

HDFC Bank Limited
January 05, 2021
Ratings

| Facilities/Instruments | Amount (Rs. Cr) | Rating | Rating Action |
|--|---|--|---------------|
| Lower Tier II Bonds | 7,127.00 (Rupees Seven Thousand One Hundred and Twenty Seven Crore only) | CARE AAA; Stable (Triple A; Outlook: Stable) | Reaffirmed |
| Upper Tier II Bonds [@] | 1,105.00 (Rupees One Thousand One Hundred and Five Crore only) | CARE AAA; Stable (Triple A; Outlook: Stable) | |
| Infrastructure Bonds | 30,000.00 (Rupees Thirty Thousand Crore only) | CARE AAA; Stable (Triple A; Outlook: Stable) | |
| Certificate of Deposits | 40,000.00 (Rupees Forty Thousand Crore only) | CARE A1+ (A One Plus) | |
| Fixed Deposits | Ongoing | CARE AAA (FD); Stable (Triple A (Fixed Deposit); Outlook: Stable) | |
| Additional Tier I bonds (Basel III) [#] | 15,000.00 (Rupees Fifteen Thousand Crore only) | CARE AA+; Stable (Double A Plus; Outlook: Stable) | |
| Tier II bond (Basel III) | 10,000.00 (Rupees Ten Thousand Crore only) | CARE AAA; Stable (Triple A; Outlook: Stable) | |

Details of instruments/facilities in Annexure-1

[@]: CARE has rated the aforesaid Upper Tier II Bonds after taking into consideration their increased sensitivity to HDFC Bank's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with conventional subordinated debt instruments.

[#]: CARE has rated the aforesaid Basel III Compliant Additional Tier I Bonds (Basel III) 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 reserves representing appropriation of net profits, including statutory reserves 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's definition of default and as such these instruments may exhibit a some-what sharper migration of the rating compared with other subordinated debt instruments.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of HDFC Bank Ltd (HBL) factor in consistent performance of the bank amid challenging times faced by the Indian banking industry due to COVID-19 pandemic. Further, the bank's conscious decision to focus on good quality credit and tight underwriting standards is reflected in its stable financial performance and has helped it to maintain its leadership position as the largest private sector bank in India.

The bank's credit profile continues to reflect its high systemic importance given its Domestic Systematically Important Bank (D-SIB) status given by the Reserve Bank of India (RBI), its wide-spread domestic franchise, healthy capitalization levels, strong funding profile with robust CASA mix, comfortable asset quality metrics as well as consistently healthy performance track record.

Rating Sensitivities:

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

- Deterioration in asset quality on consistent basis
- Moderation in capital buffers with capital adequacy ratio reaching close to regulatory limits
- Moderation in profitability on sustained basis

Detailed description of the key rating drivers

Key rating strengths

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

HBL being the largest private sector bank in India with total assets of Rs. 16,09,428 crore as on September 30, 2020, (FY20: Rs. 15,30,511 crore) has been identified as Domestic Systemically Important Bank (D-SIB) by the Reserve Bank of India since September 04, 2017. This strong market share is complemented by its expanding pan-India domestic franchise. As on March 31, 2020, the bank had a network of 5,416 branches (including four overseas branches) in 2,803 cities [P.Y.: 5,103 branches in 2,749 cities] with ~52% of the branches in semi-urban & rural areas. The bank has overseas branch operations in Bahrain, Hong Kong, Dubai and Offshore Banking Unit at International Financial Service Centre (IFSC) at GIFT City, Gandhinagar in Gujarat. In FY20, the bank's total permanent staff count stood at 1,16,971 [P.Y.: 97,805]. As on September 30, 2020 the bank had a network of 5,430 branches across 2,848 cities/towns.

To increase the distribution footprints in semi-urban rural areas, the bank has tied up with CSCs, a special purpose vehicle (SPV) set up by Ministry of Electronics and Information Technology (MeitY) to offer Citizen Facilitation Services digitally. The CSC is manned by the Village Level Entrepreneur (VLE) who offers various citizen facilitation services and also acts as a Banking Facilitator for the bank. As on March 31, 2020, the bank had 5,379 CSCs with ~90% in semi-urban and rural areas. As of September 30, 2020, the bank had 12,141 business correspondents, of which 99% are manned by CSCs.

Healthy capitalisation levels

The bank continues to maintain healthy capitalisation levels. The bank reported CAR of 18.52% (Tier I CAR: 17.23%) (Under Basel III) as on March 31, 2020 as against CAR of 17.11% (Tier I CAR: 15.78%) as on March 31, 2019. The capital metrics was supported by capital infusion of Rs.1848.68 crore through the stock options exercised (P.Y.: Rs. 23,715.9 crore of equity infusion; Rs. 8,500 crore from HDFC Ltd and Rs. 2,775 crore from QIP and Rs. 12,440.90 crore from an ADR offering). 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.

CAR ratio continued to rise in H1FY21 as it reached 19.10% (Tier I CAR: 17.70%) as on Sep 30, 2020. The bank continued 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 mobilization of low cost deposits apart from consistently maintaining healthy Current Account Savings Account (CASA) mix. As on March 31, 2020, the proportion of CASA deposits stood at 42.23% [P.Y.: 42.38%]. With deposits accounting for 88.81% of the bank's non-equity funding in FY20, HBL's dependence on wholesale funding declined to 11.19% at end-FY20 from 11.26% at end-FY19. The bank's reliance on wholesale funding has been on a declining trend since the end of Sep-2018 quarter. As on March 31, 2020, retail deposits were 77% of total deposits whereas wholesale deposits were 23%.

In H1FY21, the bank's CASA ratio stood at 41.60%, supported by 27.50% y-o-y increase in CASA deposits.

Consistent track record of healthy earnings performance

During FY20, the bank's advances grew at 21.30% y-o-y while its deposits grew at 24.30%. The bank is very well diversified in retail and wholesale banking with a 51:49 mix of retail and wholesale domestic loans. During FY20, the domestic retail loans and wholesale loans grew by 14.6% and 29.3% respectively. The bank reported PAT of Rs. 26,257 crore (P.Y.: Rs. 21,078 crore) on total income of Rs.1,38,073 crore during FY20 (P.Y.: Rs. 1,16,598 crore). The bank's NIM¹ declined to 4.05% in FY20 as compared to 4.18% in FY19 as the bank was holding on deposits to ensure liquidity surplus. Non-interest income has increased in FY20 by 32% from Rs. 17,626 crore in FY19 to Rs. 23,261 crore in FY20. Non-interest income constitutes around 17% of the total income and the trend has been similar in past years as well. HBL's operating expenses increased 17.53% y-o-y in FY20 while provisions and contingencies expenses also rose by 20.46% y-o-y to Rs. 22,492 crore during the year. The bank's ROTA¹ stood at 1.89% as compared to 1.83% for FY19

In H1FY21, bank's PAT stood at Rs. 14,172 crore (H1FY20: Rs. 11,913 crore) on a total income of Rs. 70,523 crore (H1FY20: 66,117), translating into a ROTA¹ of 1.93%. (H1FY20: 1.91%). Given the robust retail franchise, the bank is likely to maintain higher NIM than peers along with steady flow of other income.

Comfortable asset quality metrics

The bank has consistently maintained comfortable asset quality metrics over the years and continues to be one of the best in the industry. The bank improved the Gross NPA Ratio during FY20 to 1.26% [P.Y.: 1.36%] while the bank's exposure to top 4 NPA accounts as % of Gross NPAs increased to 10.06% in FY20 from 6.51% in FY19. The bank's exposure to borrowers remained well diversified with exposure of top 20 borrowers accounting for only 11.6% of total advances at end-FY20 (FY19: 10.6%).

In H1FY21, the bank reported Gross NPA of 1.08% (H1FY20: 1.38%) and Net NPA of 0.17% (H1FY20: 0.42%). The bank's robust risk management practises along with a focus on granular loan book has helped the bank in maintaining better asset quality in the past down cycles. However, amidst the uncertainty posed by COVID pandemic any sharp movements in asset quality metrics of key segments shall be closely monitored.

Well experienced and stable management

On October 27, 2020, Mr. Sashidhar Jagdishan took over as the MD & CEO after Mr. Aditya Puri retired on October 26, 2020. The bank has a strong management team headed by Mr. Sashidhar Jagdishan, along with 2 independent directors, 3 additional independent directors, 2 non-executive directors, and 3 executive directors, who have extensive experience in the banking field. With effect from January 01, 2021, Mrs. Shyamala Gopinath has ceased to be the Part-Time Chairperson and Independent Director of the bank, in accordance with the tenure approved by the Reserve Bank of India. The appointment of new Chairperson is yet to take place.

Liquidity: Superior

During FY20, HDFC Bank maintained average HQLA of Rs.2,81,400.84 crore (P.Y.: Rs.2,02,599.15 crore), resulting in a Liquidity Coverage Ratio of 132.20% as on March 31, 2020, (P.Y.: 117.28%) well above the minimum LCR requirement of 100%. During the same period the composition of government securities and treasury bills in the HQLA remained at 91%.

The average LCR for the quarter ended September 30, 2020 was at 153.22% as against 132.53% for the quarter ended September 30, 2019, and well above the present prescribed minimum requirement of 80% (As a measure to address current pandemic situation, RBI has reduced the minimum LCR requirement from 100% to 80% which will be gradually restored back in two phases, i.e., 90.0% by October 1, 2020 and 100% by April 1, 2021). The average HQLA for the quarter ended September 30, 2020 was Rs. 3,897,51.48 crore, as against Rs. 2,537,25.99 crore for the quarter ended September 30, 2019. The composition of government securities and treasury bills in HQLA remained at 91%.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[CARE's Rating Methodology For Banks](#)

[Bank - Rating framework for Basel III instruments \(Tier I & Tier II\)](#)

[Financial ratios - Financial Sector](#)

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 liberalization 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 19.32% stake as on September 30, 2020. Currently, HDFC Bank Ltd. (HBL) is the largest private sector bank in India. As on March 31, 2020, the bank's total balance sheet size stood at Rs.15,30,511 crore.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|--|-----------|-----------|
| Total operating income | 98,972 | 1,14,813 |
| PAT | 21,078 | 26,257 |
| Interest coverage (times) ¹ | 1.63 | 1.62 |
| Total Assets | 12,44,541 | 15,30,511 |
| Net NPA (%) | 0.39 | 0.36 |
| ROTA (%) ¹ | 1.83 | 1.89 |

A: Audited

¹All analytical ratios in this release are based on CARE'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

Annexure-1: Details of Instruments/Facilities

| ISIN | Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--------------|--|------------------|-------------|---------------|-------------------------------|---|
| INE040A08294 | Upper Tier II Bonds* | 07-June-10 | 8.70% | 07-Jul-25 | 1,105 | CARE AAA; Stable |
| INE040A08302 | Lower Tier II Bonds | 12-May-11 | 9.48% | 12-May-26 | 3,650 | CARE AAA; Stable |
| INE040A08310 | Lower Tier II Bonds | 13-Aug-12 | 9.45% | 13-Aug-27 | 3,477 | CARE AAA; Stable |
| INE040A08385 | Tier II Bond (Basel III) | 29-Jun-17 | 7.56% | 29-Jun-27 | 2,000 | CARE AAA; Stable |
| - | Tier II Bond (Basel III) (Proposed) | - | - | - | 8,000 | CARE AAA; Stable |
| INE040A08377 | Additional Tier I Bonds (Basel III) | 12-May-17 | 8.85% | perpetual | 8,000 | CARE AA+; Stable |
| - | Additional Tier I Bonds (Basel III) (Proposed) | - | - | - | 7,000 | CARE AA+; Stable |
| INE040A08351 | Infrastructure Bonds | 15-Dec-15 | 8.35% | 15-Dec-25 | 2,975 | CARE AAA; Stable |
| INE040A08369 | Infrastructure Bonds | 21-Sep-16 | 7.95% | 21-Sep-26 | 6,700 | CARE AAA; Stable |
| INE040A08344 | Infrastructure Bonds | 31-Mar-15 | 8.45% | 31-Mar-25 | 3,000 | CARE AAA; Stable |
| INE040A08393 | Infrastructure Bonds | 28-Dec-18 | 8.44% | 28-Dec-28 | 6,000 | CARE AAA; Stable |
| - | Infrastructure Bonds (Proposed) | - | - | - | 11,325 | CARE AAA; Stable |
| - | Certificate of Deposits (Proposed) | - | - | - | 40,000 | CARE A1+ |
| - | Fixed Deposits | - | - | - | Ongoing | CARE AAA (FD); Stable |

*call option has been exercised

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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Bonds-Lower Tier II | LT | - | - | - | - | - | 1)Withdrawn (09-Oct-17) |
| 2. | Bonds-Lower Tier II | LT | - | - | - | - | - | - |
| 3. | Bonds-Lower Tier II | LT | - | - | - | - | - | - |
| 4. | Bonds-Perpetual Bonds | LT | - | - | - | - | 1)Withdrawn (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 5. | Fixed Deposit | LT | On-going | CARE AAA (FD); Stable | - | 1) CARE AAA (FD); Stable (06-Jan-20) | 1)CARE AAA (FD); Stable (08-Oct-18) | 1)CARE AAA (FD); Stable (09-Oct-17) |
| 6. | Bonds-Lower Tier II | LT | - | - | - | - | - | - |
| 7. | Bonds-Upper Tier II | LT | 1105.00 | CARE AAA; Stable | - | 1)CARE AAA; Stable (06-Jan-20) | 1)CARE AAA; Stable (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 8. | Bonds-Lower Tier II | LT | - | - | - | - | 1)Withdrawn (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 9. | Bonds-Lower Tier II | LT | - | - | - | - | - | - |
| 10. | Bonds-Upper Tier II | LT | - | - | - | - | 1)Withdrawn (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 11. | Bonds-Perpetual Bonds | LT | - | - | - | - | 1)Withdrawn (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 12. | Certificate Of Deposit | ST | 40000.00 | CARE A1+ | | 1)CARE A1+ (06-Jan-20) | 1)CARE A1+; Stable (08-Oct-18) | 1)CARE A1+; Stable (09-Oct-17) 2)CARE A1+ (08-May-17) |
| 13. | Bonds-Upper Tier II | LT | - | - | - | - | 1)Withdrawn (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 14. | Bonds-Lower Tier II | LT | 1650.00 | CARE AAA; Stable | - | 1)CARE AAA; Stable (06-Jan-20) | 1)CARE AAA; Stable (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 15. | Bonds-Lower Tier II | LT | 2000.00 | CARE AAA; Stable | - | 1)CARE AAA; Stable (06-Jan-20) | 1)CARE AAA; Stable (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 16. | Bonds-Lower Tier II | LT | 3477.00 | CARE AAA; Stable | - | 1)CARE AAA; Stable (06-Jan-20) | 1)CARE AAA; Stable (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 17. | Bonds-Lower Tier II | LT | - | - | - | - | 1)Withdrawn (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |
| 18. | Bonds-Infrastructure Bonds | LT | 30000.00 | CARE AAA; Stable | - | 1)CARE AAA; Stable (06-Jan-20) | 1)CARE AAA; Stable (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) |

| | | | | | | | | |
|-----|---------------------------------|----|----------|---------------------|---|--------------------------------------|---------------------------------------|--|
| | | | | | | | | 2)CARE AAA; Stable (17-Aug-17) |
| 19. | Bonds-Tier I Bonds | LT | 15000.00 | CARE AA+; Stable | - | 1)CARE AA+; Stable (06-Jan-20) | 1) CARE AA+; Stable (08-Oct-18) | 1)CARE AA+; Stable (09-Oct-17) 2)CARE AA+; Stable (08-May-17) |
| 20. | Bonds-Tier II Bonds (Basel III) | LT | 10000.00 | CARE AAA; Stable | - | 1)CARE AAA; Stable (06-Jan-20) | 1) CARE AAA; Stable (08-Oct-18) | 1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (28-Jun-17) |

Annexure-3: Complexity level of various instruments rated for this company

| Sr. No | Name of Instrument | Complexity Level |
|--------|---------------------------|------------------|
| 1. | Lower Tier II Bonds | Complex |
| 2. | Infrastructure Bonds | Simple |
| 3. | Tier I Bonds | Highly Complex |
| 4. | Tier II Bonds (Basel III) | Complex |
| 5. | Upper Tier II Bonds | Highly complex |
| 6. | Certificate of Deposits | Simple |
| 7. | Fixed Deposits | Simple |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Disclaimer

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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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