

HDFC Bank Ltd

May 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹
Infrastructure bonds	55,000.00	CARE AAA; Stable
Lower Tier-II*	3,477.00	CARE AAA; Stable
Tier-I bonds [#]	15,000.00	CARE AA+; Stable
Tier-II bonds ^{&}	47,000.00	CARE AAA; Stable
Certificate of deposit	75,000.00	CARE A1+
Fixed deposit	Ongoing	CARE AAA; Stable

*Lower Tier-II Bonds of ₹3,477 crore is redeemed but not withdrawn

Material Event Update

On April 04, 2022, HDFC Bank Ltd (HBL) had announced the decision taken by the respective Boards of Directors of HBL and Housing Development Finance Corporation Limited (HDFC Ltd, rated 'CARE AAA; Stable') to approve a 'composite scheme of amalgamation' for the amalgamation of: (i) HDFC Investments Limited and HDFC Holdings Limited with and into HDFC; and (ii) HDFC Ltd into HBL; and their respective shareholders and creditors' subject to approval from creditors and regulatory approvals and is expected to be completed by Q1/Q2 of FY24.

The amalgamation would be through exchange of share at an exchange ratio of 42 equity shares of face value of ₹1 each of HBL, for every 25 equity shares of face value of ₹2 each of HDFC Ltd. As a result of the merger, upon the scheme becoming effective, HBL will be 100% owned by public shareholders and existing shareholders of HDFC Ltd will own 41% of HBL.

The scheme has received approvals from Shareholders, stock exchanges (NSE & BSE), Pension Fund Regulatory and Development Authority (PFRDA), Insurance Regulatory and Development Authority of India (IRDAI), Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), Competition Commission of India (CCI) and National Company Law Tribunal (NCLT).

HBL vide its notification on stock exchanges dated April 21, 2023, has informed that it has received response from the RBI vide letter dated April 20, 2023, on certain requests made by the bank in relation to the amalgamation. The bank continues to engage with the RBI on certain unresolved issues for clarifications and will approach RBI with the crystallised amount of assets and liabilities as on the effective date of merger.

The key / material aspects of the letter are as below:

1. Priority sector lending

Adjusted Net Bank Credit may be calculated considering one-third of the outstanding loans of HDFC Ltd as on the effective date of the Amalgamation for the first year. The remaining two-thirds of the portfolio of HDFC Ltd shall be considered over a period of next two years equally.

2. Investments

Investments including subsidiaries and associates of HDFC Ltd are allowed to continue as investments of HBL. The RBI has permitted HBL or HDFC Ltd to increase the shareholding to more than 50% in HDFC Life Insurance Company Limited (HDFC Life) and HDFC ERGO General Insurance Company Limited (HDFC Ergo) prior to the Effective Date.

Furthermore, the RBI has permitted HBL to continue holding HDFC Ltd's stake in (a) HDFC Education and Development Services Private Limited (HEDSPL), engaged in operating three education schools, for a period of two years from the Effective Date; (b) HDFC Credila Financial Services Limited (HDFC Credila), subject to the shareholding being brought down to 10% within two years from the Effective Date and not onboarding new customers.

3. CRR, SLR, LCR and certain regulatory requirements

HBL shall continue to comply with extant requirements of CRR, SLR and LCR from the Effective Date without exceptions.

4. Interest rate benchmarks

One-time mapping of all borrowers of HDFC Ltd would need to be done by HBL for benchmark and spreads. All retail, MSME and other floating rate loans sanctioned by HDFC Ltd would be linked to appropriate benchmark within six months from the Effective Date.

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

5. Loan against shares

Basis the list submitted by HDFC Ltd, RBI has permitted loan against shares for promoter contribution / in excess of Rs.20 lacs to the individuals, to continue for its existing duration / maturity.

6. Income Recognition and Asset Classification

Subsequent to the Effective Date, asset classification of accounts in the books of HBL will be as per the norms applicable to banks.

Impact of the above on HBL

- The elongation of PSL requirement will enable HBL to get more time to build its PSL book organically especially the agriculture, Small and Marginal Farmers, Weaker Section and Micro Enterprises book with lower dependence on other cost ineffective alternatives.
- In view of the clarifications from RBI, HBL and HDFC Ltd would look at avenues to increase the shareholding in the insurance subsidiaries (i.e., HDFC Ergo and HDFC Life). Considering HDFC Ltd. holds 49.98% and 48.65% shareholding in HDFC Ergo and HDFL Life, respectively, increasing the shareholding above 50% would not pose challenge in meeting the regulatory requirement. The timeline of two years from the effective date of merger to divest shareholding in HEDSPL to nil and HDFC Credila to 10% allows adequate time, and the bank and HDFC Ltd. are expected to reduce the shareholding in these entities within the stipulated time.
- Furthermore, both HBL and HDFC Ltd have been maintaining sufficient liquidity in the form of eligible investments like Government Securities, which will help the bank keep liquidity for meeting the required liquidity ratios on the effective date.
- CARE Ratings Limited (CARE Ratings) continues to monitor the developments surrounding the amalgamation and does not expect any negative impact of the announcement on the credit profile of HBL.

The detailed press release on HDFC Bank Limited is available here: [click here](#)

Detailed rating rationale is available on www.careratings.com

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

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

[Bank](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Private Sector Bank

The Housing Development Finance Corporation Limited (HDFC) was among the first institutions to receive an 'in principle' approval from RBI to set up a bank in the private sector, as part of the RBI's liberalisation of the Indian banking industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited' (HBL), with its registered office in Mumbai, India. HBL is promoted by HDFC, which has 19.00% stake as on March 31, 2023. At present, HBL is the largest private sector bank in India with total balance sheet size stood at ₹2,466,081 crore as on March 31, 2023. HBL continues to be identified as a Domestic Systemically Important Bank (D-SIB) as per the RBI.

HBL - Standalone

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total income	157,263	192,800
PAT	36,961	44,109
Total assets	2,062,305	2,466,081*
Net NPA (%)	0.32	0.27
ROTA (%)	1.94	1.95

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Note: All Analytical ratios are as per CARE Ratings' calculations, total assets are as per CARE Ratings' calculation in the absence of detailed balance sheet and may change after receipt of annual report.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated for this company: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating along with Rating Outlook
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)	INE040A08427	02-Dec-22	7.86%	02-Dec-32	15,000	CARE AAA; Stable
Tier-II Bond (Basel III)	INE040A08435	16-Dec-22	7.84%	16-Dec-32	5,000	CARE AAA; Stable
Tier-II Bond (Basel III) (Proposed)	-	-	-	-	25,000	CARE AAA; Stable
Additional Tier-I Bonds (Basel III)	INE040A08419	08-Sep-22	7.84%	Perpetual	3,000	CARE AA+; Stable
Additional Tier-I Bonds (Basel III) (Proposed)	-	-	-	-	12,000	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)	-	-	-	-	31,325	CARE AAA; Stable
Certificate of Deposits (Proposed)	-	-	-	Upto 365 days	75,000	CARE A1+
Fixed Deposits	-	-	-	-	Ongoing	CARE AAA; Stable

* Lower Tier-II Bonds of ₹3,477 crore is redeemed but not withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fixed Deposit	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Feb-23) 2)CARE AAA; Stable (13-Jan-23) 3)CARE AAA; Stable (28-Nov-22) 4)CARE AAA (FD); Stable (07-Apr-22)	1)CARE AAA (FD); Stable (21-Mar-22) 2)CARE AAA (FD); Stable (04-Jan-22)	1)CARE AAA (FD); Stable (29-Jan-21) 2)CARE AAA (FD); Stable (05-Jan-21)
2	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)
3	Certificate Of Deposit	ST	75000.00	CARE A1+	-	1)CARE A1+ (10-Feb-23) 2)CARE A1+ (13-Jan-23) 3)CARE A1+ (28-Nov-22) 4)CARE A1+ (07-Apr-22)	1)CARE A1+ (21-Mar-22) 2)CARE A1+ (04-Jan-22)	1)CARE A1+ (29-Jan-21) 2)CARE A1+ (05-Jan-21)

						22)		
4	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (04-Jan-22)	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)
5	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (04-Jan-22)	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)
6	Bonds-Lower Tier II	LT	3477.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Feb-23) 2)CARE AAA; Stable (13-Jan-23) 3)CARE AAA; Stable (28-Nov-22) 4)CARE AAA; Stable (07-Apr-22)	1)CARE AAA; Stable (21-Mar-22) 2)CARE AAA; Stable (04-Jan-22)	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)
7	Bonds-Infrastructure Bonds	LT	30000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Feb-23) 2)CARE AAA; Stable (13-Jan-23) 3)CARE AAA; Stable (28-Nov-22)	1)CARE AAA; Stable (21-Mar-22) 2)CARE AAA; Stable (04-Jan-22)	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)

						4)CARE AAA; Stable (07-Apr-22)		
8	Bonds-Tier I Bonds	LT	7000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Feb-23) 2)CARE AA+; Stable (13-Jan-23) 3)CARE AA+; Stable (28-Nov-22) 4)CARE AA+; Stable (07-Apr-22)	1)CARE AA+; Stable (21-Mar-22) 2)CARE AA+; Stable (04-Jan-22)	1)CARE AA+; Stable (29-Jan-21) 2)CARE AA+; Stable (05-Jan-21)
9	Bonds-Tier II Bonds	LT	10000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Feb-23) 2)CARE AAA; Stable (13-Jan-23) 3)CARE AAA; Stable (28-Nov-22) 4)CARE AAA; Stable (07-Apr-22)	1)CARE AAA; Stable (21-Mar-22) 2)CARE AAA; Stable (04-Jan-22)	1)CARE AAA; Stable (29-Jan-21) 2)CARE AAA; Stable (05-Jan-21)
10	Bonds-Tier I Bonds	LT	5000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Feb-23)	1)CARE AA+; Stable (21-Mar-22)	-

						23) 2)CARE AA+; Stable (13-Jan-23) 3)CARE AA+; Stable (28-Nov-22) 4)CARE AA+; Stable (07-Apr-22)		
11	Bonds-Infrastructure Bonds	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Feb-23) 2)CARE AAA; Stable (13-Jan-23) 3)CARE AAA; Stable (28-Nov-22) 4)CARE AAA; Stable (07-Apr-22)	1)CARE AAA; Stable (21-Mar-22)	-
12	Bonds-Tier II Bonds	LT	12000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Feb-23) 2)CARE AAA; Stable (13-Jan-23) 3)CARE AAA;	-	-

						Stable (28-Nov-22)		
13	Bonds-Infrastructure Bonds	LT	20000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Feb-23)	-	-
14	Bonds-Tier I Bonds	LT	3000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Feb-23)	-	-
15	Bonds-Tier II Bonds	LT	25000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Feb-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments

Additional Tier-I Bonds	Detailed explanation
Covenants	
Call option	After five years
Write-down trigger	There are two types of write-down triggers: 1. A 'Trigger Event' means that the Bank's CET-1 Ratio is: (i) if calculated at any time prior to March 31, 2019, at or below 5.5%; or (ii) if calculated at any time from and including March 31, 2019, at or below 6.125% (the "CET-1 Trigger Event Threshold") 2. PONV Trigger, in respect of the bank, means the earlier of: (i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	In case of pre-specified trigger – permanent or temporary. In case of PONV Trigger – only permanent.
If temporary write-down, description of write-up mechanism	The instrument may be written-up (increase) back to its original value in future, depending upon the conditions prescribed in the terms and conditions of the instrument.

Tier II Bonds	Detailed explanation
Covenants	
Call option	Not applicable
Write-down trigger	PONV Trigger, in respect of the bank means the earlier of: (i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	Not applicable

Annexure-4: Complexity level of the various instruments rated

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: Lender details: Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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