

# Space For Knowledge



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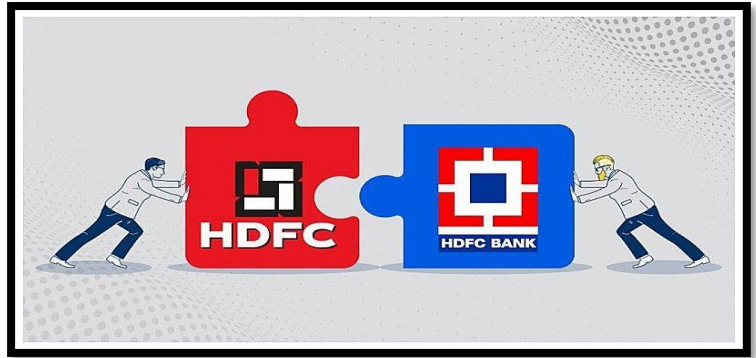
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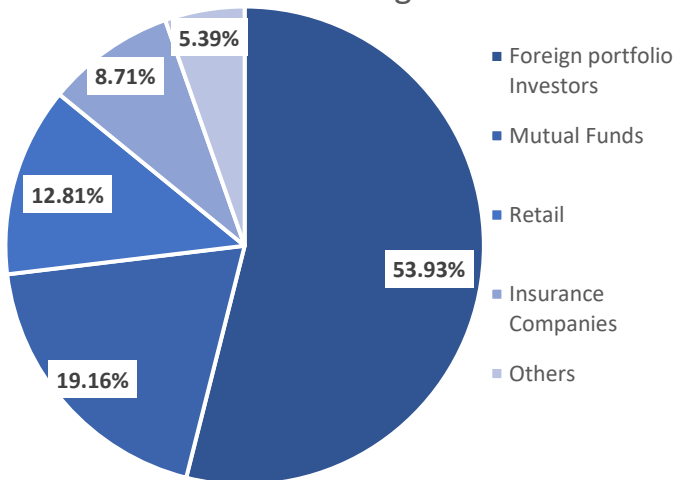
# Mega-merger : HDFC Bank and HDFC Ltd

HDFC Ltd is one of India's leading housing finance companies and HDFC Bank was one of the first private sector banks to start operations in India following the wave of economic liberalization in the 1990s. The merger was announced on Apr 4, 2022, and it came into effect on July 1, 2023. As on July 1, 2023, the market capitalization of HDFC Bank (post-merger) was Rs 14.6 lakh crore.



It is the top bank in India followed by ICICI Bank Ltd and SBI. Shares of HDFC Ltd were delisted from stock exchanges on July 13, 2023, and traded under the HDFC Bank ticker. 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 ₹2 each fully paid-up held by such shareholder in HDFC as on the Record Date i.e., July 13, 2023. This merger has led to HDFC Bank being the 4th most valued bank in the world.

New Shareholding Pattern



## Why did the merger happen?

- Keki Mistry (Vice Chairman and CEO of HDFC) shared that in the past five-six years, there have been changes in the industry (NBFCs) as well as regulations governing it, which led to the merger of the two giants.
- Last year, when the merger was announced, Deepak Parekh (Chairman of HDFC) also said that the last three years have seen harmonization in banks and non-banks regulations, reducing the "regulatory arbitrage" of running a separate home finance company.
- "The addition of the home mortgage portfolio on the bank's Balance Sheet makes it more diversified and robust," as per Jagdishan (CEO of HDFC Bank).

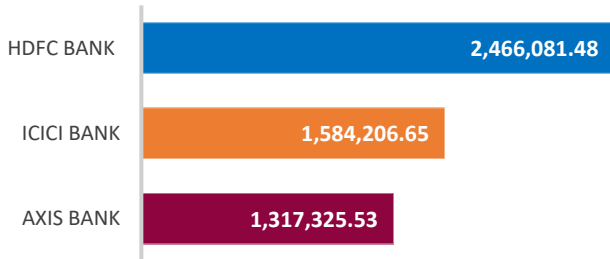
## Impacts

- The loan book of HDFC Bank pre-merger was approximately **Rs 16 lakh crore** but after the merger, it rose to approximately **Rs 22 lakh crore**. The deposits of the bank will be at **Rs 18.83 lakh crore**.
- The bank had **7821 branches** which rose to **8344 branches** post-merger. Its employee strength rose from **1,73,222 employees to 1,77,239 employees**.
- An increase in employee strength and branches means that the performance of the merged entity is expected to improve as the collective strength of renowned and well-known businesses is combined.
- This merger has proven to be beneficial in increasing the **market capitalization by 34%** compared to the previous FY.
- HDFC Bank has replaced Reliance Industries as the leader for the benchmark index, from July 13 with a weightage of **14.43%** in Nifty after its merger with parent HDFC Ltd. Further, the Nifty Bank Index has seen an upward weight revision from **26.91% to 29.1%** from 13 July 2023.

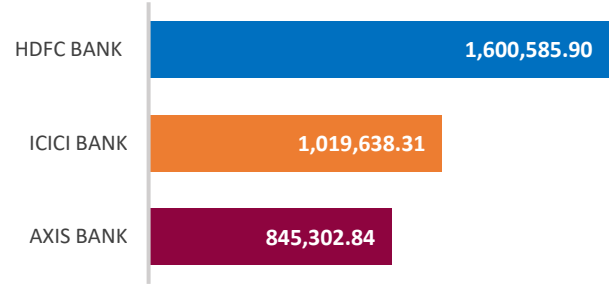
# Comparative Financial Performance of FY 22-23

Amt in' Crs.

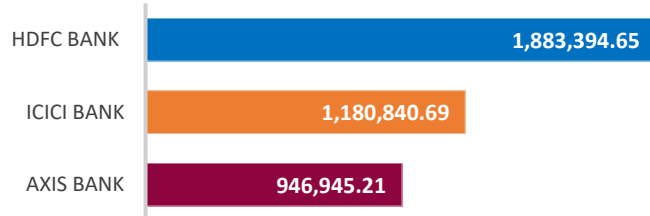
## B/S Size



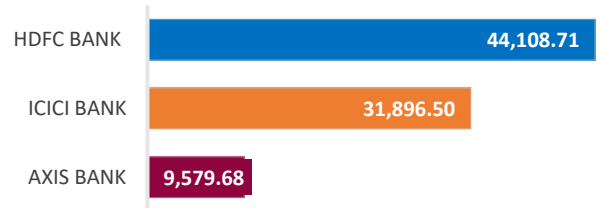
## Advances



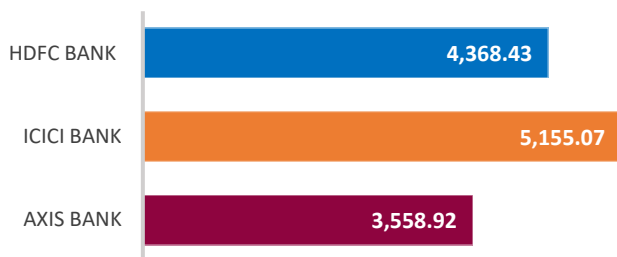
## Deposits



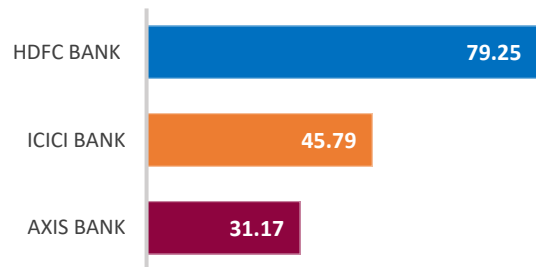
## Profit for the year end



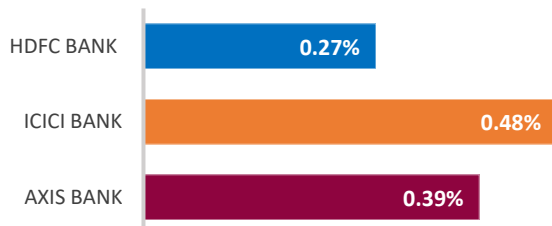
## Net NPA



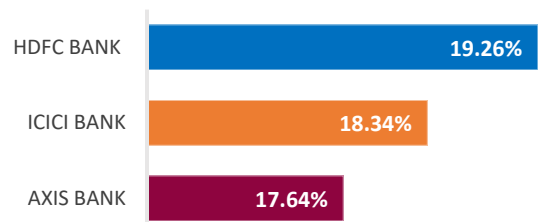
## Basic EPS



## Net NPA %



## Capital Adequacy Ratio (%)



# Transforming Together : IDFC Bank Merger

On 3rd July 2023, the announcement was made for the merger of IDFC Ltd & IDFC Bank. IDFC Ltd is a NBFC and the parent company of IDFC First Bank. IDFC First Bank is currently holding the 7<sup>th</sup> position in the private banking sector industry based on Market capitalization. As of June 30, 2023, IDFC Limited holds 39.93% shareholding in IDFC First Bank.

The merger involves firstly the amalgamation of IDFC Financial Holding into IDFC Ltd and then IDFC Ltd into IDFC Bank. The purchase consideration will be paid in the form of shares with the swap ratio fixed at 155:100 i.e. for every 100 IDFC Ltd shares the holders will get 155 IDFC First Bank Ltd shares. The merger is expected to be completed by the first quarter of 2024.



## Key benefits:

1. The merger will simplify the corporate structure of IDFC FHCL, IDFC Limited, and IDFC FIRST Bank by consolidating them into a single entity. This streamlining process will enhance accounting and regulatory compliances for these entities
2. The merger will create a diversified institution with both public and institutional shareholders similar to successful Indian private-sector banks.
3. Raising equity capital from time to time will become easier for an institution with a diversified set of shareholders.
4. The merged entity will have a larger customer base and a wider geographical reach. This will allow it to offer a wider range of products and services to its customers.
5. With a stronger balance sheet and a higher capital adequacy ratio, the merged entity will be better prepared to withstand shocks and pursue more aggressive growth strategies
6. The merger will help to improve the operational efficiency of IDFC FIRST Bank. The bank is now able to operate more efficiently and effectively.

## Comparative Analysis as on 31/03/2023

Parameter	IDFC First Bank	IDFC Ltd
Balance Sheet Size (Rs in Cr.)	239,941.66	9,570.64
Total Revenue (Rs in Cr.)	27,194.51	2,076.00
Total Share Capital (Rs in Cr.)	6,618.12	1,599.99
Profit/Loss For The Period (Rs in Cr.)	2,437.13	2,029.10
Market Capitalization (Rs in Cr.)	55,066.81	12,639.87
Basic EPS (Rs.)	3.91	12.7

**Challenges:**

1. IDFC and IDFC First Bank have very different cultures and operating models. This will need to be carefully managed to create a balance and efficient organization
2. Both IDFC and IDFC First Bank have legacy issues, such as bad loans and compliance concerns. These will need to be resolved to ensure the long-term success of the merged entity.
3. The Indian banking sector is becoming increasingly competitive. The merged entity will need to find ways to differentiate itself from other banks and maintain its competitive edge.
4. The merger will need to comply with several regulatory requirements. This could be a challenge, as the regulatory environment in India is constantly changing.

**Impacts of Merger:**

1. Consequent to the merger, the standalone book value per share of the IDFC bank would increase by 4.9% from Rs. 33.9 per share as calculated on audited financials as of March 31, 2023.
2. The post-merger market capitalization of IDFC First Bank will be estimated to be Rs **71,000 Cr.**
3. Capital adequacy will rise further from current levels of **16.82%**, as calculated as on March 31, 2023
4. Customers of IDFC First Bank now enjoy an extended range of products and services, which includes infrastructure financing options.
5. As part of the merger process, there may be a consolidation of branches to optimize operations and improve cost efficiencies
6. IDFC is holding Rs 21,406 Cr of cash which will come into IDFC First Bank post-merger. The management has also said that the company will raise capital worth Rs 2,000 Cr by FY24.

Valuation Approach	IDFC First Bank (A)		IDFC Ltd (B)	
	Value per share of IDFC First Bank (Rs)	Weight	Value per share of IDFC Ltd (Rs)	Weight
Asset Approach - Net asset value method	38.9	0	126.8	50%
Market Approach - Market price method (i)	70.2	50%	102.8	50%
Market Approach - Comparable companies Multiple method (ii)	77.9	50%	NA	NA
Income Approach	NA	NA	NA	NA
Relative Value per share (Rounded off) (Weighted average of i and ii)	74.1		114.8	
Fair Equity share exchange ratio (B:A)		155:100		

- IDFC Limited's value is primarily derived from its investment in equity shares of IDFC FIRST Bank, as it does not have any operations. Therefore, the Market Approach's Comparable Companies Multiples method has not been used to determine the relative fair value of IDFC Limited shares.
- Due to the complexity and subjectivity involved in projecting the financials of the companies in their respective businesses, the Income approach has not been considered for relative comparison.

# Banking Terminology

Terminology	Definitions / Meaning
Assets	An asset is anything that has current or future economic value to a business. Bank assets consist mainly of various kinds of loans and marketable securities and of reserves of base money.
Liabilities	Liabilities are debts or obligations of a person or company owes to someone else. Bank liabilities consist mainly of various kinds of deposits.
Debt Equity Ratio	The debt-equity ratio is a measure of the relative contribution of the creditors and shareholders or owners in the capital employed in the business. The formula for calculating the debt-to-equity ratio is to take a company's total liabilities and divide them by its total shareholders' equity.
Shareholders	A shareholder is any person, company, or institution that owns at least one share of a company's stock.
Amalgamation	An amalgamation happens when two or more companies combine to form a completely new entity.
Purchase consideration	It's the amount that's received by the vendor company (Seller) for the assets and liabilities takeover by the purchasing company in exchange for cash or in other forms, such as issuing shares or other securities.
Market Capitalization	Market capitalization refers to the market value of a company's equity. It is a simple but important measure that is calculated by multiplying a company's shares outstanding by its price per share.
Swap Ratio	A swap ratio is a ratio at which an acquiring company will offer its own shares in exchange for the target company's shares during a merger or acquisition.
Earning per share (EPS)	Earnings per share (EPS) is a company's net profit divided by the number of common shares it has outstanding
Net asset value (NAV)	A net assets valuation involves adding up all of the company's assets and subtracting its liabilities. It's most applicable for stable, asset-rich organizations, such as property or manufacturing companies.
Capital Adequacy Ratio (CAR)	CAR is a comparison of the available capital that a bank has on hand to its risk-weighted assets. The ratio provides a quick idea of whether a bank has enough funds to cover losses and remain solvent under difficult financial circumstances.
NPA	Non-performing assets is loan that is overdue for more than 90 days.

# Test Results for July 2023

## Top Scorer for New Organization structure Test

Employee Name	Department Name	Score
Anjana prajapati	Service Recovery	40
Sapna Rampravesh Sharma	Service Recovery	40
Tamanna pandey	SAI	39
Tanishq Hingad	KH	39
Jainik bheda	Data Analytics	39
Gunjan Brijwani	SAI	38
Praveen Pandey	OPS	38
Swain D'abre	KH	38
Srushti Avinash Thakare	Data Analytics	38
Raghavendra Kamble	Rural Lending and Co-Lending	38

## Top Scorer for Department Awareness Test

Employee Name	Department Name	Score
Raj Vyas	MSME	38
Anjana prajapati	Service Recovery	38
Chaitanya Bastapure	Audit and Certifications	37
Rohini naik	Data Analytics	37
Pratik Jain	Service Recovery	36
Akshay Bala Nerkar	Rural Lending and Co-Lending	36
Nilam Kishor Hirnaik	Service Recovery	36

## Top Scorer for Banking Jargon Test

Employee Name	Department Name	Score
Komal Kesari	Service Recovery	25
36 employee	Service Recovery 18 employees	24
26 employee	Retail Assets 8 employees	23