

HDFC Bank Limited

January 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Infrastructure Bonds	30,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II	3,477.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier I Bonds [#]	15,000.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Tier II Bonds ^{&}	10,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	58,477.00 (Rs. Fifty eight thousand four hundred seventy seven crore only)		
Fixed Deposit	Ongoing	CARE AAA (FD); Stable [Triple A (Fixed Deposit); Outlook: Stable]	Reaffirmed
Certificate Of Deposit	40,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	40,000.00 (Rs. Forty thousand crore only)		

Details of instruments in Annexure-1

[#]CARE Ratings Ltd has rated the aforesaid Basel III Compliant Additional Tier-I Bonds after taking into consideration its key features as mentioned below:

- The bank has full discretion at all times to cancel coupon payments.
- The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, i.e., payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of revenue reserves including statutory reserves and/or credit balance in profit and loss account and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].
- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.

Any delay in payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE Ratings Ltd's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with other subordinated debt instruments.

[&]Tier II Bonds under Basel III are characterised by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the various debt instruments of HDFC Bank Ltd (HBL) continue to factor in the bank's high systemic importance given its Domestic Systemically Important Bank (D-SIB) status given by the Reserve Bank of India (RBI), its wide-spread domestic franchise, healthy capitalisation levels, strong funding profile with robust Current Account Savings Account (CASA) deposit mix, experienced management, comfortable asset quality metrics as well as consistently healthy performance track record. The ratings also factor in consistent performance of the bank amid challenging times faced by the Indian banking industry due to the COVID-19 pandemic. Furthermore, the bank's conscious decision to focus on good quality credit and tight underwriting standards is reflected in its stable financial performance, asset quality and has helped it to maintain its leadership position as the largest private sector bank in India.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Not Applicable

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in asset quality parameters over with net non-performing assets (NNPA) ratio of over 5% on a sustained basis.
- Decline in profit for a sustained basis leading to deterioration in capitalisation levels below 15%
- Moderation in profitability on sustained basis

Detailed description of the key rating drivers

High systemic importance given its wide-spread domestic franchise and strong market position

HBL is the largest private sector bank in India in terms of asset size with total assets of Rs.17,41,933 crore as on March 31, 2021 and has been identified as D-SIB by RBI since September 04, 2017. This strong market share is complemented by its ever-expanding Pan-India domestic franchise. As of September 30, 2021, the Bank's distribution network was at 5,686 branches and 16,642 ATMs / Cash Deposit & Withdrawal Machines across 2,929 cities / towns. Approximately 50% of the branches are in semi-urban and rural areas.

Healthy capitalization levels

The bank continues to maintain healthy capitalisation levels. The bank reported Capital Adequacy Ratio (CAR) of 18.79% (Tier I CAR: 17.56%) (Under Basel III) and Common Equity Tier I (CET I) Ratio of 16.85% as on March 31, 2021 as against CAR of 18.52% (Tier I CAR: 17.23%) and CET I Ratio of 16.43% as on March 31, 2020. The capital metrics was supported by equity capital infusion of Rs.1,760.10 crore through the stock options exercised during FY21 (refers to the period April 1 to March 31; FY20.: Rs.1,848.68 crore of equity infusion). Strong capital raising ability coupled with healthy proportion of Tier I capital provides the bank with adequate headroom to raise additional Tier II capital to maintain high growth. During the half year ended September 30, 2021, the Bank raised Basel III compliant Additional Tier 1 (AT1) Notes of USD 1 billion (equivalent Rs.7,423.00 crore) and Basel III compliant AT1 Bonds of Rs.739.00 crore (in the form of rupee denominated bonds), both from overseas market. The bank reported CAR of 19.96% (Tier I CAR: 18.75%) and CET I Ratio of 17.39% as on September 30, 2021. The bank continues to maintain a comfortable buffer over the minimum regulatory requirements, which increased from 11.025% to 11.075% starting April 2019, owing to the increased requirement on account of being identified as a D-SIB, under Basel III.

Strong funding profile with robust CASA franchise

The bank has a strong retail franchise which helps it in mobilisation of low cost deposits apart from consistently maintaining healthy CASA mix. HBL has a strong resource profile as depicted by the significant proportion of low-cost steady CASA deposits share in relation to total deposits which improved from 42.23% as on March 31, 2020 to 46.12% as on March 31, 2021 and 46.8% as of September 30, 2021. Domestic Retail Deposits grew by 21.1% to Rs.10,64,684 crore as on March 31, 2021 from Rs.8,79,145 crore in the preceding year.

Total deposits increased by 16.34% to Rs.13,35,060 crore as on March 31, 2021 (September 30, 2021: Rs.14,06,343 crore) as compared with the corresponding date of previous year. Retail deposits constituted 82% of total deposits as on September 30, 2021 (March 31, 2021: 80%) up from 77% as on March 31, 2020. The improvement in CASA deposits and overall retail deposits has resulted in lowering of cost of deposits of HBL from 4.91% for FY20 to 4.04% for FY21.

Stable advance growth

The bank's advances portfolio has witnessed a compound annual growth rate (CAGR) of 19.84% during the period of FY17 – FY21 and stood at Rs.11,43,308 crore as on March 31, 2021 (September 30, 2021 – Rs.12,10,389 crore). Despite impact of Covid-19, the bank's gross advances improved by 14% against industry credit growth of 6% (7.5% for private banks). HBL's retail advances constituted around 46% of gross advances as on March 31, 2021 (September 30, 2021 - 45%), while the commercial & rural banking (excluding agriculture) and corporate (wholesale) lending constituted 54% as on March 31, 2021 (September 30, 2021 - 55%).

Consistent track record of healthy earnings performance

During FY21, HBL reported Profit After Tax (PAT) of Rs.31,117 crore on a total income of Rs.1,46,043 crore as against PAT of Rs.26,257 crore on total income of Rs.1,38,073 crore for the previous year. The bank's Net Interest Income (NII) and Pre Provisions Operating Profit (PPOP) for the year FY21 stood at Rs.64,880 crore and Rs.57,362 crore, respectively. HBL's Net Interest Margin (NIM) and Pre Provisions Operating Profit (PPOP) to Total Assets for FY21 was 3.97% and 3.51%, respectively (FY20: 4.06% and 3.52%). HBL had credit cost (provisions and write-off) of Rs.15,703 crore which constituted 0.94% of average total assets for FY21 (FY20: Rs.12,142 crore; 0.88% respectively). Return on total assets (ROTA) for FY21 remained stable at the same level as FY20 at 1.90%.

For the half year ended September 30, 2021, HBL reported PAT of Rs.16,564 crore on a total income of Rs.75,526 crore as against Rs.14,172 crore on a total income of Rs.70,523 crore in the corresponding period of the previous year registering PAT growth of 16.9%.

Comfortable asset quality metrics

HBL's asset quality continues to remain comfortable with Gross NPA ratio rising marginally to 1.35% of Gross advances as on September 30, 2021 (March 31, 2021 – 1.32%) from 1.37% on a proforma basis as on September 30, 2020 (March 31, 2020 – 1.26%). Net NPA ratio stood at 0.40% as on September 30, 2021. The Net NPA to Net Worth as on September 30, 2021 stood at 2.2%. Net Slippage ratio for FY21 was at 1.60% as compared with 2.12% for FY20. HBL's ECLGS disbursement constituted around 2.6% of gross advances as on March 31, 2021, and restructured book under the RBI Resolution Framework 1.0 and 2.0 constituted around 1.52% of gross advances as on September 30, 2021.

Experienced management

The management team is headed by Mr Sashidhar Jagdishan, who took over as the Managing Director and Chief Executive Officer (MD & CEO) from October 27, 2020, after Mr Aditya Puri retired on October 26, 2020. Mr Atanu Chakraborty former Economic Affairs Secretary was appointed as the Part-Time Non-Executive Chairman & Additional Independent Director of the Bank with effect from May 5, 2021. The bank has a strong management team with relevant experience in banking.

Liquidity: Strong

The bank's liquidity profile is supported by the bank's strong retail and CASA depositor base. The asset liability maturity (ALM) profile as on March 31, 2021, had no negative cumulative mismatches as per the ALM statement across all time buckets. The average LCR for the quarter ended September 30, 2021 was at 123.31% well above the present prescribed minimum requirement of 100%. The average HQLA for the quarter ended September 30, 2021 was Rs.4,01,826.71 crore. The composition of government securities and treasury bills in HQLA stood at 89%. Furthermore, the bank has access to market liquidity schemes like LAF and MSF as well as access to call money markets.

Analytical approach:

Standalone

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Short Term Instruments](#)

[Bank](#)

[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

About the Company

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of RBI's liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank is promoted by HDFC Ltd. which has 19.17% stake as on September 30, 2021. Currently, HDFC Bank Ltd. (HBL) is the largest private sector bank in India. As on March 31, 2021, the bank's total balance sheet size stood at Rs.17,41,933 crore. HBL continues to be identified as Domestic Systemically Important Banks (D-SIBs) as per RBI.

During December 2020, RBI had restricted HBL from issuing new credit cards and introducing new digital products after instances of multiple outages in its electronic banking services over the last two years. HBL has since then been working on improving its systems and technology infrastructure and the restriction on new credit card issuances was subsequently lifted since August 2021. However, the restriction on introducing new digital initiative still continues. The impact of the restriction did not have any material impact on the operations of the bank.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	1,38,073	1,46,063	75,526
PAT	26,257	31,117	16,564
Total Assets	15,26,676	17,41,933	18,44,845
Net NPA (%)	0.36	0.40	0.40
ROTA (%)	1.90	1.90	1.84

A: Audited; UA: Unaudited

Note: All Analytical ratios are as per CARE Ratings Ltd's calculations

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4
Annexure-1: Details of Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Lower Tier II Bonds	INE040A08302	12-May-11	9.48%	12-May-26	Redeemed	Withdrawn
Lower Tier II Bonds	INE040A08310	13-Aug-12	9.45%	13-Aug-27	3,477	CARE AAA; Stable
Tier II Bond (Basel III)	INE040A08385	29-Jun-17	7.56%	29-Jun-27	2,000	CARE AAA; Stable
Tier II Bond (Basel III) (Proposed)	-	-	-	-	8,000	
Additional Tier I Bonds (Basel III)	INE040A08377	12-May-17	8.85%	perpetual	8,000	CARE AA+; Stable
Additional Tier I Bonds (Basel III) (Proposed)	-	-	-	-	7,000	CARE AA+; Stable
Infrastructure Bonds	INE040A08351	15-Dec-15	8.35%	15-Dec-25	2,975	CARE AAA; Stable
Infrastructure Bonds	INE040A08369	21-Sep-16	7.95%	21-Sep-26	6,700	CARE AAA; Stable
Infrastructure Bonds	INE040A08344	31-Mar-15	8.45%	31-Mar-25	3,000	CARE AAA; Stable
Infrastructure Bonds	INE040A08393	28-Dec-18	8.44%	28-Dec-28	6,000	CARE AAA; Stable
Infrastructure Bonds	INE040A08401	27-Sep-21	6.44%	27-Sep-28	5,000	CARE AAA; Stable
Infrastructure Bonds (Proposed)	-	-	-	-	6,325	CARE AAA; Stable
Certificate of Deposits (Proposed)	-	-	-	-	40,000	CARE A1+
Fixed Deposits	-	-	-	-	Ongoing	CARE AAA (FD); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds-Perpetual Bonds	LT	-	-	-	-	-	1)Withdrawn (08-Oct-18)
2	Fixed Deposit	LT	0.00	CARE AAA (FD); Stable	-	1)CARE AAA (FD); Stable (29-Jan-21) 2)CARE AAA (FD); Stable (05-Jan-21)	1)CARE AAA (FD); Stable (06-Jan-20)	1)CARE AAA (FD); Stable (08-Oct-18)
3	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)
4	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)
5	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (08-Oct-18)
6	Bonds-Upper Tier II	LT	-	-	-	-	1)Withdrawn (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)
7	Bonds-Perpetual Bonds	LT	-	-	-	-	-	1)Withdrawn (08-Oct-18)
8	Certificate Of Deposit	ST	40000.00	CARE A1+	-	1)CARE A1+ (29-Jan-21) 2)CARE A1+ (05-Jan-21)	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (08-Oct-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
9	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (08-Oct-18)
10	Bonds-Lower Tier II	LT	-	-	-	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)
11	Bonds-Lower Tier II	LT	-	-	-	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)
12	Bonds-Lower Tier II	LT	3477.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)
13	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (08-Oct-18)
14	Bonds-Infrastructure Bonds	LT	30000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)
15	Bonds-Tier I Bonds	LT	15000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Jan-21) 2)CARE AA+; Stable (05-Jan-21)	1)CARE AA+; Stable (06-Jan-20)	1)CARE AA+; Stable (08-Oct-18)
16	Bonds-Tier II Bonds	LT	10000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument – Not Available**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Bonds-Infrastructure Bonds	Simple
2	Bonds-Lower Tier II	Complex
3	Bonds-Tier I Bonds	Highly Complex
4	Bonds-Tier II Bonds	Complex
5	Certificate Of Deposit	Simple
6	Fixed Deposit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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