Twitter Thread by Aditya Shah

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HDFC Bank has announced a merger with HDFC Ltd

What does it mean for the banking system and the shareholders of both companies?

A thread■explaining the pros and cons of the merger.

Hit "Retweet" to educate maximum investors

Lets go■

(1/19)

HDFC BANK HDFC

Transformational Combination of Housing Development Finance Corporation Limited ("HDFC Limited") with HDFC Bank Limited ("HDFC Bank")

April 4, 2022

What is happening?

HDFC Bank will take over HDFC Ltd....effectively making a huge bank

25 shares of HDFC ltd will receive 42 shares of HDFC Bank.

(2/19)

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Transaction overview

Transaction Structure	• HDFC Limited, India's largest housing finance company with a total AUM of INR 5.26 Tn[3] and a market cap of INR 4.44 Tn[1] will merge into HDFC Bank, India's largest private sector bank by assets with market cap of c. INR 8.35 Tn[1] • Subsidiary/associates of HDFC Limited will become subsidiary/associates of HDFC Bank
Pro-forma Shareholding	• Shareholders of HDFC Limited as on record date will receive 42 shares of HDFC Bank (FV Re. 1/- each) for 25 shares of HDFC Limited (FV Rs. 2/- each) • HDFC Limited's shareholding in HDFC Bank will be extinguished as per the scheme of amalgamation ("Scheme") upon the Scheme becoming effective • Post the above, HDFC Bank will be 100% owned by public shareholders and existing shareholders of HDFC Limited will own 41% of HDFC Bank[2]
Closing Timeline and Approvals	• Transaction completion is subject to shareholders, creditors and regulatory approvals including from RBI, IRDAI, CCI, SEBI and Stock Exchange • Closing is expected to be achieved within ~[18] months, subject to completion of regulatory approvals and other customary closing conditions

Potential to be India's largest Bank?

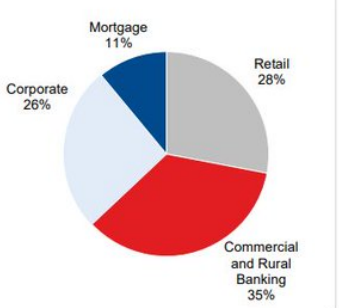
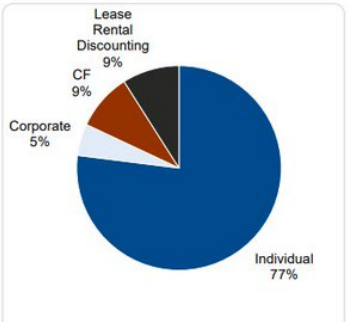
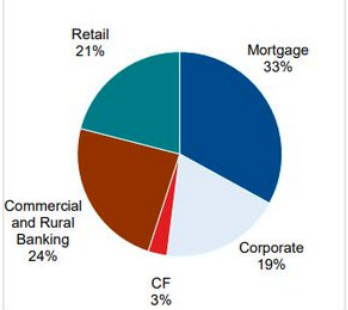
HDFC Bank+HDFC total size=18 lakh crores
SBI total size=26.5 lakh crores

With steady loan growth over the next 5 years....surely HDFC Bank will become the largest bank

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Secured and long tenor product will lead to robust asset portfolio mix

	HDFC BANK	HDFC	Pro Forma
Total Advances (INR Cr.)[1,2]	12,68,863	5,25,806	17,86,669
Loan Book Mix (%)[1]			

Housing Finance is a big opportunity and the missing puzzle in the HDFC Bank armor:-

Over the past year ICICI scored big time on HDFC Bank due to rapid growth on home loans.
ICICI clocked up about 24% loan growth while HDFC Bank did not have a home loan portfolio.

(4/19)

(₹ Crs)

	31-Dec-20	30-Sep-21	31-Dec-21
Personal Loans	115,963	126,358	133,399
Auto	89,277	95,195	96,426
Home Loans	66,609	75,754	78,992
Payment Products	65,945	67,783	73,305
Loan against Property	49,817	54,426	57,736
Two Wheelers	10,465	9,713	9,288
Gold Loans	7,636	8,109	8,198
Other Retail	40,782	45,604	48,407
Commercial & Rural Banking Excl Agriculture	294,815	359,020	384,195
Agriculture	45,284	56,004	56,031
Corporates & Other Wholesale	303,483	312,423	326,182
Total	**1,090,077**	**1,210,389**	**1,272,160**

So why merge now?

The regulatory arbitrage b/w Banks and NBFCs is slipping away:-

The IL&FS crisis hit the economy really hard.

Since then the RBI has taken various steps in NBFCs:-
1. Asset classification norms for NBFCs have been moved at par with that of banks.

(5/19)

2. Increased supervision of large NBFCs
3. It is further expected that RBI may move to a CRR and SLR type regime for NBFCs as well.

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We are at the bottom of a credit cycle:-

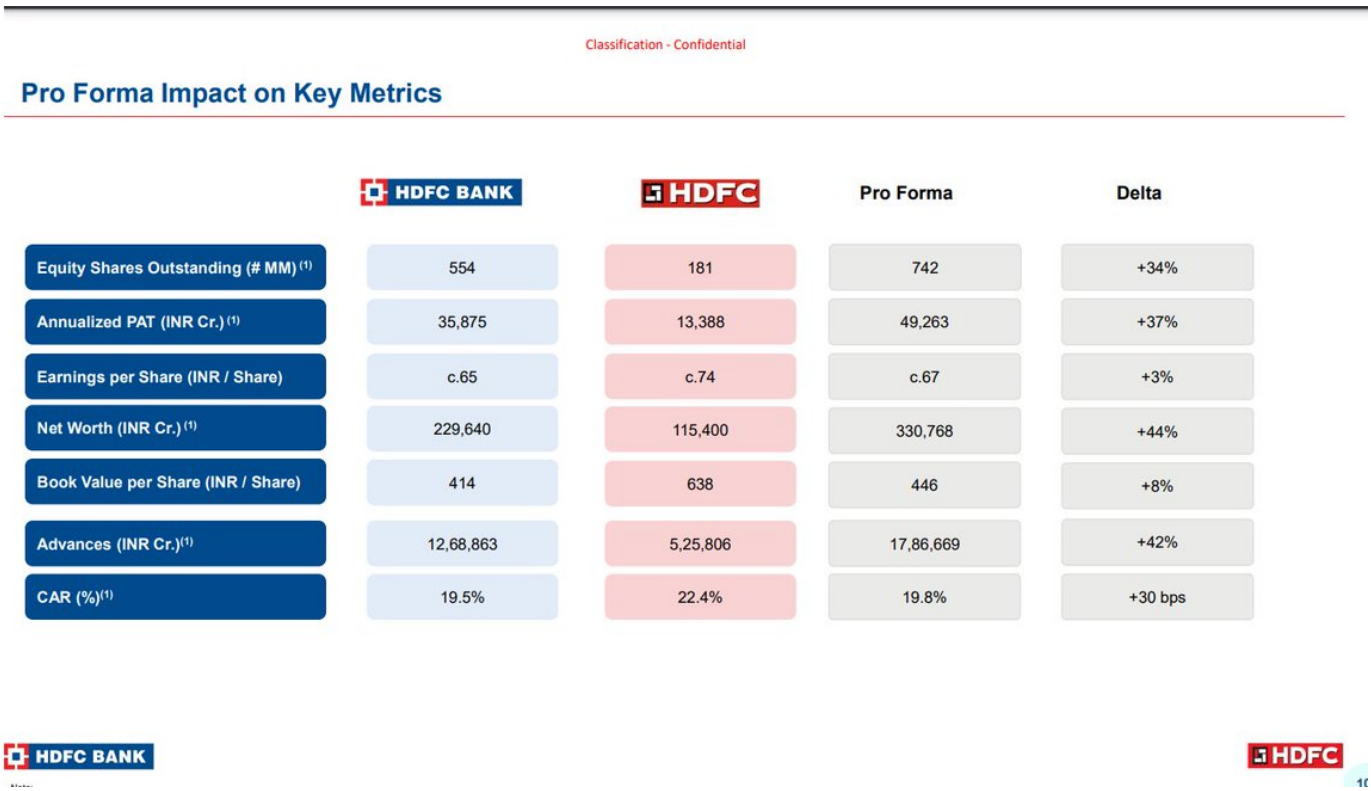
Both HDFC and HDFC Bank are flushed with capital.

HDFC Banks has a TIER-1 CAR of 19.6%

HDFC Ltd has a TIER-1 CAR of 22.4%

Capital requirement is low at this stage...Therefore it makes sense to take on this merger

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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

HDFC BANK

HDFC

We are at the bottom of the real estate cycle:-

Over the last 3 years we have seen

1. IL&FS crisis
2. DHFL crisis
3. Drying up of builder funding

has led to NBFC crisis.

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Some factors leading to a revival in demand

1. Low-Interest rates
2. End of builder consolidation that started since the IL&FS crisis
3. Sops given by various governments like stamp duty cuts

In fact HDFC ltd reported a 48% growth in the first 9 months of this year.

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- **48% growth in individual disbursements for the nine months ended December 31, 2021;**
  - **2nd highest monthly individual disbursements ever in December 2021**
- **24% growth in the individual loan book (after adding back loans sold in the preceding 12 months)**

Cross-sell opportunities are immense

1. 70% of HDFC Bank customers do not have a home loan
2. 68% of HDFC ltd customer do not have a liability franchise with HDFC Bank

When all the products are offered under one basket...the value will be immense.

(10/19)

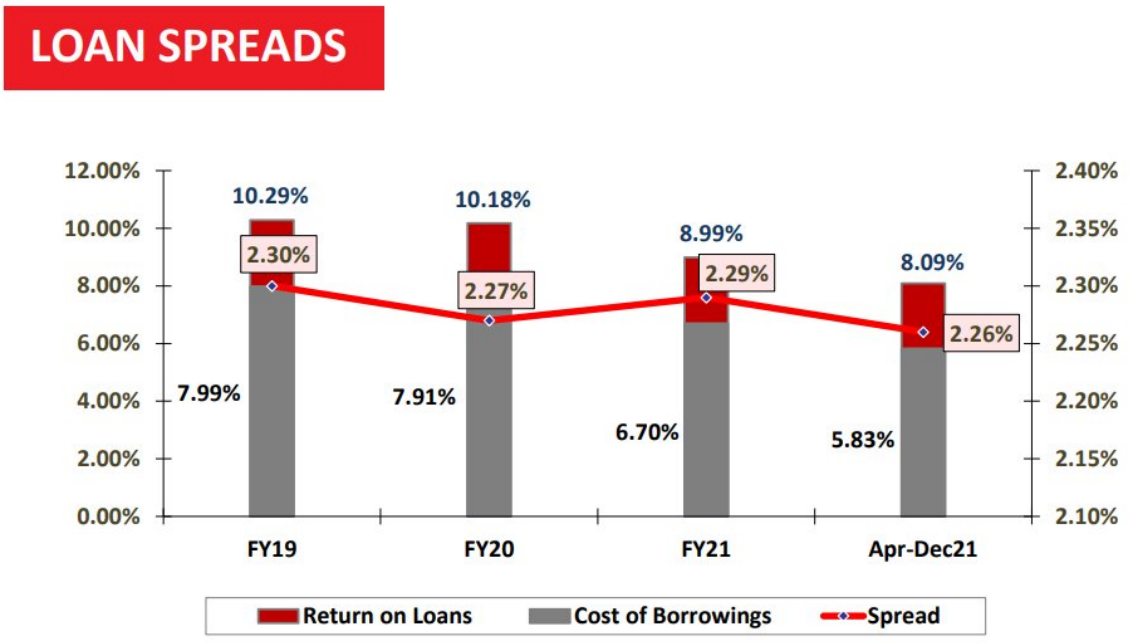
Cost of Funds on HDFC Ltd book comes down:-

Currently, HDFC ltd raises funds at 5.8%
HDFC Bank raises funds at about 3.5-4%.

There will be massive savings on cost of funds as the merger properly takes shape

(11/19)

HDFC
WITH YOU, RIGHT THROUGH



The merger will be value accretive from Day-1:-

HDFC Ltd's current shareholding in HDFC Bank will automatically get canceled.

This means the whole pie of shareholding will contract which will result in

1. Increase in EPS
2.Increase in Book Value
3.Increase in CAR

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Succession Planning at HDFC Ltd

Mr Keki Mistry was turning 67 and was due to retire by 70.
Renu Karnad is also 67 and due to retire.

Therefore it makes complete sense to merge HDFC ltd so that the succession planning is taken care of

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Key Challenges in this merger:-

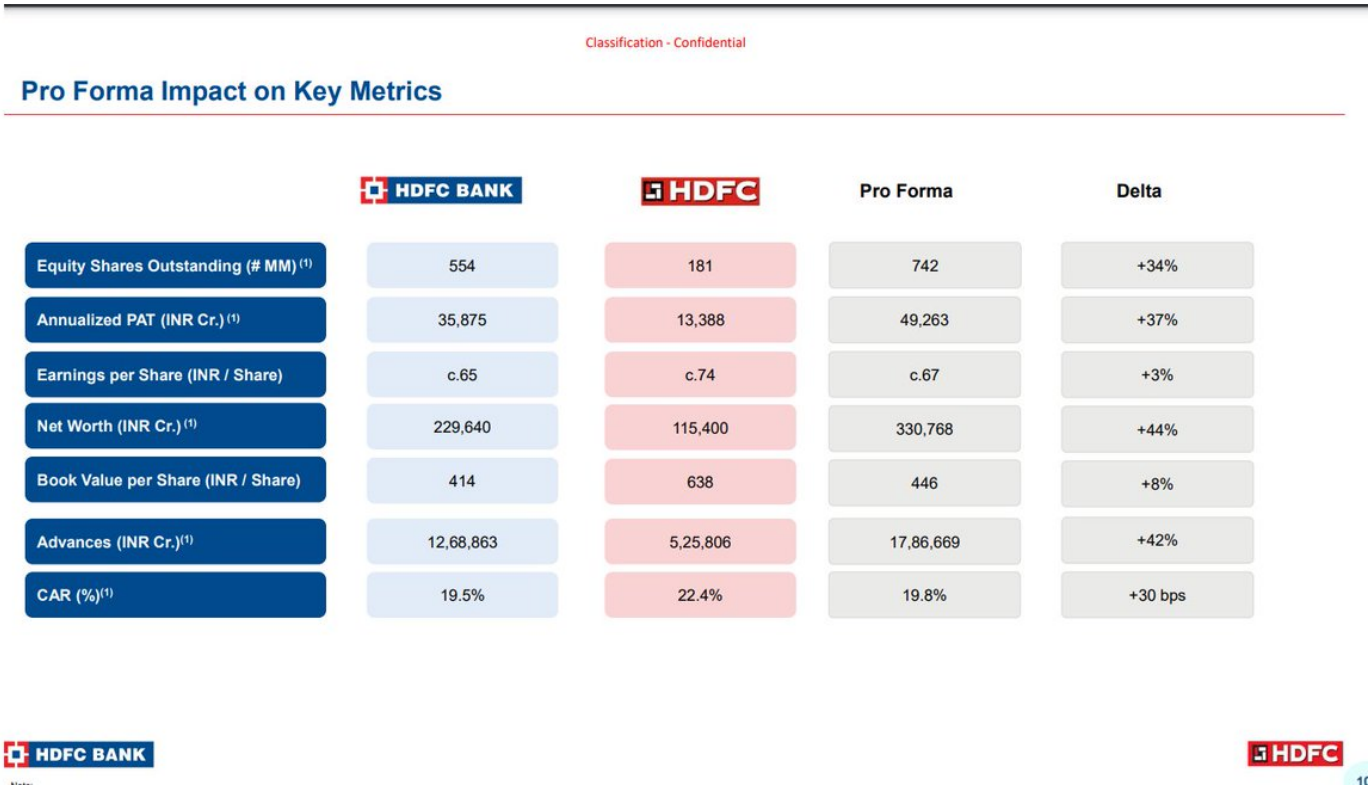
HDFC ltd has about 5.25 lakh crores book.

On this book, CRR+SLR and statutory buffers have not been maintained.

This will require huge capital.

Since this a big amount the bank has written to the RBI to allow 2-3 years for this change

(14/19)



The sheer size of the company will also mean challenges:-

The loan book of both entities will now be 18 lakh crores.

The sheer challenge to maintain asset quality and growth on such a scale is massive.

(15/19)

Holdings in subsidiaries

HDFC Bank post-merger will hold a stake in

1. HDFC Life
2. HDFC AMC
3. Bandhan Bank
4.RBL Bank
5. HDFC Ergo
6.HDB Financial
7. HDFC Credila

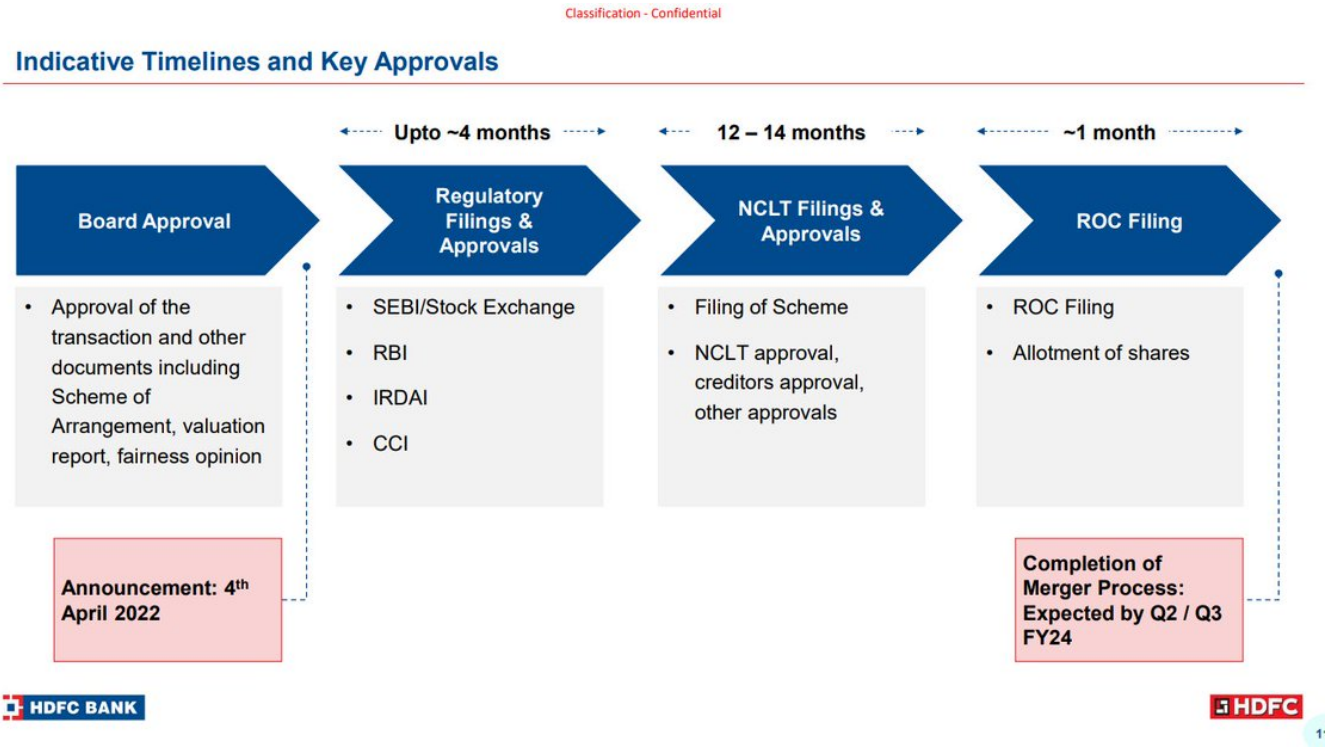
The regulator must allow the bank to keep a stake in all these companies

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Regulatory approval will be a long process:-

So many regulators are involved in the process that chances of hitting a roadblock are high

(17/19)



So what should shareholders of HDFC ltd do?

Maintain shares in multiple of 25.Any odd shareholding will mean ur shares will be converted to cash.

(18/19)

So what is our view on the merger?

This is a monumental moment in Banking.

HDFC Bank will become a behemoth now.

There are many challenges ahead for the Bank....equally scale will mean there is a big opportunity too

But the opportunities outweigh the challenges!

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(19/19)