

HDFC Bank Limited

January 06, 2020

Ratings

Facilities/Instruments	Amount (Rs. Cr)	Rating	Rating Action
Lower Tier II Bonds	7,127	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Upper Tier II Bonds [@]	1,105 (reduced from 2,500)	CARE AAA; Stable (Triple A; Outlook: Stable)	
Infrastructure Bonds	30,000	CARE AAA; Stable (Triple A; Outlook: Stable)	
Certificate of Deposits	40,000	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	CARE AA+; Stable (Double A Plus; Outlook: Stable)	
Tier II bond (Basel III)	10,000	CARE AAA; Stable (Triple A; Outlook: Stable)	
Lower Tier II Bonds*	-	CARE AAA; Stable (Triple A; Outlook: Stable)	Withdrawn
Upper Tier II Bonds*	-	CARE AAA; Stable (Triple A; Outlook: Stable)	

*rating assigned is withdrawn with immediate effect, as the bank has fully repaid the amount under the said instrument and there is no amount outstanding under the issue.

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 standalone 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 impacted by asset quality concerns, margin pressure and slower economic growth. Further, the bank's conscious decision to focus on good quality credit and tight underwriting standards reflects 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 Systemically Important Bank (D-SIB) status given by 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

- 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.12,44,541 crore as on March 31, 2019, has been identified as Domestic Systemically Important Bank (DSIB) 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, 2019, the bank had a network of 5,103 branches in 2,748 cities [P.Y.: 4,787 branches in 2,691 cities] with around 53% of the branches in semi-urban & rural areas. The bank has three overseas branches in Bahrain, Hong Kong, Dubai and representative offices in Abu Dhabi, Dubai and Kenya. During FY19, the bank's total permanent staff count stood at 98,061 at end-FY19 [P.Y.: 88,253].

Healthy capitalisation levels

The bank continues to maintain healthy capitalisation levels. The bank reported CAR of 17.10% (Tier I CAR: 15.80%) (Under Basel III) as on March 31, 2019 as against CAR of 14.82% (Tier I CAR: 13.25%) as on March 31, 2018. The capital metrics was supported by capital infusion of Rs.23,715.90 crore (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 H1-FY20 as it reached 17.54% (Tier I CAR: 16.16%) as on Sep 30, 2019, supported by strong internal capital generation. 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, 2019, the proportion of CASA deposits stood at 42.40% [P.Y.: 43.50%]. With deposits accounting for 88.74% of the bank's non-equity funding in FY19, HBL's dependence on wholesale funding declined to 11.26% at end-FY19 from 13.50% at end-FY18. The bank's reliance on wholesale funding has been on a declining trend since the end of Sep-2018 quarter.

In H1-FY20, the bank's CASA ratio stood at 39.3%, supported by 14.7% y-o-y increase in CASA deposits.

Adequate liquidity position

During FY19, HDFC Bank maintained average HQLA of Rs.202,599.15 crore, resulting in a Liquidity Coverage Ratio of 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 increased from 87% to 91%.

Consistent track record of healthy earnings performance

The bank's balance sheet has grown at a CAGR of 20.76% since FY16 (refers to the period April 1 to March 31). During FY19, the bank's advances grew at 24.47% y-o-y while its deposits grew at 17.04% which was higher than average industry growth (for both advances & deposits). The bank is very well diversified in retail and wholesale banking with a 54:46 mix of retail and wholesale loans. During FY19, the domestic retail loans and wholesale loans grew by 19.00% and 31.9% respectively. The bank has one of the highest margins in the industry. The bank reported PAT of Rs.21,078 crore on total income of Rs.1,16,598 crore during FY19. The bank's NIM largely remained flat at 4.18% in FY19 as compared to 4.16% in FY18, primarily due to its core spreads remaining largely unchanged as the rise in cost of deposits was almost completely offset by the rise in yields on advances. HBL's operating expenses increased 15.11% y-o-y in FY19 while provisions and contingencies expenses also rose by 27.37% y-o-y to Rs.7,550.10 crore during the year. The bank's ROTA stood at 1.83% as compared to 1.81% for FY18.

In H1FY20, bank's PAT stood at Rs.11,913 crore on a total income of Rs.66,117 crore, translating into a ROTA of 1.91%.

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 maintained the Gross NPA Ratio at sound levels during FY19 as it increased marginally to

1.36% [P.Y.: 1.30%] while the bank's exposure to top 4 NPA accounts as % of Gross NPAs declined to 6.51% in FY19 from 8.23% in FY18. The bank's exposure to borrowers remained well diversified with exposure of top 20 borrowers accounting for only 10.6% of total advances at end-FY19 (FY18: 9.00%).

In H1FY20, the bank reported Gross NPA of 1.38% and Net NPA of 0.42%.

Well experienced and stable management

The bank has a strong management team headed by Mr. Aditya Puri (MD and CEO), Shyamala Gopinath as the Chairperson 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.

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](#)

[Policy on Withdrawal of ratings](#)

[Short term rating methodology](#)

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 21.38% stake as on March 31, 2019. Currently, HDFC Bank Ltd. (HBL) is the largest private sector bank in India. As on March 31, 2019, the bank's total balance sheet size stood at Rs.12,44,541 crore.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	80,241	98,972
PAT	17,487	21,078
Interest coverage (times)	1.66	1.63
Total Assets	10,63,934	12,44,541
Net NPA (%)	0.40	0.39
ROTA (%)	1.81	1.83

A: Audited

All 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
INE040A08252	Upper Tier II Bonds	-	-	-	578	Withdrawn
INE040A08260	Upper Tier II Bonds	-	-	-	200	
INE040A08286	Upper Tier II Bonds	-	-	-	797	
INE040A08294	Upper Tier II Bonds	07-Jul-10	8.70%	07-Jul-25	1105	CARE AAA; Stable
INE040A08302	Lower Tier II Bonds	12-May-11	9.48%	12-May-26	3650	CARE AAA; Stable
INE040A08310	Lower Tier II Bonds	13-Aug-12	9.45%	13-Aug-27	3477	CARE AAA; Stable
INE040A08245	Lower Tier II Bonds	-	-	-	1150	Withdrawn
INE040A08278	Lower Tier II Bonds	-	-	-	150	
INE040A08385	Tier II Bond (Basel III)	29-Jun-17	7.56%	29-Jun-27	2000	CARE AAA; Stable
-	Tier II Bond (Basel III) (Proposed)	-	-	-	8000	CARE AAA; Stable
INE040A08377	Additional Tier I Bonds (Basel III)	12-May-17	8.85%	perpetual	8000	CARE AA+; Stable
-	Additional Tier I Bonds (Basel III) (Proposed)	-	-	-	7000	CARE AA+; Stable
INE040A08351	Infrastructure Bonds	15-Dec-15	8.35%	15-Dec-25	2975	CARE AAA; Stable
INE040A08369	Infrastructure Bonds	21-Sep-16	7.95%	21-Sep-26	6700	CARE AAA; Stable
INE040A08344	Infrastructure Bonds	31-Mar-15	8.45%	31-Mar-25	3000	CARE AAA; Stable
INE040A08393	Infrastructure Bonds	28-Dec-18	8.44%	28-Dec-28	6000	CARE AAA; Stable
-	Infrastructure Bonds (Proposed)	-	-	-	11325	CARE AAA; Stable
INE040A16CH7	Certificate of Deposits	18-Jul-19	6.75%	17-Jul-20	500	CARE A1+
-	Certificate of Deposits (Proposed)	-	-	-	39500	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
2.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (07-Nov-16)
3.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (07-Nov-16)
4.	Bonds-Perpetual Bonds	LT	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
5.	Fixed Deposit	LT	0.00	CARE AAA (FD); Stable	-	1)CARE AAA (FD); Stable (08-Oct-18)	1)CARE AAA (FD); Stable (09-Oct-17)	1)CARE AAA (FD); Stable (29-Dec-16) 2)CARE AAA (FD) (07-Nov-16)
6.	Bonds-Lower Tier II	LT	-	-	-	-	-	-
7.	Bonds-Upper Tier II	LT	1105.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
8.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
9.	Bonds-Lower Tier II	LT	-	-	-	-	-	-
10.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
11.	Bonds-Perpetual Bonds	LT	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
12.	Certificate Of Deposit	ST	5000.00	CARE A1+	-	1)CARE A1+; Stable (08-Oct-18)	1)CARE A1+; Stable (09-Oct-17) 2)CARE A1+ (08-May-17)	1)CARE A1+ (29-Dec-16) 2)CARE A1+ (07-Nov-16)
13.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA

								(07-Nov-16)
14.	Bonds-Lower Tier II	LT	1650.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
15.	Bonds-Lower Tier II	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
16.	Bonds-Lower Tier II	LT	3477.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
17.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16)
18.	Bonds-Infrastructure Bonds	LT	30000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (17-Aug-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (07-Nov-16) 3)CARE AAA (04-Apr-16)
19.	Bonds-Tier I Bonds	LT	15000.00	CARE AA+; Stable	-	1) CARE AA+; Stable (08-Oct-18)	1)CARE AA+; Stable (09-Oct-17) 2)CARE AA+; Stable (08-May-17)	1)CARE AA+; Stable (29-Dec-16)
20.	Bonds-Tier II Bonds*	LT	10000.00	CARE AAA; Stable	-	1) CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (28-Jun-17)	-

*Basel III ^System generated

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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