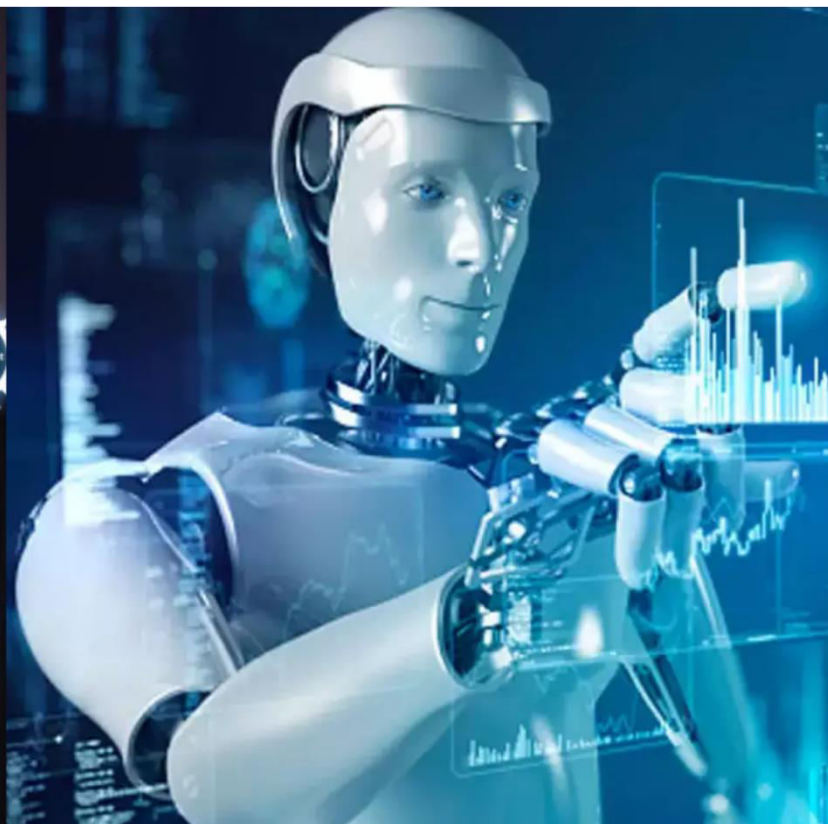




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Mergers and Acquisitions: A Case Study of the HDFC Ltd–HDFC Bank Merger

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ABSTRACT: The banking and financial services sector in India has undergone significant consolidation in recent years through mergers and acquisitions (M&As). Among these, the merger between HDFC Ltd and HDFC Bank stands as a transformative event in the Indian financial landscape. This study aims to analyze whether this merger has resulted in value creation or destruction, focusing on shareholder wealth, financial performance, and investor confidence. Using event study methodology and ratio analysis, the paper compares pre- and post-merger data drawn from secondary sources such as NSE, BSE, and company reports. The results show that while the short-term market reaction was neutral, long-term indicators reflect improved profitability, capital adequacy, and earnings growth. The findings underscore that strategic mergers, when effectively planned and integrated, contribute to sustainable financial growth and market stability. This study adds to the growing literature on M&A performance evaluation in emerging markets and provides policy insights for future consolidation efforts.

KEYWORDS: HDFC Bank, HDFC Ltd, Merger, Event Study, Shareholder Value, Financial Ratio Analysis, Indian Banking Sector.

I. INTRODUCTION

Mergers and Acquisitions (M&As) have long served as key instruments for corporate growth, competitiveness, and financial restructuring. In the financial sector, they play a crucial role in promoting stability, enhancing efficiency, and achieving economies of scale. The Indian banking industry, in particular, has witnessed several major consolidations driven by regulatory reforms, competition, and the need for capital adequacy. The merger between Housing Development Finance Corporation Limited (HDFC Ltd) and HDFC Bank Limited represents the largest merger in Indian financial history. Announced in April 2022 and completed in July 2023, the merger aimed to combine the strengths of HDFC Ltd's housing finance expertise with HDFC Bank's extensive retail and corporate banking operations.

This merger is significant not only because of its scale but also because it marks a new chapter in financial integration within India's private sector. The unified entity now operates with a combined balance sheet exceeding ₹18 trillion, making it one of the world's largest banking institutions by market capitalization. The primary motivation behind this research is to evaluate the merger's effectiveness in delivering value—both for shareholders and for the broader financial ecosystem. The paper seeks to determine whether the merger created financial synergies, improved operational efficiency, and strengthened investor confidence.

II. LITERATURE REVIEW

The existing body of literature on M&As presents mixed evidence on their success in generating value. Early studies by Shree Prakash (2017) revealed that Indian firms involved in M&As experienced modest short-term gains but faced challenges in integration and efficiency realization. Rao and Dhar (2020) emphasized the role of regulatory liberalization and foreign direct investment policies in facilitating domestic mergers. Recent studies have focused more on strategic synergies and long-term growth. For instance, Shah (2021) analyzed the early stages of the HDFC merger and found that it aimed to reduce duplication, lower costs, and improve financial access. Similarly, Bhattacharya (2022) highlighted that the merger's combined balance sheet improved financial leverage and enhanced lending capacity.

From an international perspective, Chen, Lu, and Liu (2019) found that corporate social responsibility (CSR) and ethical governance practices positively influence merger outcomes. McCarthy and Noseleit (2022) observed that mergers involving a single reputable advisor tend to yield higher abnormal returns compared to those with multiple advisors. These findings collectively suggest that both governance quality and strategic alignment play critical roles in determining M&A success. However, empirical studies on the private sector banking mergers in India remain limited, which creates a gap this study aims to address.

III. METHODOLOGY

This study adopts a quantitative, descriptive, and analytical research design integrating financial ratio analysis and event study methodology. The primary objective is to determine whether the HDFC Ltd–HDFC Bank merger created or destroyed shareholder value and enhanced financial performance post-merger. The data are entirely secondary, collected from reliable sources such as NSE, BSE, RBI bulletins, and company annual reports.

The event study methodology (ESM) was employed to analyze market reactions to the merger announcement by calculating abnormal returns (AR) and cumulative abnormal returns (CAR) for HDFC Bank and HDFC Ltd. A 240-day event window (120 days pre-announcement and 120 days post-announcement) was used. Additionally, financial ratios such as Return on Equity (ROE), Return on Assets (ROA), Earnings Per Share (EPS), Capital Adequacy Ratio (CAR), and Gross Non-Performing Assets (GNPA) were compared across the pre-merger (FY 2021–22) and post-merger (FY 2023–24) periods.

The statistical analysis included paired T-tests to evaluate mean differences and regression models to assess the relationship between HDFC Bank's stock returns and the NIFTY 50 index. This mixed analytical approach ensures that both market-based and accounting-based indicators are considered in evaluating the merger's success.

IV. RESULTS AND ANALYSIS

The event study results indicate a mean CAR value of 0.0000 for both HDFC Bank and HDFC Ltd with a p-value of 1.000, confirming no statistically significant deviation from zero. This suggests that the market efficiently absorbed the merger announcement, aligning with the Efficient Market Hypothesis (EMH). The absence of volatility implies that investors perceived the merger as stable and strategically beneficial rather than speculative.

The ratio analysis presents a clearer picture of post-merger financial improvements. EPS rose by 41.3%, demonstrating enhanced profitability and earnings capacity. CAR improved from 18.9% to 19.8%, indicating stronger capital adequacy and resilience. Although ROE and ROA saw minor declines of 6.5% and 5.9%, these changes reflect temporary integration costs and not fundamental weaknesses. The GNPA ratio remained stable, increasing only marginally from 1.17% to 1.20%, confirming effective credit risk management during the transition phase.

Regression analysis produced an R^2 value of 0.48, suggesting a moderately strong relationship between HDFC Bank's stock returns and the overall market index. This correlation reinforces that the merger did not disrupt market alignment and that investor confidence remained intact.

V. DISCUSSION

The results demonstrate that the merger between HDFC Ltd and HDFC Bank has been value-accretive in the long term, despite neutral short-term market reactions. The improvements in EPS and CAR indicate strengthened financial health and capacity to lend, which are key indicators of merger success. The temporary decline in ROE and ROA is consistent with integration-related adjustments commonly observed in large-scale consolidations. The study's findings align with prior research, confirming that successful M&As are those that maintain market confidence, manage integration effectively, and achieve operational synergies.

From a theoretical standpoint, the findings validate the synergy and efficiency theories of M&A. By combining HDFC Ltd's housing finance expertise with HDFC Bank's retail and digital banking network, the merger achieved both financial and strategic complementarities. Furthermore, the merger supports the adaptive market hypothesis, which

suggests that efficiency evolves with investor learning and market maturity. The results provide empirical evidence that large private-sector mergers in emerging economies like India can foster stability and sustainable value creation.

VI. CONCLUSION

The merger of HDFC Ltd and HDFC Bank marks a historic milestone in India's financial sector. While short-term market reactions were neutral, long-term financial indicators point toward value creation through enhanced profitability, capital adequacy, and stability. The integration of two financial powerhouses under one entity has improved customer reach, lending capacity, and balance sheet strength. This research demonstrates that well-planned mergers, supported by regulatory compliance and strategic alignment, can produce sustainable benefits for stakeholders.

Future research could expand on this analysis by comparing the HDFC merger with other Indian and international bank mergers, using longitudinal data to evaluate long-term value realization and post-merger integration outcomes.

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