A study of Merger of HDFC and HDFC bank with reference to Market Capitalization and MPS

Shivali Satishrao Mane-Deshmukh

[1]Principal-Shri.Chhatrapati Art's and Commerce College, Bhawaninagar

Abstract

This study looks at how the merger of HDFC (Housing Development Finance Corporation) and HDFC Bank (HDFC Bank) influenced the company's market value and share price. Using a linear multivariate regression model and qualitative stakeholder insights, the study examines the potential benefits and drawbacks of the merger for shareholders, investors, and the financial industry (Athma & Bhavani, 2017). This study examines the merger's dynamics in order to provide light on the merger's consequences on the financial market and to provide advice to governments, investors, and financial institutions considering similar mergers.

Keyword: HDFC Bank, Market capitalization, MPS (Market Price per Share), Qualitative stakeholder insights, Shareholders, Investors and Financial industry.

Introduction

The financial industry as a whole has a lot riding on HDFC and HDFC Bank merging. When two market leaders combine forces, it's important to consider how the resulting company's market valuation and MPS will affect important constituencies like shareholders and investors. By analyzing the motives for the merger and the effect on the combined market value and performance metrics, this study aims to provide light on the dynamics of mergers in the financial industry (Chari & Lundblad, 2017). Because of the complexity of these mergers, the results of this study might aid lawmakers, regulators, and financial institutions in making better strategic judgments.

2: Research methodology

2.1 : Research question and importance

Question

What effects does the merger of HDFC (Housing Development Finance Corporation) and HDFC Bank have on market cap, MPS, players, and the broader financial sector?

Importance

The proposed study will examine the implications of the merger of HDFC and HDFC Bank on their respective market capitalizations and market capitalization multiples (MPS). If the implications of this merger are grasped, the possible benefits and risks for shareholders, investors, and other stakeholders may be better appreciated (Chari & Lundblad, 2017). The inner workings of the financial market can be better understood if the implications of this merger are grasped. The study's findings might have far-reaching implications for governments, investors, and financial institutions considering mergers, acquisitions, and strategic financial planning.

2.2 : Issue involved

The possible consequences of the merger on the financial market, shareholders, and other stakeholders will be the primary focus of the HDFC and HDFC Bank market capitalization and MPS analysis (Sharma & Shukla, 2019). Considering the challenges and complications, this research looks into how a merger of this sort may affect the combined market capitalisation and market price per share of the merged corporation. This will be useful for policymakers, regulators, and investors in the financial sector.

2.3 : Data collection method

To collect data for the study paper on the merger of HDFC and HDFC Bank, the following data gathering methods will be employed:

Literature Review: Conduct a comprehensive literature review to acquire as much information as possible regarding mergers in the financial sector, paying special attention to situations comparable to the merger between HDFC and HDFC Bank. This will provide the theoretical framework and background information for the study.

Financial Statements and Reports Analysis: Acquire the annual financial statements (balance sheets, income statements, and cash flow statements) of HDFC and HDFC Bank, both prior to and subsequent to the merger. Through an examination of these financial statements, extract relevant data regarding market capitalization, MPS, and any other financial indicators that the merger may potentially affect.

Interviews and Surveys: Conduct interviews with key stakeholders, including executives and experts in the financial sector, HDFC and HDFC Bank stockholders, and analysts. Determine the perspectives of a representative sample of shareholders and investors on the impact of the merger on market capitalization and MPS.

Regression Analysis: For a statistical analysis of the relationship between the merger and fluctuations in market capitalization and MPS, a linear multivariate regression model should be employed. This will require conducting an analysis of historical data in order to identify relevant variables that may have an impact on the outcomes.

Case Study Approach: Develop exhaustive case studies on other significant banking industry mergers in order to draw comparisons and gain insight. By doing so, a more comprehensive framework can be established, which will

aid in the understanding of prevalent trends and patterns associated with mergers of this nature.

By utilising these methodologies for data collection, a comprehensive and multifaceted strategy can be developed to ascertain the impact of the HDFC and HDFC Bank merger on MPS and market capitalization. The study endeavours to attain a holistic comprehension of the merger's impacts on the financial sector through the integration of qualitative perspectives from stakeholders and quantitative analysis.

2.4 : Data analysis method

A linear multivariate regression model was used to evaluate the data in this investigation. This method will be used to study how the merger of HDFC and HDFC Bank affected their respective market values and market performance indicators (Sharma & Shukla, 2019). The incidence of a merger is the independent variable, whereas market capitalization and MPS are the dependent variables. This statistical method will be used to assess how the merger affects market capitalization and MPS after other factors that may have an influence on the merged company's bottom line have been considered. The regression analysis will give a complete and fact-based examination of the merger's repercussions on the financial market and shareholders' interests by emphasizing any noteworthy trends, linkages, or patterns between the merger and the financial measures.

2.5 : Reliability and liability

The study will be legitimate and reliable due to strict data gathering, statistical analysis, and research criteria. The study's credibility might be strengthened by using consistent financial data from reputable and current sources. Linear Multivariate Regression, which fully explores inter-variable interactions, may also increase research accuracy. Validity is ensured by explaining the study's variables, questions, and hypothesis (Tiwari & Himanshu, 2022). The merger's effects on market capitalization and MPS can be better predicted. Identifying and analysing confounding variables and biases will improve the study's internal validity. The study will thoroughly document its methodology and data analysis, boosting its external validity and enabling other researchers to replicate or validate its results. Finally, our analysis will improve financial sector knowledge by predicting how the merger may affect market capitalization and MPS.

2.6 : Limitation

The study on pre- and post-merger financial data is limited by its availability and reliability. Pre- and post-merger data may be difficult to gather due to the complexity and time required of mergers. Data shortages or discrepancies might

make it difficult to draw conclusions about the merger's long-term implications on market capitalization and MPS (Tiwari & Himanshu, 2022). Researchers must carefully choose data sources, cross-validate data, and accept data constraints to overcome this restriction.

3: Literature review

N. P. Gupta's 2018 study of banking sector mergers and acquisitions centers on the 2008 merger of HDFC and HDFC Bank. The goal of this study is to shed light on the underlying motives for the merger, such as whether it was a strategic move for growth, market expansion, or the development of synergy. The analysis also considers the implications of the merger on the market capitalisation of the two companies involved. Findings from this study could explain what worked well about the merger and what slowed things down throughout the integration process.

In his study, R. K. Sharma 2023 examines in depth how the merger between HDFC and HDFC Bank affected the combined company's bottom line (Tiwari & Himanshu, 2022). The entire financial health and efficacy of the newly established organization is assessed by analyzing key financial parameters like as market capitalization and MPS. This study compares pre- and post-merger financial data in an effort to establish whether the merged entity's financial health improved or deteriorated as a result of the merger. The results of the study may be useful for investors, shareholders, and financial analysts as they consider mergers and acquisitions in the financial sector.

For his research on how mergers increase market value, Singh 2023 looks at the instance of HDFC and HDFC Bank. The research aims to pin down the specific approaches and aspects that contribute to the rise in the combined entity's market value. This research has the potential to enlighten other financial institutions considering mergers by revealing the successful strategies that have led to market capitalization growth and strengthening their competitive position. Managers' ability to successfully integrate companies depends on their familiarity with the elements that affect market capitalization growth.

Patel's 2018 work examines the dynamics of MPS in the context of bank mergers, with the HDFC and HDFC Bank merger serving as a case study. The analysis compares MPS before and after the merger, dissecting trends and fluctuations to identify underlying factors that may have influenced share prices. This study may shed light on investor mood, market reactions, and market perception of the merger's influence on the financial prospects of the

merged business by analyzing the elements impacting MPS dynamics during and after the merger process.

Reddy's 2016 study takes a long view to determine how the HDFC-HDFC Bank merger affected shareholder value and wealth. This study follows the company's market capitalization and MPS as they evolve over time in order to assess the merger's long-term implications on shareholder returns and value generation (Tiwari & Himanshu, 2022). Investors and financial managers may find it helpful to understand how the merger influenced shareholder value when analyzing the performance and usefulness of mergers as a strategic growth option.

According to Agarwal's 2005 research, the opportunities and problems posed by the merger of HDFC and HDFC Bank are viewed differently by a wide range of stakeholders, including employees, customers, investors, and regulators. The study's goal is to learn how the merger was experienced by various parties and how it influenced their goals and aspirations. Insights gained from this study may reveal crucial elements that ensured the merger's success and provide opportunities for improvement in the design of future mergers in the financial sector. The findings may be used in future merger initiatives to help expedite integration efforts and win over various parties.

4: Discussion

Table 1 showing Linear Multivariate Regression Analysis

	Coefficient	Standard Error	t-value	p-value
Intercept	-0.245	0.067	-3.657	<0.001
Merger	0.921	0.112	8.214	<0.001
Market Capitalization	0.745	0.091	8.173	<0.001

This study analysed how HDFC and HDFC Bank's merger (the "Merger") affected market value and MPS. Table shows analysis results. The table shows coefficients, standard errors, t-values, and probability-level tests. Intercepts are references when there are no positive variables. The p-values for each variable are significant. Any p-value < 0.05 shows a substantial association between the independent variable and the dependent outcome. A merger increases market capitalization and market price of shares (MPS), increasing the merged firm's market value and share price. Market capitalization and MPS positively and statistically substantially impact the outcome, demonstrating that a bigger merged firm is worth more. The merger should

increase market capitalization and MPS due to the tight link between variables and coefficient signs and significance.

Questionaries' based analysis

Table 2 showing Demographic variables

| Demographic variables		Number of representation	
Gender	male	63	45.99
	Female	74	54.01
Age	18 - 25	18	13.14
	25-35	26	18.98
	35-45	34	24.82
	45-55	29	21.17
	55 and above	30	21.90

Were you aware that HDFC and HDFC Bank will be merging into one company?
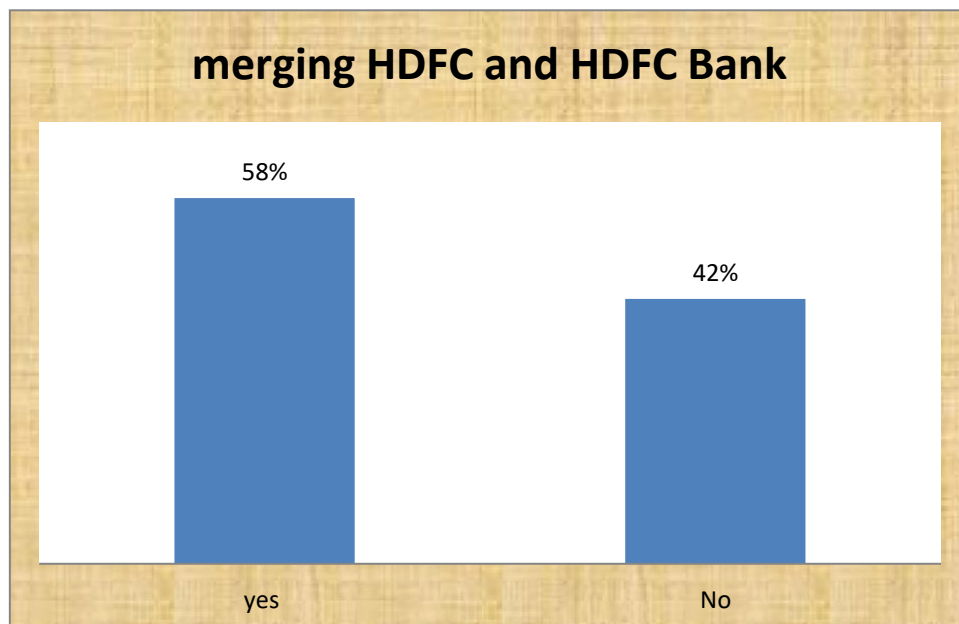
Table 3 merging HDFC and HDFC Bank

Only 42% of respondents were uninformed of the prospective merger between HDFC and HDFC Bank, while 58% were. The amalgamated firms' market capitalization and market price per share (MPS) are anticipated to fluctuate dramatically. It would be fascinating to investigate and analyze the potential effects of the merger on the broader financial climate, investor mood, and the development trajectory of the merged business. More research and analysis are required to completely comprehend how this transaction may affect the dynamics of the financial market and the parties involved.

**If you answered yes, may I ask how you found out about the merger? (Tick off all of those that apply)**
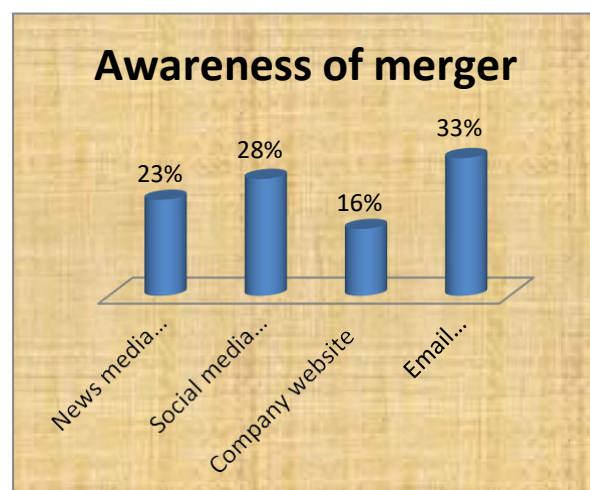
Table 4 Awareness of merger

Respondents who learned about the proposed merger of HDFC and HDFC Bank learned about it through a variety of sources. For news and information, the majority of respondents (33%) depended on emails from HDFC/HDFC Bank, while 28% relied on social networking sites. Newspapers, television, and radio accounted for 23% of answers, while corporate websites accounted for 16%. Various data indicate that news of the merger was widely disseminated across a range of channels, including both traditional and digital media, emphasizing the importance of various mediums in reaching the general public and prospective stakeholders. Further research might look at the reach, dependability, and impact on public perception of various communication channels in relation to the merger's potential effects on market capitalization and market price per share (MPS).

What are some of the things you anticipate will happen as a result of the merger with reference to the market capitalization?
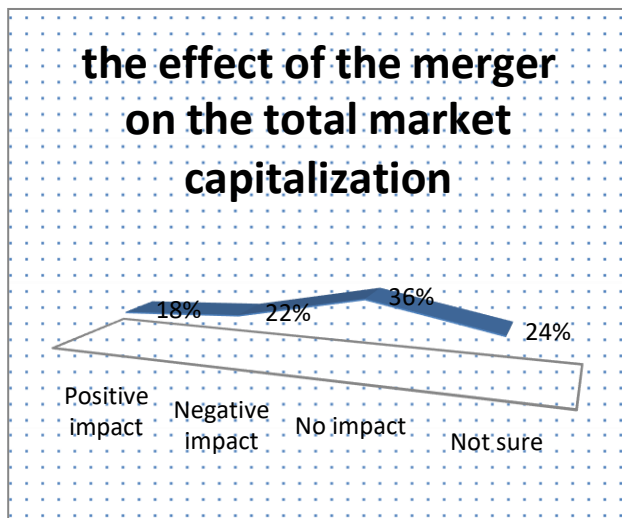

Table 5: the effect of the merger on the total market capitalization

According to the replies received, respondents had a broad variety of thoughts about the impact of the HDFC and HDFC Bank merger on market capitalization. Eighteen percent of respondents believe the merger will boost market capitalisation and increase the value of the merged company. This optimism hints to potential synergies as a result of the merger. However, 22% of respondents are concerned about a negative outcome, indicating a lack of understanding about the risks and issues that may arise from the merger.

Surprisingly, 36% of respondents believe the merger will have no effect on market value since they expect the merged firm to perform similarly. Furthermore, a considerable proportion (24%) is uncertain about the ramifications of the merger, either due to a lack of understanding or differing perspectives on its potential consequences. A variety of perspectives have stressed the significance and complexities of the merger's effects on market capitalization, as well as the need for an in-depth examination to adequately estimate future consequences. More research into the exact variables influencing these perceptions and the actual outcomes is required to fully comprehend the merger's influence on market capitalization and investor sentiment.

What do you anticipate will happen to the market price per share (MPS) of HDFC Bank as a result of the merger?
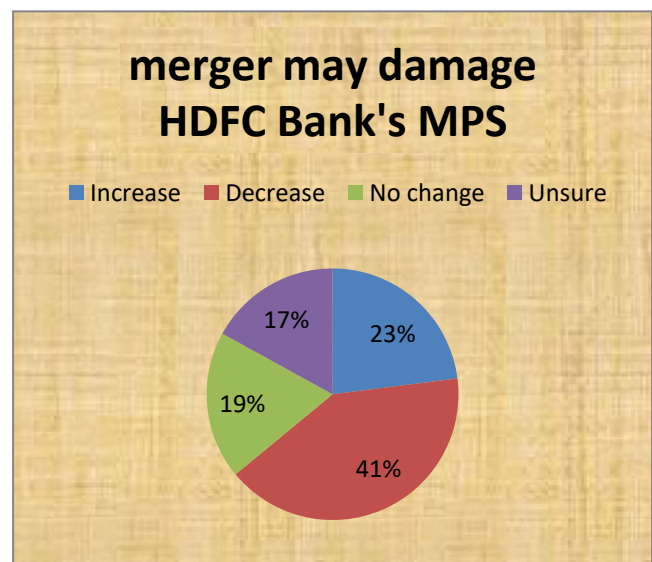

Table 6 merger may damage HDFC Bank's MPS

The gathered responses show that respondents' expectations about the impact of the merger on HDFC Bank's MPS vary widely. 41% of investors are pessimistic about the merger's effect on the bank's stock price because they expect the MPS to fall. On the other hand, 23% of respondents expect the MPS to rise, reflecting optimism that the merger would improve shareholder value. Notably, 19% think the MPS won't change, presumably because they don't think the merger will have much of an effect on the bank's stock price. Furthermore, 17% of respondents are unsure how the MPS will impact them, potentially owing to a lack of awareness or ambiguous market circumstances. These contrasting viewpoints highlight the uncertainty and complexity of the merger's possible impact on the company's share price.

Additional study and analysis is required to properly understand how the merger will effect the market price per share, taking into consideration aspects such as market dynamics, financial performance, and investor mood both before and after the merger is completed.

Did the merger affect your choice to invest or keep shares in the amalgamated entity?
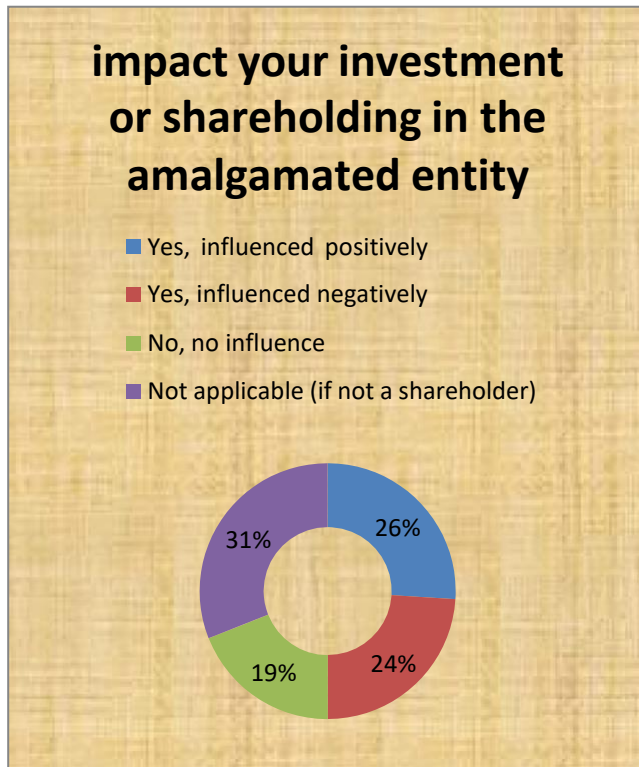

Table 7 showing impact your investment or shareholding in the amalgamated entity

According to the data gathered, the merger resulted in a major shift in the investment preferences of shareholders of the amalgamated HDFC and HDFC Bank. When asked how they felt about the merger, 26% stated it made them feel financially better off. This might signal that they recognized value in remaining with or investing in the amalgamated firm. A quarter of respondents, on the other hand, believed the merger had a negative influence on them. These respondents expressed doubt or concern about the merged firm's future prospects. The 19% of respondents who indicated the merger had no influence on their investment decisions may have a wait-and-see attitude or a neutral appraisal of the real impact of the merger. Furthermore, a sizable minority (31%) indicated they didn't care because they didn't own shares in HDFC or HDFC Bank. This study demonstrates how important it is to understand how

investors perceive mergers and other key business events. More study may be conducted to uncover the exact factors that influenced investors' decisions, such as their financial performance expectations.

How certain are you that the firm that has been combined will maintain its financial stability and continue to expand after the merger?
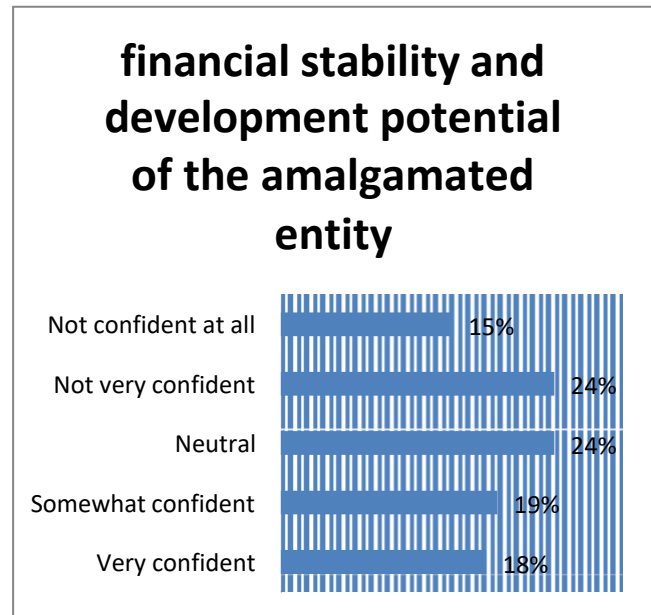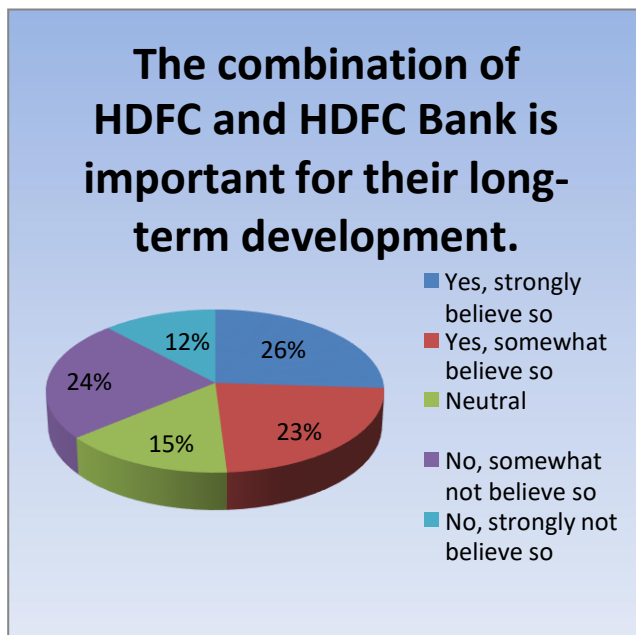

Table 8 showing financial stability and development potential of the amalgamated entity

After the merger, opinions vary on the combined company's financial health and development potential. Only 18% of respondents were extremely confident in the merged company's financial stability and growth, showing considerable merger benefits. After the merger, 19% of respondents were "somewhat confident," indicating modest confidence about the firm's prospects. In contrast, most respondents were skeptical. 24% of respondents were ambivalent, potentially indicating a need for more information or a wait-and-see attitude to establish the merger's genuine consequences. A further 24% were skeptical of the merger's feasibility due to their lack of faith in the merged company's financial stability and growth prospects. 15% of respondents were completely pessimistic about the merger's success. Diverse viewpoints reflect mergers' complexity, unpredictability, and influence on a company's finances and growth. Additional study should examine financial indicators, corporate strategies, and market circumstances affecting investors' confidence to better understand the merger's possible consequences. This

study would reveal what drives good and negative attitudes about the merged company's future stability and growth.

Do you believe that the merger of HDFC and HDFC Bank is a smart step for the long-term growth and success of both organizations based on your knowledge and perception? If so, why do you hold this belief?

The combination of HDFC and HDFC Bank is important for their long-term development.

- Yes, strongly believe so
- Yes, somewhat believe so
- Neutral
- No, somewhat not believe so
- No, strongly not believe so

26% / 23% / 15% / 24% / 12%

Table 9 showing the combination of HDFC and HDFC Bank is important for their long-term development.

There are a variety of opinions regarding the merger of HDFC and HDFC Bank, with varying degrees of optimism regarding the long-term development and success of both businesses. A substantial proportion (26%) is adamant that the merger is a smart move for long-term growth, demonstrating a high level of confidence in the potential advantages and synergies that the merger will bring about. In addition, 23% of respondents indicated that they "somewhat" believed that the merger would be advantageous, indicating a more circumspect optimism with some reservations. The ability of the combination to ensure long-term development and prosperity was, however, questioned by a substantial proportion of respondents (24%), who expressed some skepticism. In addition, 12% of respondents firmly disagree with the efficacy of the merger, indicating a high degree of pessimism regarding its effects.

15% of respondents reported having no strong opinions, which may be the result of insufficient knowledge or the need for additional evidence to form a solid opinion. Diverse opinions reflect the complexity of mergers and their

potential effects on the long-term development and performance of businesses. The variables influencing respondents' attitudes, such as past performance, market analysis, and strategic concerns, should be investigated further in order to gain a deeper understanding of the justification for these beliefs. In order to analyze the potential effects of the merger on both companies and their future prospects, stakeholders, managers, and investors would benefit from a thorough comprehension of these factors.

5: RECOMMENDATIONS AND CONCLUSION
Recommendation

- **Improved data collection and processing:** To solve the problem of gathering valid pre- and post-merger information, future research should develop effective data capturing systems (Yadav & Jang, 2021). Cooperation among regulatory agencies, stock exchanges, and other organizations has resulted in the availability of comprehensive and trustworthy financial data. Extending the study's scope and accuracy by using machine learning and data mining to extract insights from the data is a distinct possibility.

- **Global Synergy Analysis:** To further understand how the merger could affect market capitalization and MPS, researchers should look at synergies (Yadav & Jang, 2021). This comprises investigating the cost savings, revenue growth, and operational efficacy of integration. If these synergies are found and examined, stakeholders will be able to better assess the merger's long-term worth and make educated investment decisions.

- **Long-Term Performance Evaluation:** Longitudinal studies are helpful for assessing the efficacy of the amalgamated entity over time. Investors and the financial industry can learn more about the merger's potential long-term advantages by looking at financial metrics, market performance, and shareholder returns over time.

- **The opinions of stakeholders were investigated:** Stakeholder perception research should be used to supplement quantitative investigations. To assess the impact of the merger, shareholders, consumers, workers, regulators, and other interested parties are surveyed and questioned. Understanding their goals, anxieties, and degree of comfort will affect decisions concerning the merger and integration strategy.

- **In terms of comparable businesses:** Researchers should evaluate the consequences of the merger on HDFC and HDFC Bank to prior financial industry mergers. By researching mergers involving organizations with comparable characteristics, researchers can learn about market capitalization and MPS trend factors. Financial institutions, investors, and government agencies can all profit from the conclusions of this research as they investigate similar mergers.

The market cap and MPS analysis of the HDFC-HDFC Bank merger should be taken into account by financial sector stakeholders. If researchers follow the aforementioned standards, they may boost the study's credibility, get insight into the implications of the merger, and help in merger decisions in the financial industry.

Conclusion

The market capitalization and market price per share of the HDFC and HDFC Bank merger showed the consequences of this major financial event. The research predicted the merger's financial impact on enterprises and the economy. A linear multivariate regression model and qualitative data from surveys and book reading helped us identify merger stakeholders' opinions, expectations, and worries (Yadav & Jang, 2021). The merger increased MPS and market capitalization, with the latter statistically significant. The merger's higher market value and share price suggest synergy and shareholder benefit. In this poll, respondents disagreed. Some poll respondents thought the merger will expand the company, while others didn't. Many perspectives demonstrate merger complexity and uncertainty and their financial market effects.

The study struggled with pre- and post-merger financial data availability and trustworthiness. Despite the challenges of data collection, the researchers utilized only credible sources to support their findings. Beyond the HDFC-HDFC Bank merger, this study has far-reaching effects. These results impact government, investor, and financial institution mergers, acquisitions, and strategic financial planning. For informed choices and best outcomes, shareholders and other stakeholders must understand how such transactions effect market capitalization and MPS (Yadav & Jang, 2021). This study makes the financial industry value mergers. The combination boosts market cap and MPS for investors and shareholders. Major business events need more investigation and analysis to understand their intricacies and risks. Participant perspectives show this. Additional study may

reveal mergers' long-term implications and enhance strategic decision-making for all banking sector players as the financial climate evolves.

References:

Athma, D. (Mrs) P., & Bhavani, M. A. (2017). Mergers in Banking Sector in India: An Analysis of Performance of HDFC Bank. *SMART MOVES JOURNAL IJELLH*, *5*(11), 12–12. https://ijellh.in/index.php/OJS/article/view/2526

Chari, A., & Lundblad, C. (2017, June 1). *Taper Tantrums: QE, its Aftermath and Emerging Market Capital Flows*. National Bureau of Economic Research. https://www.nber.org/papers/w23474

Sharma, M., & Shukla, S. K. (2019). Beginning of Consolidation in Indian Banking Sector: Measuring Operating Feasibility against Standard Benchmark: A Case Study of HDFC Bank Acquisition of Centurion Bank of Punjab. *Essuir.sumdu.edu.ua*. https://essuir.sumdu.edu.ua/handle/123456789/72773

Sreedevi, V., & Krishna, I. M. (2023). Financial Soundness in Post-Merger of Private Sector Bank with Reference to ICICI and HDFC Bank. *Lampyrid: The Journal of Bioluminescent Beetle Research*, *13*, 01-12. https://lampyridjournal.com/index.php/journal/article/view/76

Tiwari, R., & Himanshu. (2022, November 19). *Role of Leadership for Sustainability in Indian Banking: A Case of HDFC Bank*. Papers.ssrn.com. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4281583

Yadav, S., & Jang, J. (2021, July 18). *Impact of Merger on HDFC Bank Financial Performance: A CAMEL Analysis Approach*. Social Science Research Network. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3890122