Mr. Deepak Parekh's Speech (HDFC Ltd – HDFC Bank Merger Announcement Press Conference)

April 04, 2022

Let me welcome each one of you to this Press Conference. With me on the dias are Mr Atanu Chakraborty, Chairman HDFC Bank, Mr Keki Mistry Vice Chairman & CEO HDFC Limited and Mr Sashi Jagdishan MD&CEO HDFC Bank.

The Board of Directors of HDFC Limited and the Board of Directors of HDFC Bank, at their respective meetings held today, have approved an all stock amalgamation of HDFC with HDFC Bank.

The amalgamation is subject to the approval of the shareholders of HDFC and HDFC Bank respectively, RBI, stock exchanges, SEBI and such other regulatory and statutory approvals as may be required.

Upon obtaining all approvals, when the merger becomes effective, HDFC Limited will merge with HDFC Bank. Shareholders of HDFC will receive shares of HDFC Bank in exchange of shares in HDFC at the approved share exchange ratio.

Bansi S Mehta & Co and Deloitte Touche Tomatsu India, LLP appointed by HDFC and HDFC Bank respectively have recommended a share exchange ratio which has been accepted by the respective Boards.

Bank of America Merill Lynch Securities and Morgan Stanley provided the Fairness Opinion on the share exchange ratio to HDFC and HDFC Bank respectively.

Accordingly, shareholders of HDFC Limited as on the record date will receive 42 shares (each of face value of Re.1/-) of HDFC Bank, for 25 shares (each of face value of Rs.2/-) held in HDFC Limited, and the equity share(s) held by HDFC Limited in HDFC Bank will be extinguished as per the Scheme. As a result of this, upon the Scheme becoming effective, HDFC Bank will be 100% owned by public shareholders and existing shareholders of HDFC Limited will own around 41% of HDFC Bank

HDFC and HDFC Bank have been evaluating the pros and cons of a possible merger for the mutual benefit of both institutions.

However, over the last few years there have been certain regulatory changes for banks and NBFCs, which have considerably reduced the barriers for a potential merger.

The last three years has seen a host of guidelines issued by RBI on harmonizing the regulation between banks and NBFCS. These have included guidelines *inter alia*

- for large NBFCs converting to banks, (NBFCs over Rs 50,000 crore have a roadmap for converting into full scale commercial banks)
- NPA classification (harmonizing the definition of NPA between banks and NBFCs),
- Liquidity Coverage Ratios (NBFCs need to maintain liquidity against next 30 days outflow on a rolling basis)
- Scale Based Regulation for NBFCs, - HDFC would get categorized as an Upper Layer NBFC and have a regulatory regime closer to banks
- Core Financial Solutions System (akin to the Core Banking System for Banks) and
- Risk Based Internal Audit.

These measures have considerably reduced the regulatory arbitrage between a bank and a HFC.

The Strategic Rationale for the proposed merger is as follows -

1. The reduced gap in liquidity requirements between a bank and a NBFC. The SLR+CRR for Banks was 27 percent which has now reduced to 22 percent (18 percent SLR and 4 percent CRR)

2. Interest rates are more favorable today as compared to earlier years.

3. Banks have an option to invest in Priority Sector Lending Certificates to meet PSL requirements as against direct lending to agriculture and MSME in the past

4. With RERA and the IBC real estate is seeing an increased level of transparency

5. Mortgage customers can have access to a range of financial products under one roof

<u>Change is inevitable – but change which is beneficial is always welcome.</u>

The merger makes the combined entity strong enough to not only counter competition but make the mortgage offering even more competitive. We will be able to offer all the variations in the mortgage product which currently we are unable to offer as a HFC like the OD product.

The funding challenges both in quantum and cost will be minimized by the combined entity.

The merger will therefore capitalize on our domain knowledge in real estate and mortgages and our operational efficiencies in processing mortgages, whilst leveraging on the cost of funds efficiencies and the distribution network of the bank.

The merger is a coming together of EQUALS.

Our customers will be the biggest beneficiary.

<u>The Transaction Structure</u>

1. The transaction involves the amalgamation of HDFC and its two wholly owned subsidiaries, *HDFC* Holdings and HDFC Investments (the "<u>Subsidiaries</u>") with HDFC Bank. HDFC Limited is the promoter of HDFC Bank and together with its two subsidiaries currently holds 21 percent of the share capital of the Bank.
2. Post the completion of the merger, all the subsidiaries and associate companies of HDFC Limited will be owned by HDFC Bank – subject to regulatory approvals
3. As of April 1, 2022 the market capitalisation of HDFC Bank is Rs 8.36 lac crores (US 110 billion) and HDFC Rs 4.46 lac crores (US $ 59 billion)
4. As at September 30, 2021, asset size of HDFC, Bank is Rs 18.44 lac crores (US $ 243 billion) and HDFC (Consolidated) Rs 8.80 lac crores (US $ 116 billion)

5. HDFC Bank has over 6,300 banking outlets and over 17,000 ATMS, HDFC has 651 offices inclusive of 206 outlets of HDFC Sales

The Bank has requested RBI for a phased in approach in respect of SLR/CRR, Priority Sector lending, grandfathering of certain assets and liabilities and in respect of some subsidiaries.

These requests are under consideration by RBI in terms of their letter dated April 1st.

In the past, the merger would not have been as value accretive as at present. The proposed merger of HDFC with HDFC Bank will lead to significant synergies for the combined entity and to better returns for all stakeholders.

The combined strength of the balance sheet of the combined entity, the ability to be competitive on the funding side and the ability to offer the entire range of mortgage products makes it a WIN-WIN for both institutions.

The merger will benefit the shareholders of both HDFC and HDFC Bank as follows -

1. Lower cost of funds will be made available for the mortgage business

2. The Bank will have access to the time tested mortgage origination and loan servicing processes of HDFC

3. The mortgage business has immense potential and hence the merger will help the group enhance its market share consequent to further leveraging on the distribution network of HDFC Bank

4. The merger will mitigate single product risk whilst at the same time enhance the diversity of assets for the combined entity.

5. Under the bank structure, the features of the mortgage product can be enhanced in terms of product design.

6. The combined entity will be in a position to offer the mortgage product seamlessly as against the current arrangement between HDFC and HDFC Bank wherein the Bank sources mortgages and acquires a predetermined percentage of the loans sourced through the assignment route.

7. Infusion of capital in the bank will no longer be a drag on ROE of the mortgage business

8. Subject to RBI and other regulatory approvals, material subsidiaries and associate companies of HDFC Ltd will continue to be owned by HDFC Bank. This will facilitate more efficient cross selling of banking and financial service products - including insurance and mutual funds

9. Value of HDFC will not be depressed by the Holding company discount in so far as it relates to the shares of the bank.

Benefits to the economy

The proposed merger will benefit the economy in more ways than one.

a. A larger balance sheet and capital base will allow greater flow of credit into the economy. It will enable underwriting of larger ticket loans including infrastructure, which is an urgent need of the country.

b. It will enable the delivery of the home loan offering to a large base of over 68 million customers of HDFC Bank in a seamless manner and inter alia improve the pace of credit growth in the economy.

c. HDFC is a significant provider of home loans to Low Income Group (LIG) and Middle Income Group (MIG) Segment under the Affordable Housing initiatives of the Government of India under the Pradhan Mantri Awas Yojana. Access to housing finance for this category would improve further on account of the low cost funds available with HDFC Bank.

d. A larger balance sheet will also facilitate flow of a larger quantum of credit into the priority sector, including agriculture.

HDFC Limited will continue to operate as an independent entity on an ‘as is’ basis until the effective date

It is envisaged that post the effective date all HDFC branches/offices in India will be retained and mortgages will continue to be offered from these outlets. Over a period of time these branches will be converted to full service banking branches.

To conclude, after 45 glorious years of providing home loans to over 9 million customers, the time is right for HDFC to find a new home. Our new home is with our family, with our own people, but it’s bigger, better and significantly more promising.

Thank you.