity shares outstanding (in Cr)	558	184	748	34%
Earnings Per Share	82.4	142.6	99	20%
Book Value Per Share	502	730	510	2%

Data as of Q1FY24

Table: Capitalmind Research • Source: Annual Report, Investors Presentation • Created with Datawrapper



<u>Share-Swap Ratio</u>

The merger was executed through a comprehensive share-swap arrangement. Under the terms of the scheme, HDFC Ltd. shareholders received 42 shares of HDFC Bank for every 25 shares they held in HDFC Ltd. This corresponds to a swap ratio of 42:25 (i.e., 1.68).

To verify this ratio, I have used two approaches. The first one is a very common method – the DCF (Discounted Cash Flow) analysis. The second is a direct comparison of the current share prices. The supporting data for both analyses can be found in the attached **Excel file**.

For the DCF analysis, I have projected the performance of both companies over the next 10 years. The growth rates were assumed based on past performance and competitive company analysis. From this analysis, the share price ratio of both companies comes out to be 1.66, which is fairly close to the official share-swap ratio of 1.68 used in the merger. This confirms that there was no significant premium paid in the deal.

Additionally, since both of these companies have been listed in the stock market for the past two years, I considered that comparing their share prices could also serve as a valid approach. For this purpose, I extracted the daily open, high, low, and close values of both companies over the period from the merger announcement to the day when the merger becomes effective. I then calculated the ratio using two methods: (i) by taking the ratio of the averages (1.64), and (ii) by taking the average of the daily ratios (1.64). Both values are identical up to two decimal places and are also fairly close to the actual share-swap ratio of 1.68. This further confirms that no significant premium was paid in the transaction.

Market Analysis

I have also conducted a market analysis for the period of [-10, +10] days around two key events:

1. The announcement of the merger.
2. The effective date of the merger.

The supporting data for both analyses can be found in the attached **Excel file**.

For the first event (21st March 2022 to 19th April 2022), the share prices fell by 9.71% (HDFC Bank) and 10.52% (HDFC Ltd.). Investors who had taken short positions during this period would have made fairly good returns. On 4th April 2022, i.e., the day of the merger announcement, the market prices rose sharply by 10.01% (HDFC Bank) and 9.29% (HDFC Ltd.). Furthermore, the number of trades for both companies on this day was significantly higher compared to other days in this period. This indicates a certain lack of surety and confidence among shareholders, as reflected in the sudden spike in trading activity. These particular observations have been highlighted in the Excel sheet.

For the second event (19th June 2023 to 18th July 2023; in the case of HDFC Ltd., until 12th July 2023, since it was delisted from 13th July 2023), the share prices increased by 4.57% (HDFC Bank) and 2.62% (HDFC Ltd.). These values are relatively modest compared to the earlier event. No major breakout occurred during this period, reflecting that shareholder sentiments remained largely stable.

However, there is one important observation. I have included an additional column in the Excel sheet showing share price × number of shares (as per the swap ratio). This effectively represents the value shareholders would receive from their holdings. From 30th June 2023 to 12th July 2023, this value was consistently higher for HDFC Bank. Therefore, if shareholders had held onto their shares, they would have been in profit. However, a fairly large number of them sold their shares during this window, which ultimately contributed to the decline in HDFC Ltd.'s share price over these days.

Opportunities

With the merger now complete, the unified HDFC Bank stands ready to tap into a host of significant opportunities.

- **Dominant Market Position:**
  The combined entity now commands a leadership position across multiple segments of the financial sector. With its vast branch network, strong brand recognition, and comprehensive portfolio, it is one of the most influential players in India's banking and financial services industry.

- **Cross-Selling Potential:**
  Before the merger, 70% of HDFC Bank customers had no housing finance relationship with the bank, and only 2% owned an HDFC Ltd. product, highlighting vast cross-selling potential. The merger unites two largely distinct customer bases, enabling the bank to offer housing loans to its existing clients while introducing banking products to HDFC Ltd.'s mortgage customers. This synergy expands revenue streams, deepens relationships, and positions the combined entity to scale rapidly and capture a larger share of India's financial services market.

- **Digital Transformation:**
  Leveraging cutting-edge technology will be key to enhancing both customer experience and operational efficiency. The combined institution can integrate digital platforms, streamline processes, and innovate products to stay ahead in an increasingly tech-driven financial landscape.

(Key Operations of the Entities)

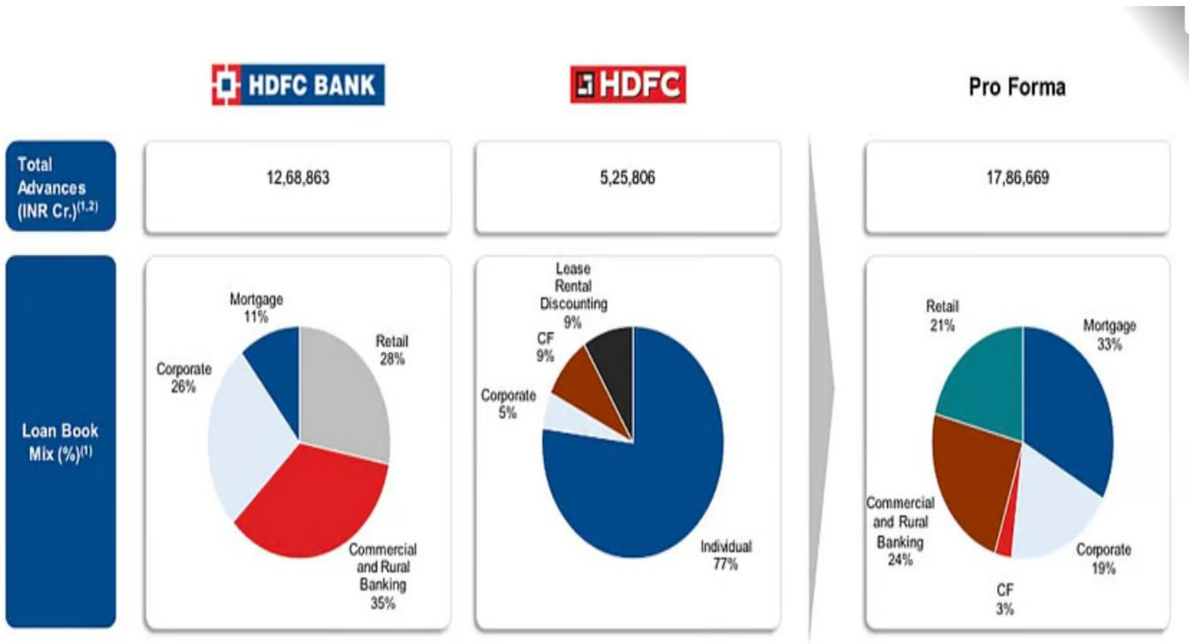
HDFC Bank	**HDFC Ltd.**
Retail Banking	Individual Loans
Corporate Banking	Corporate loans
Investing Banking	Lease Rental Discounting
Wholesale	Construction Finance loan

Challenges

Despite these advantages, several challenges remain. Even with a history of close cooperation, merging two large organisations requires careful cultural and operational integration. Aligning systems, policies, and work cultures takes time and can be complex.

Additionally, India's banking sector is highly competitive, with both public and private sector players aggressively vying for market share. Maintaining asset quality will be crucial to ensure sustainable growth, especially as the bank's loan book expands. Moreover, the institution must remain agile in adapting to evolving regulatory requirements, which can influence lending practices, capital allocation, and compliance costs.

In short, while the path forward is filled with opportunity, sustained success will depend on how effectively HDFC Bank can integrate its operations, innovate digitally, and balance growth with prudence.



HDFC Ltd. – HDFC Bank Merger: The Road Ahead

Following the completion of the merger, the integration process began swiftly. As per HDFC's filings, the commercial papers of HDFC Ltd. were officially transferred to HDFC Bank on July 7, while the non-convertible debentures (NCDs) were transferred in the bank's name on July 12.

Just a day later, July 13 marked an important milestone for shareholders. this was the date when HDFC Ltd. shareholders were allotted HDFC Bank shares as per the agreed swap ratio. On the same day, the "continuation of warrants" of HDFC Ltd. in the name of HDFC Bank also commenced.

What the Merger Means for Shareholders

For HDFC Ltd. shareholders, the merger brought immediate and long-term value. By merging into HDFC Bank, they gained access to the premium valuations at which the bank trades, compared to the holding company. The expanded loan base of the merged entity will act as a natural shield for asset quality, thanks to diversification across loan segments.

Operationally, the merger boosts scalability. lower costs of funds mean more capital is available for the mortgage business. HDFC Bank also inherits the loan servicing processes of HDFC Ltd., known for their efficiency, which will enhance the bank's lending operations.

From a shareholding perspective, post-merger:

- Existing shareholders of HDFC Ltd. own around 41% of HDFC Bank Ltd.
- HDFC Ltd.'s shareholdings have been extinguished in the merged entity.
- Every shareholder of HDFC Ltd. received 42 shares of HDFC Bank for every 25 shares held in HDFC Ltd.

Beyond these structural changes, the merger is expected to strengthen the combined balance sheet, which in turn can boost shareholder value by creating a more robust and diversified financial institution.

What the Merger Means for Depositors

HDFC Ltd. had two types of Fixed Deposits (FDs):

1. **Automatic Renewal** - Upon maturity, the FD is renewed automatically at the prevailing interest rate for the same tenure.
2. **Non-Automatic Renewal** - Upon maturity, the FD amount is transferred to the depositor's bank account.

Post-merger, depositors with an automatic renewal in HDFC Ltd. can either withdraw their funds or renew their FD with HDFC Bank at the rates offered by the bank. However, it is worth noting that HDFC Bank's FD interest rates are generally lower than those previously offered by HDFC Ltd.

For example:

- For deposits below ₹2 crore with a 66-month tenure:
  - HDFC Ltd. offered 6.55%.
  - HDFC Bank offers 5.60%.
- For senior citizens under the same tenure and amount:
  - HDFC Ltd. offered 6.80%.
  - HDFC Bank offers 6.35%.

Additionally, HDFC Ltd. offered an extra 0.05% for online automatic renewals. a benefit that will not continue in the same form with HDFC Bank.

While interest rates may be lower with the bank, there is a trade-off - greater deposit safety. HDFC Bank deposits are covered under the Deposit Insurance and Credit Guarantee Corporation (DICGC), which provides insurance protection on eligible deposits.

What the Merger Means for Borrowers

For borrowers, the immediate impact is minimal in terms of loan terms. Existing loans taken from HDFC Ltd. will continue under the same terms and conditions agreed upon at origination.

However, once the merger took effect, home loan interest rates began aligning with HDFC Bank’s pricing. Before the merger:

- HDFC Ltd. offered home loans at 6.70% for borrowers with a credit score of 750 or above.
- For credit scores below 750, rates ranged from 6.80% to 7.30%.
- Women borrowers with a score of 750 or above enjoyed a 6.70% rate, while those below that threshold paid between 6.75% and 7.25%.

Going forward, these rates may see adjustments based on the bank’s broader lending policies, but borrowers can expect the same service continuity and possibly quicker approvals due to streamlined processes.

Pro Forma Impact on Key Metrics

	HDFC BANK	HDFC	Pro Forma	Delta
Equity Shares Outstanding (# MM)[1]	554	181	742	+34%
Annualized PAT (INR Cr.)[1]	35,875	13,388	49,263	+37%
Earnings per Share (INR / Share)	c.65	c.74	c.67	+3%
Net Worth (INR Cr.)[1]	229,640	115,400	330,768	+44%
Book Value per Share (INR / Share)	414	638	446	+8%
Advances (INR Cr.)[1]	12,68,863	5,25,806	17,86,669	+42%
CAR (%)[1]	19.5%	22.4%	19.8%	+30 bps

-

Benefits of the HDFC–HDFC Bank Merger

The merger between HDFC Ltd. and HDFC Bank brings a wide range of strategic and operational benefits for both entities.

- **Reduction in Unsecured Loan Proportion:**
  One immediate advantage is the reduction in the share of unsecured loans on HDFC Bank's books. By adding HDFC Ltd.'s large, secured housing loan portfolio, the overall loan mix becomes more balanced and less risky.

- **Strengthening Market Position:**
  The merger strengthens HDFC Bank's already dominant presence by adding HDFC Ltd.'s leadership in the housing finance sector. The combined scale enhances distribution capabilities, improves cross-selling potential across housing finance and banking products, and allows for better utilisation of resources.

- **Positive Market Sentiment:**
  The announcement of the merger generated a positive reaction in the stock market, signalling investor confidence in the deal. This optimism reflects expectations of higher profitability and stronger long-term growth prospects.

- **Regulatory Alignment and Competitive Advantage:**
  Since the 2018 Infrastructure Leasing and Financial Services (IL&FS) crisis, the Reserve Bank of India (RBI) has been encouraging large NBFCs to convert into or merge with banks. For HDFC Ltd., the merger provided a natural transition into the banking framework, creating an advantage over competitors in terms of funding access, customer base, and regulatory compliance.

- **Housing Loan Portfolio Expansion:**
  For HDFC Bank, the merger significantly boosts its housing loan portfolio. increasing its share from 11% to 33% of total loans. This positions the bank as India's second-largest bank overall and the largest

private-sector bank, while also giving it a strong foothold in the real estate lending market, which is a relatively low-risk asset class.

- **Operational Scale and Efficiency:**
  The combined entity benefits from increased scale, a comprehensive product offering, greater balance sheet strength, and the ability to generate synergies in revenue growth, operational efficiency, and underwriting practices. The larger franchise also helps lower the cost of funds, freeing more capital for the mortgage business.

- **Long-Term Financial Gains (with Short-Term Challenges):**
  In the long run, the merger is expected to reduce the cost of loan pricing, operational costs, and the expense of maintaining physical establishments. However, these benefits will take 4-5 years to fully materialise. In the initial 2-3 years, the financial performance of the merged entity may face pressure due to:
    - An increase in statutory reserve requirements.
    - The inherently lower yield of housing finance compared to other lending segments.
    - A combined net interest margin of around 4%, lower than the bank's historical levels.

- **Positioning for the Future:**
  India's private-sector banks are preparing to meet the growing demand for credit in the coming decade. The merger of a strong NBFC with a leading bank is a strategic move that equips the combined entity to capture this growth. By bringing in a cheaper source of funds and an expanded franchise, the HDFC Ltd. – HDFC Bank merger is poised to be a win-win situation for both shareholders and customers.

Rank	Bank	Market cap (₹crore)
1	HDFC Bank (post-merger)	14,12,055.50
2	ICICI Bank Ltd	6,53,704.04
3	State Bank of India	5,11,201.77
4	Kotak Mahindra Bank Ltd	3,66,967.55
5	Axis Bank Ltd	304211.88
6	IndusInd Bank Ltd	106707.03
7	Bank of Baroda	98436.88
8	IDBI Bank Ltd	59482.29
9	Punjab National Bank	56882.91
10	Canara Bank	54750.45

Conclusion

The merger of HDFC Ltd. and HDFC Bank marks the creation of a true financial services behemoth. the largest bank in India by both assets and deposits. This strategic union is designed to deliver benefits across the board. to customers, shareholders, and employees alike.

For customers, the merger translates into access to a wider range of products and services, supported by an expanded branch network and the convenience of having multiple financial needs met under one roof. Shareholders of both companies stand to gain from the increased scale and market reach of the merged entity, which is expected to drive higher earnings, improved profitability, and potentially greater dividends. Employees, too, will benefit from enhanced career opportunities, skill development, and exposure to a broader spectrum of financial services.

From a stability standpoint, the amalgamated entity offers greater security for depositors and improved lending capabilities for borrowers. The confidence shown by shareholders reflects a shared belief in the long-term value this merger will unlock. As with any successful integration, its true impact will be measured by factors such as market growth, shareholder returns, and corporate expansion. and this merger is well-positioned to deliver on all these fronts.

Beyond numbers, this was a bold and visionary step. one that eliminated the holding company structure, streamlined operations, and significantly expanded the bank's size, reach, and product portfolio. Guided by a clear growth vision and aligned with regulatory expectations, the merger cements HDFC Bank's position as a top-tier financial institution. While integration will bring its share of challenges, once complete, the new HDFC Bank will be exceptionally well-placed to seize India's vast and rapidly growing economic opportunities.

Click Here to download the Excel file.

References:

- Annual reports
- Case study on merger between HDFC Bank and HDFC Ltd. by JK Business School
- The story behind the merger of HDFC Bank and HDFC Ltd. by Association of Academic Researchers and Faculties
- The Legal School
- Website of HDFC Bank
- Website of HDFC Ltd.
- Wikipedia
- Merger of HDFC Bank and HDFC Ltd. by SSRN eLibrary
- YouTube: CA Rahul Malodia
- Youtube: Live Hindi
- NSE India
- Value Investing