

# HDFC merger synergies to beat challenges: Analysts

## Await RBI's Decision: Nod For Deal Or Holding Co For Arms

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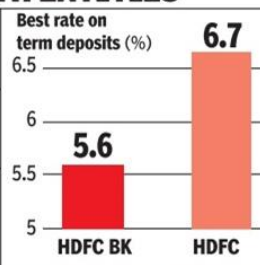
**Mumbai:** A day after the merger announcement, shares of HDFC and HDFC Bank corrected by 2% and 3% respectively after surging over 9% on Monday. Analysts were, however, positive about the transaction and see the synergies overcome potential challenges.

The biggest fear of analysts is whether the regulator will ask for a holding company structure given the number of large subsidiaries that are being transferred to the bank. "We don't know what view the regulator takes on banks holding large stakes in insurance companies. While the HDFC management has said that they have applied to the RBI for consideration, we don't know what stance the regulator will take. If the holding company structure is enforced, then the equation changes, the cost goes up as stamp duties and taxes go up — it will

### NO OVERLAP FOR BOTH ENTITIES

- Analysts say HDFC's 3,500-strong workforce are just 3% of HDFC Bank's employees
- As a result, there's no overlap and integrating the mortgage biz would not be a problem
- Moreover, home loans will be a big gain for HDFC Bank as this segment has been boosting credit growth for 2 years

- Only challenges are refinancing HDFC's funding with low-cost deposits & possible enforcement of a holding co structure which will trigger costs like stamp duties & taxes



be more time consuming," said Macquarie research analyst Suresh Ganapathy.

According to Ganapathy, integration of the mortgage business is not a big challenge as HDFC's 3,500 employees are only 3% of HDFC Bank's workforce and there is no overlap in portfolio. "Refinancing HDFC's funding with low-cost deposits will be key for the success of the merger," he said.

"We expect the merger to

be EPS (earnings per share) -accretive by FY25 and drive stronger loan growth over the next five years. Return on equity will move lower in the near term owing to capital accretion, but we expect loan growth acceleration to drive 18% return on equity by FY26," said Morgan Stanley in a report. According to Kotak Institutional Equities, the valuation multiple for HDFC has come off in the past few years. "Hence, the

delay of the merger has largely been favourable as the bank is able to get a best-in-class mortgage book at a relatively inexpensive valuation," said the Kotak report.

Historically, the merger was seen as inevitable by analysts given the close integration between the two. HDFC Bank was selling not just home loans for the parent but products of other HDFC subsidiaries as well. Over time, HDFC Bank had grown far bigger and developed a wider reach than HDFC. Also, with home loans being the key driver of bank credit growth in the last two years, HDFC Bank had a disadvantage in not having its own products.

"We believe the merger, in addition to driving economies of scale, will address concerns about HDFC's growth in the mortgage business amid rising competition from banks with a cost advantage," said a report by Emkay Global.