HDFC Bank Limited

January 29, 2021

Ratings

<table>
<tr><th>Facilities/Instruments</th><th>Amount (Rs. Cr)</th><th>Rating</th><th>Rating Action</th></tr>
<tr><td>Lower Tier II Bonds</td><td>7,127.00
(Rupees Seven Thousand One Hundred and Twenty Seven Crore only)</td><td>CARE AAA; Stable
(Triple A; Outlook: Stable)</td><td rowspan="6">Reaffirmed</td></tr>
<tr><td>Infrastructure Bonds</td><td>30,000.00
(Rupees Thirty Thousand Crore only)</td><td>CARE AAA; Stable
(Triple A; Outlook: Stable)</td></tr>
<tr><td>Certificate of Deposits</td><td>40,000.00
(Rupees Forty Thousand Crore only)</td><td>CARE A1+
(A One Plus)</td></tr>
<tr><td>Fixed Deposits</td><td>Ongoing</td><td>CARE AAA (FD); Stable
(Triple A (Fixed Deposit); Outlook: Stable)</td></tr>
<tr><td>Additional Tier I bonds (Basel III)#</td><td>15,000.00
(Rupees Fifteen Thousand Crore only)</td><td>CARE AA+; Stable
(Double A Plus; Outlook: Stable)</td></tr>
<tr><td>Tier II bond (Basel III)</td><td>10,000.00
(Rupees Ten Thousand Crore only)</td><td>CARE AAA; Stable
(Triple A; Outlook: Stable)</td></tr>
<tr><td>Upper Tier II Bonds*</td><td>-</td><td>-</td><td>Withdrawn</td></tr>
</table>

Details of instruments/facilities in Annexure-1

#: 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.

**Ratings has been withdrawn as per CARE's withdrawal policy since the bank has exercised call option and redeemed the Upper Tier II Bonds of Rs. 1,105 crore. Therefore, as on date there is no amount outstanding.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the various debt instruments of HDFC Bank Ltd (HBL) continue to 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. 16,54,228 crore as on December 31, 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 December 31, 2020 the bank had a network of 5,485 branches with 50% in Metro & urban and 50% in Semi-urban & Rural across 2,866 cities/towns.
To increase the distribution footprints in semi-urban rural areas, the bank has tied up with Common Service Centre (CSC), 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 December 31, 2020, the bank had 13,675 business correspondents (December 2019: 3,563), which are primarily 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 stood at 18.90% (Tier I CAR: 17.60%) as on December 31, 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 December 31, 2020, retail deposits were 80% of total deposits whereas wholesale deposits were 20%.Also, retail deposits were 100% of the incremental deposits during the quarter. As on December 31, 2020, the bank's CASA ratio stood at 43.01%, supported by 29.60% y-o-y increase in CASA deposits.
With the help of CSCs, the bank opened more than 2.3 lakhs CASA accounts during the year so far. On an overall basis, the bank opened 2 million new liability relationships in the quarter ended December 31, 2020, a growth of 18% over same quarter previous year.

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 48:52 mix of retail and wholesale domestic loans as on December 31, 2020. 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 NIM[1] 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 ROTA[1] stood at 1.89% as compared to 1.83% for FY19

During 9MFY21, bank's PAT stood at Rs. 22,930 crore (9MFY20: Rs. 19,330 crore) on a total income of Rs. 1,08,046 crore (9MFY20: 1,02,156), translating into a ROTA[1] of 2%. (9MFY20: 2.01%). 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%).

During 9MFY21, the bank reported Gross NPA of 0.81% (9MFY20: 1.42%) and Net NPA of 0.09% (9MFY20: 0.48%). During the quarter ended September 30, 2020, the Supreme Court had passed an interim order dated September 3, 2020, stating that those accounts that had not been declared NPA till August 31, 2020 should not be declared as NPA until further orders. The Bank has complied with the said directive and has not classified any account which was not NPA as of August 31, 2020, as per the RBI IRAC norms. However, at the same time, the Bank has, as a matter of prudence, used its analytical models to estimate potential NPA, including accelerated recognition in an expedient manner on a pro forma basis and has provided for corresponding contingent provisions toward the same. Therefore, the pro-forma GNPA ratio for the quarter (using analytical model) was at 1.38% as compared to 1.37% in the prior quarter and 1.42% in the same period previous year.

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 1 executive director, 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 December 31, 2020 was at 145.58% as against 140.33% for the quarter ended December 31, 2019, and well above the present prescribed minimum requirement of 90% (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 December 31, 2020 was Rs. 3,843,18.08 crore, as against Rs. 2,776,55.84 crore for the quarter ended December 31, 2019. The composition of government securities and treasury bills in HQLA remained at 90%.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's 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]
[CARE's Policy on Withdrawal of Ratings]

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

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	-	-	-	-	Withdrawn
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

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 (05-Jan-21)	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	-	Withdrawn	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA; Stable

					(05-Jan-21)	(06-Jan-20)	(08-Oct-18)	(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+ (05-Jan-21)	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 (05-Jan-21)	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 (05-Jan-21)	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 (05-Jan-21)	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 (05-Jan-21)	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 (05-Jan-21)	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 (05-Jan-21)	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.	Certificate of Deposits	Simple
6.	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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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