As HDFC twins join up, experts decode merger gains for investors, depositors and borrowers (excerpt)

HDFC customers could get an option to switch to external benchmark-linked home loans, but rates for depositors could be lower, though clarity will emerge only close to the merger

APRIL 06, 2022 / 08:54 AM IST

HDFC Chairman Deepak Paresh addressed a press conference on the merger.

The upcoming merger of two mammoth entities from the same group – HDFC and HDFC Bank – has created a buzz that is likely to continue well after the amalgamation takes effect. Top management officials have indicated that the process could take between 12 and 18 months as they seek approvals from a host of regulators including the Reserve Bank of India, Securities and Exchange Board of India (SEBI), Competition Commission of India (CCI) and Insurance Regulatory and Development Authority of India (IRDAI).

HDFC twins' senior management and other industry experts believe that the deal is a win-win for all stakeholders, but official information on changes for customers, if any, will be clearer only closer to the final merger. For instance, will existing HDFC home loan borrowers get an opportunity to switch to external benchmark-linked loans, which is mandatory for banks? Will the merged entity offer lower interest rates to depositors?

Moneycontrol spoke to five experts in the financial advisory space to understand what the mega merger means for investors and retail customers. Here's what they said:

Vishal Dhawan, Founder and Chief Financial Planner, Plan Ahead Wealth Advisors

Actively-managed mutual funds would underperform due to this merger only if the merged entity's stock price outperforms and mutual funds are unable to participate due to investing limits.

The merger itself will take 12-18 months, as it needs several regulatory approvals. So, mutual funds have enough time to decide what they want to do with the excess holdings that they might have in the merged entity, if its weight in large-cap indices is more than the 10 percent investing limit of mutual funds. As this will impact the entire mutual fund industry, the Association of Mutual Funds in India may approach SEBI to ease the individual stock limits. Also, remember that both HDFC Bank and HDFC were relative underperformers on the stock market in the recent past. So, funds that actually had lower exposure to the two stocks would have benefitted to that extent.

So, we should not read too much into it right now, as there is still a lot of time for the merger to be completed. The final weight of the merged entity, whether in the Nifty 50 or any other large-cap index, would depend on how the two stocks perform from hereon, stock performance after the merger, and how the deal gets finally structured. Whether the weight of the merged HDFC Bank-HDFC entity crosses mutual funds' investing limit or not, investors wanting to take large-cap exposure should in any case prefer low-cost passively-managed funds to active funds. In the last few years, we have seen that large-cap fund managers have found it difficult to outperform large-cap indices.

****