HDB FINANCIAL SERVICES LTD.

June 25, 2025

Issue Details	
Issue Opens	25th June, 2025
Issue Closes	27th June, 2025
Issue Size (Rs. Crs)	12,500
Issue Size –Fresh (Rs Crs)	2,500
Issue Size –OFS (Rs Crs)	10,000
Issued, Subscribed and Paid Up Sh. Pre offer	79,57,82,945
Fresh Issue (No. of Shares)	3,37,83,784
Offer For Sale (No. of Shares)	13,51,35,135
Face Value	10
Lot Size (Sh)	20
Price Band	Rs 700 – Rs 740
Issue Type	Book Built Issue
Book Value (in Rs.)(FY25)	197.47
BRLMs	JM Financial, BNP Paribas, BofA Securities, Goldman Sachs, HSBC Securities, IIFL Capital, Jefferies India, Morgan Stanley, Motilal Oswal, Nomura, Nuvama Wealth, UBS Securities
Registrar	MUFG Intime India Private Limited
Listing Venue	NSE . BSE
Finalization of Allotment	On or about 30/06/2025
Initiation of refund	On or about 01/07/2025
Credit to Demat Account	On or about 01/07/2025
Listing	On or about 02/07/2025

Issue Structure	
Categories	
QIBs	>=50%
Non-Institutional	<=15%
Retail Portion	<=35%
Total	**100%**

Shareholding %		
Categories	**Pre issue**	**Post Issue**
Promoter	94.30%	74.20%
Public	5.70%	26.90%

Recommendation
SUBSCRIBE

Company Background

HDB Financial Services Ltd (HDBFS) is a subsidiary of HDFC Bank Ltd. It is a non-banking financial corporation, provides a range of financial services in India. The company offers secured loans against long and short term investments, equities, bonds, ESOPs, commercial vehicles, property, gold, and jewellery; and unsecured loans, including business and personal loans. It also provides general insurance products, such as motor, health, critical illness, travel, home, and personal accident insurance, as well as life insurance; and collection services.

Objects of the issue

- Total isue of 16,89,18,919 shares of FV Rs 10 each amounting to ~Rs 12,500 Cr comprising of Fresh Issue of 3,37,83,784 shares (~Rs 2,500 Cr) and Offer For Sale of 13,51,35,135 shares (~Rs 10,000 Cr).
- Augmentation of the Company's Tier – I Capital base to meet their Company's future capital requirements including onward lending under any of the Company's business verticals i.e. Enterprise Lending, Asset Finance and Consumer Finance.

Key Points

- HDBFS is the the second largest and fastest growing customer franchise NBFC, serving 1.9 cr customers as of Mar'25. The company focuses on underserved & under banked customers in low to middle-income households with minimal to no credit history.
- The gross loan book stood at Rs 1,06,800 Cr as of Mar'25, registering a 2-year CAGR of 23.54%. Majority of the book is secured in nature. The share of secured loans stood at 73.01% while unsecured loans stood at 26.99% of gross loans as at Mar'25.
- HDBFS's average cost of borrowing stood at 7.9% as of Mar'25, the 6th lowest among NBFC peers. It was mainly driven by its diversified liability franchise and strong credit rating of AAA stable by Crisil & Care Ratings.
- HDBFS maintains prudent and sustainable level of leverage at 5.85x as of Mar 25, while ensuring adequate capitalization (CRAR standing at 19.22% as of Mar 25).
- HDBFS is a subsidiary of HDFC Bank, India's largest private sector bank by total assets as of Mar'25. Although HDBFC operates as an independent company it can leverage HDFC Bank's strong brand value to build a large customer franchise, a strong credit rating and low cost of borrowings.
- HDBFS follows a hybrid credit underwriting framework, tailored by product type, customer profile, and ticket size. For Consumer Finance, where loan sizes are smaller and tenures shorter, underwriting is largely centralised, handled by a dedicated credit assessment unit.

Recommendation –

HDFB Financial Services Ltd is backed by strong parentage, brand, governance, risk management and a high credit rating. It is one of the largest NBFCs catering to about 1.9 Cr customers. The company is well placed to register healthy growth going ahead, while witnessing an improvement in the asset quality. It has a large diversified and seasoned product portfolio with a sustainable track record of diversification, growth and profitability through the business cycles with a Pan India presence. We would recommend a SUBSCRIBE to the issue for the long term

Consolidated Financials In INR Crs	FY25	FY24	FY23
Net Operating Income	16,300.28	14,173.07	12,402.88
Operating Profit	9,555.58	8,356.54	6,272.39
PAT	2,175.92	2,460.84	1,959.35
EPS	27.32	31.04	24.76
Book Value Per Share	197.47	172.41	144.02

Company's RHP, ACE Equity, AUM Research

Industry Overview

1) **Credit penetration is lower in India compared to other countries**

- In terms of the credit to GDP ratio, India has a low credit penetration compared with other developing countries, such as China, indicating the potential that can be tapped.
- Similarly, in terms of credit to households as a proportion of GDP, India lags other markets, with retail credit hovering at around 25% of GDP as of Fiscal 2025. A report by World Bank states that private bureau retail coverage is 63% of total adults in India as of 2019. (*Private retail bureau coverage refers to the extent to which the credit history of individuals and businesses involved in retail is documented and accessible through private credit bureaus. This coverage is typically measured as a percentage of the adult population whose credit information is available in these databases.)*

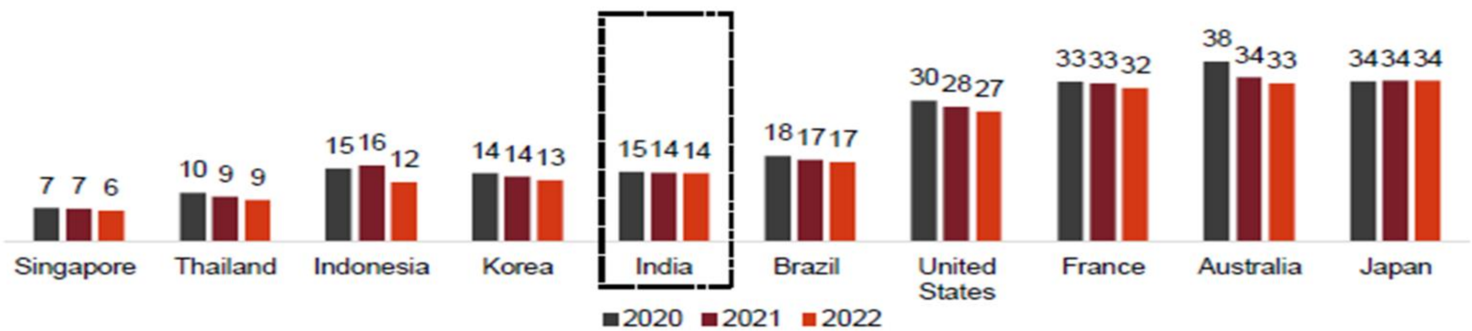
2) **Rural and semi-urban India: Under penetration and untapped market presents a huge opportunity for growth of financiers**

- Bank credit to metropolitan areas has decreased over the past few years with its share decreasing from 66% as of March 31, 2019, to 59% as of March 31, 2025. Between the same period, credit share has witnessed a marginal rise in rural (7% as of Fiscal 2019 to 9% as of Fiscal 2025) and semi-urban areas (12% as of Fiscal 2019 to 14% as of Fiscal 2025).
- Rural areas, which are estimated to account for 47% of GDP, received just 9% of the overall banking credit as of March 31, 2025, which shows the vast market opportunity for banks and NBFCs to lend in these areas.
- With increasing focus of government towards financial inclusion, rising financial awareness, increasing smartphone and internet penetration, credit services in rural area are expected to increase. Further, usage of alternative data to underwrite customers is also expected to help banks and NBFCs to assess customers and cater to the informal sections of the society in these regions.

3) **Under-penetration of the Indian banking sector provides opportunities for growth**

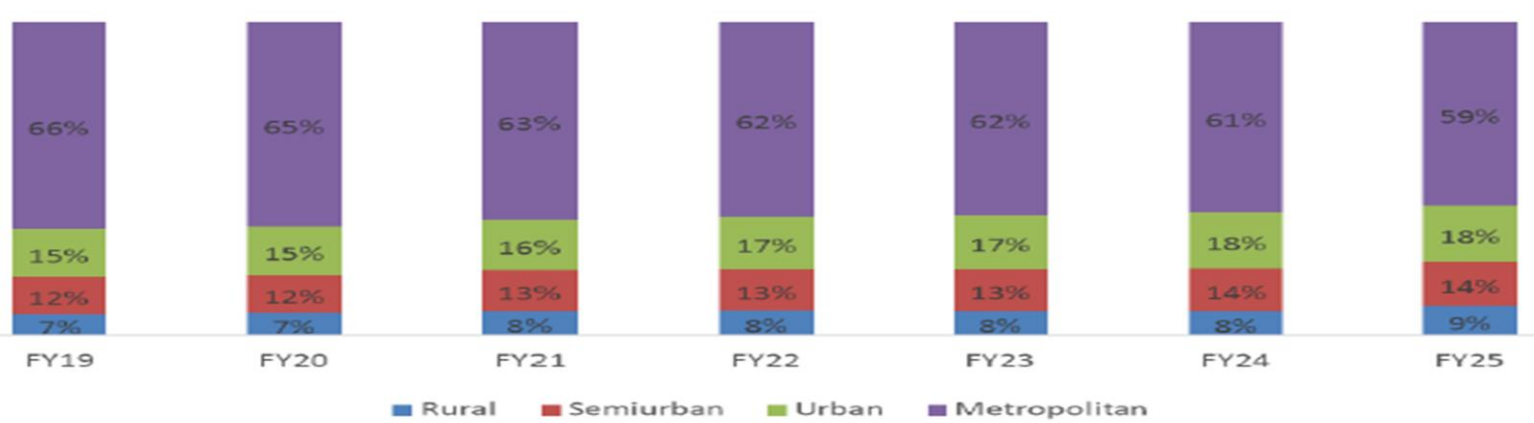
- As per a RBI report published in December 2024, the Indian banking sector is significantly under-penetrated as India's total Credit to GDP ratio (including credit extended by banks and NBFCs) stood as 90.1% in 2022 which is significantly below that of advanced economies which stand at 113%.
- The number of commercial bank branches as well as ATMs in India per 1,000 people, contrast in comparison to other countries. This provides immense opportunities for banks and other financial institutions over the long term.

Number of Commercial Bank Branches per 100,000 Adults (CY)



Source:- Company's RHP, AUM Research

Share of rural and semi-urban regions in banking credit increased marginally between Fiscal 2019 and Fiscal 2025 (Share of population group-wise banking credit data)



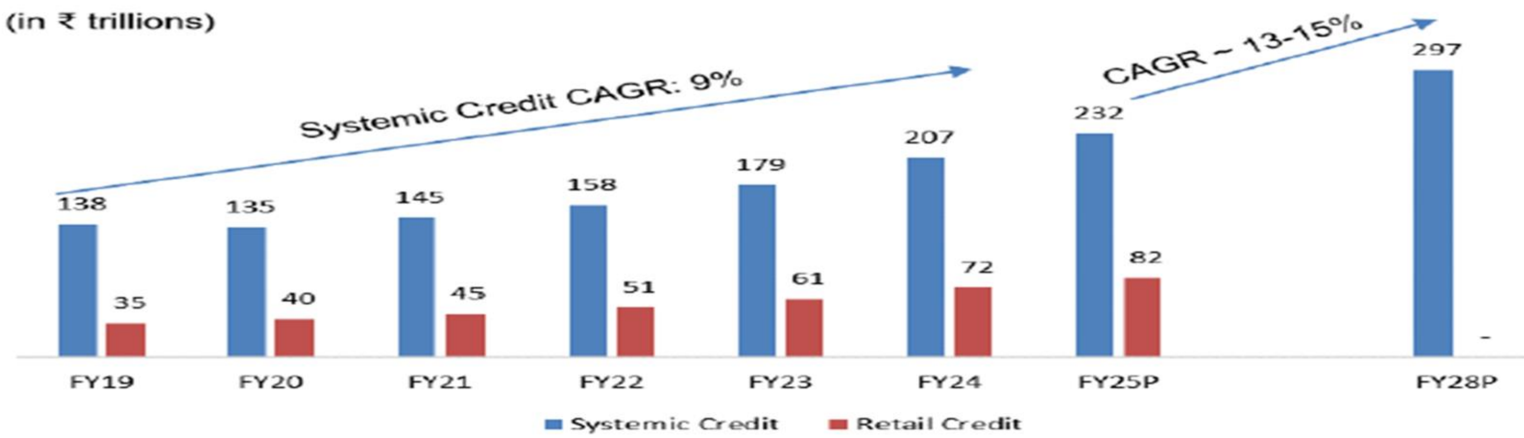
Overview And Market Landscape Of NBFC Sector In India

1) Systematic Credit

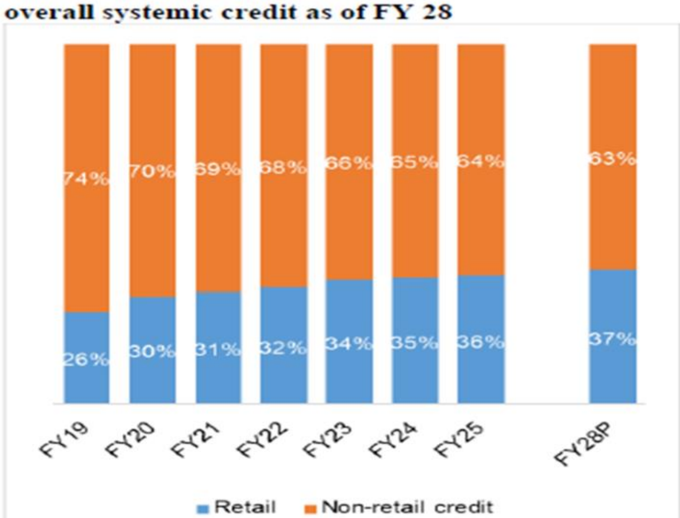
- The systemic credit grew at 10.5% year-on-year in Fiscal 2022 to reach approximately Rs 161 trillion. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activities.
- Fiscal 2023, systemic credit showed strong growth at 12.8% year-on-year on back of pent-up retail demand.
- In Fiscal 2024, credit growth was healthy at 14.1% year-on-year on the back of disbursements to the retail segment, resilient demand for home and vehicle loans and supported by the services segment with healthy demand from NBFC's and trade segments.
- Corporate credit determines the growth in overall credit as it accounts for nearly two-third of systemic credit. Systemic credit in India grew at a 6-year CAGR of 9% over fiscals 2019 and 2025. Retail credit continues to lead the systemic credit growth in fiscal 2024, supported by the focused approach of banks and NBFCs in increasing the retail portfolio.

2) Retail credit growth is projected to grow on a strong footing and is expected to witness a CAGR of 14-16% between FY 25 and FY 28

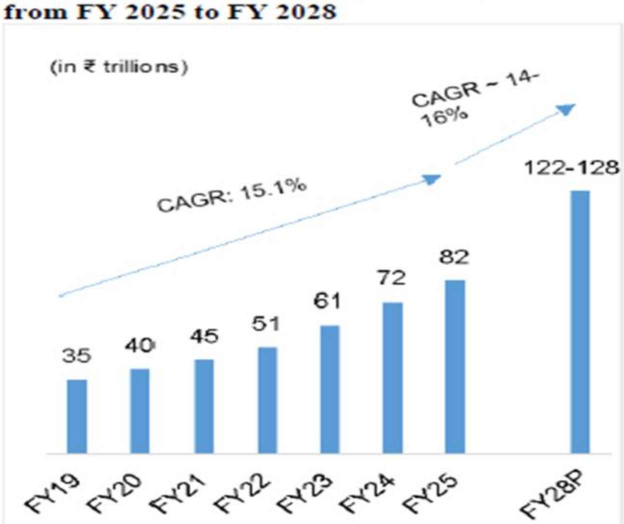
- The retail credit including small ticket loans for asset classes such as Housing finance, Vehicle Financing, Gold Loans, Education Loans, Consumer Durables, Personal loans, credit cards and microfinance, in India stood at ₹ 82 trillion, as of FY 25 which rapidly grew at a CAGR of 15.1% between FY19 and FY 25.
- Retail credit grew at 14% in FY 25 supported by steady demand in underlying assets like housing, auto and growth in credit card and personal loans growth driven by consumption.
- The Indian retail credit market has grown at a strong pace over the last few years and is expected to grow further at 14-16% between FY 25 and FY 28. Moreover, the increasing demand and positive sentiments in the Indian retail credit market, presents an opportunity for both banks and NBFCs to broaden their investor base.



Retail segment is projected to account for 37% of overall systemic credit as of FY 28



Retail credit growth is projected to grow on a strong footing from FY 2025 to FY 2028



Source:- Company's RHP, AUM Research

Company Overview

HDB Financial Services Limited (is the seventh-largest diversified, retail-focused NBFC in India by Total Gross Loan Book, which stood at Rs. Rs1,06.800 Cr as of March 2025, reflecting a CAGR of 23.54% between FY23 and FY25. The Reserve Bank of India (RBI) classifies HDBFS as an Upper Layer NBFC (UL-NBFC). It offers a broad portfolio of lending products catering to a growing and diverse customer base through an extensive omni-channel distribution network. These products are delivered through three key business verticals: Enterprise Lending, Asset Finance, and Consumer Finance.

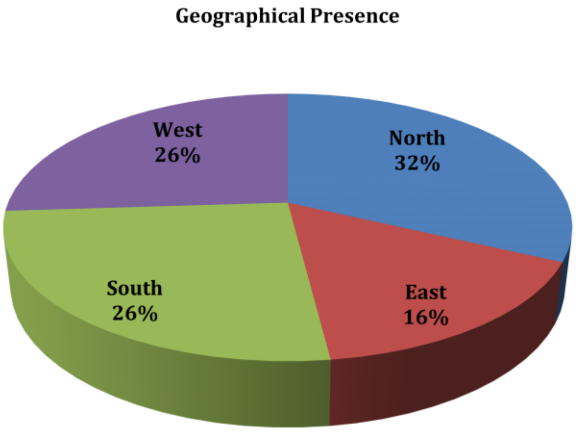
Business Verticals

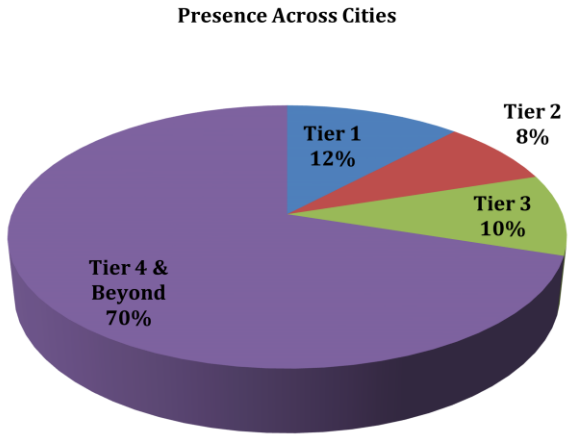
1) **Enterprise Lending:** Enterprise Lending was HDB's first business vertical, launched in 2008. It offers a variety of secured and unsecured loans to MSME customers, as well as certain categories of salaried employees, primarily through its branch network. These loans are primarily intended to meet the growth and working capital requirements of customers. The business is structured to provide differentiated offerings across metropolitan areas and underpenetrated markets.
2) **Asset Financing:** HDB launched its Asset Finance vertical in 2010, offering financing for the acquisition of new and used Commercial Vehicles (CVs), Construction Equipment (CEs), and Tractors. The company operates across both new and used vehicle segments. The new vehicle segment leverages OEM partnerships and HDB's extensive nationwide dealership network, while the used vehicle segment is driven by in-house sales teams deployed across the country.
3) **Consumer Finance:** The Consumer Finance vertical was launched in 2016, offering loans to individuals to meet personal or household needs. Customers in this segment include salaried employees and self-employed individuals seeking financing for household assets, luxury goods, or other lifestyle-related expenses. These loans are designed to address short- to medium-term financial requirements.

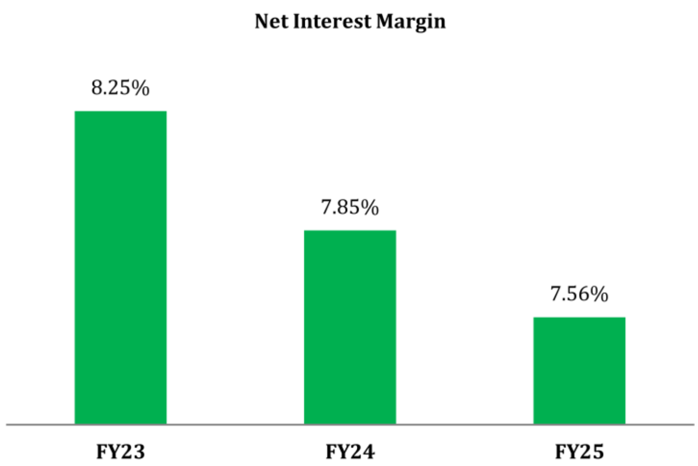
Gross Loans	FY23		FY24		FY25	
Particulars	**Rs Cr**	**% Of Total Gross Loans**	**Rs Cr**	**% Of Total Gross Loans**	**Rs Cr**	**% Of Total Gross Loans**
Enterprise Lending	31,618.70	45.10%	36,822.60	40.80%	42,005.90	39.30%
Asset Finance	26,326.30	37.60%	34,194.70	37.90%	40,648.80	38.00%
Consumer Finance	12,085.70	17.30%	19,200.70	21.30%	24,222.90	22.70%
Total	**70,030.70**	**100.00%**	**90,218.00**	**100.00%**	**1,06,877.60**	**100.00%**

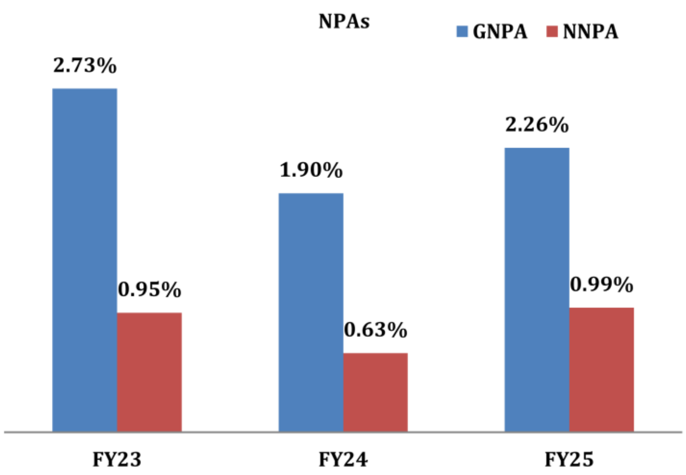
Source:- Company's RHP, AUM Research

Disbursements	FY23		FY24		FY25	
Particulars	Rs Cr	% Of Total Disbursements	Rs Cr	% Of Total Disbursements	Rs Cr	% Of Total Disbursements
Enterprise Lending	14,107.50	31.50%	17,358.90	**28.50%**	18,503.50	27.80%
Asset Finance	15,869.50	35.40%	20,983.00	**34.50%**	22,557.30	33.80%
Consumer Finance	14,824.70	33.10%	22,557.30	**37.00%**	25,595.10	38.40%
Total	**44,801.70**	**100.00%**	**60,899.20**	**100.00%**	**66,655.90**	**100.00%**









Credit Ratings

Particulars	Fiscal 2025	Fiscal 2024	Fiscal 2023
Credit Ratings[1] (other information)	CRISIL AAA/Stable; CRISIL A1+; CARE AAA/ Stable; CARE A1+	CRISIL AAA/Stable; CRISIL A1+; CARE AAA/ Stable; CARE A1+	CRISIL AAA/Stable; CRISIL A1+; CARE AAA/ Stable; CARE PP-MLD AAA /Stable; CARE A1+

Source:- Company's RHP, AUM Research

Rationale For Investment

- **Strong Asset Quality And Lower Credit Costs:**
HDBFS's tech-enabled operating processes have contributed to maintaining strong asset quality and low credit costs, despite a rapidly growing customer base and expanding distribution network. As of March 2025, the Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) ratios stood at 2.26% and 0.99%, respectively, while the credit cost ratio for FY25 was 2.14%. HDB's Provision Coverage Ratio (PCR) stood at 55.95%, and provisioning on Total Gross Loans was 3.31%, reflecting a highly conservative approach and a strong buffer.

- **Tailored Sourcing Supported By An Omni-Channel And Digitally Powered Pan-India Distribution Network:**
HDBGS's phygital sourcing network comprises its internal distribution channels, external partners, and digital capabilities. It has a pan-India presence, with no single region accounting for more than 35% of its Total Gross Loans as of March 2025. Given the fragmented geographic distribution of the under banked population beyond metropolitan areas, HDB has further tailored its distribution strategy to strengthen visibility in non-metro cities and towns. Its omni-channel presence enables access to customer segments across all products in its three business verticals.

- **Growing Digital Distribution:**
HDBFS is expanding its external distribution channels through partnerships with fintechs, while simultaneously strengthening its own digital platforms. The HDB On-The-Go application allows customers to access most of its products and had recorded approximately 9.2 million downloads as of March 2025. Additionally, Field Officers (FOS), Original Equipment Manufacturers (OEMs), dealers, and Direct Selling Agents (DSAs) are equipped with digitally assisted sales tools to enhance decision-making, productivity, and customer engagement. As of March 2025, the company digitally underwrote over 95% of loans end-to-end.

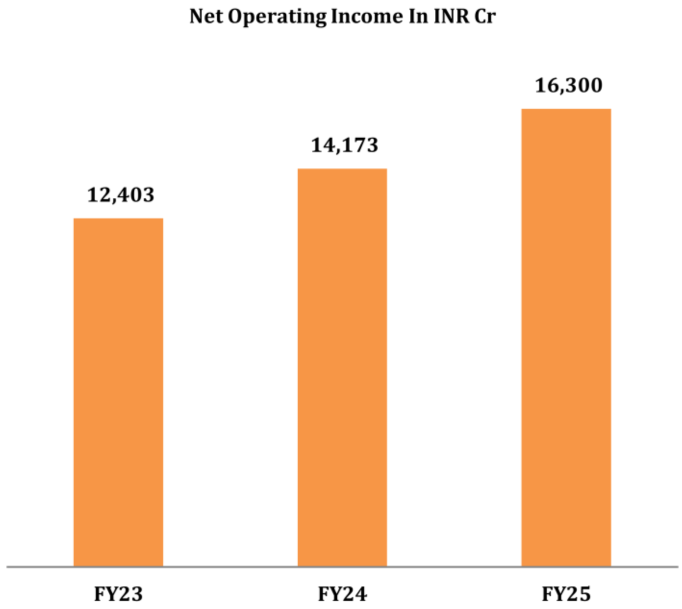
- **High Quality Liability Franchise With Access To Low Cost, Diversified Borrowing Sources And The Highest Credit Rating:**
HDBFS has a diversified liability franchise, supported by strong credit ratings of AAA (Stable) from CRISIL and CARE. This enables it to raise funds at competitive rates and tenors across both fixed and floating-rate instruments. As of March 2025, the average cost of borrowings stood at 7.90%, according to the CRISIL report. HDBFS's borrowings are funded through a well-diversified mix of sources, including public and private sector banks, foreign banks, mutual funds, insurance companies, pension funds, and financial institutions. As of FY25, total borrowings stood at Rs. 874 billion, with no single source accounting for more than 50%.

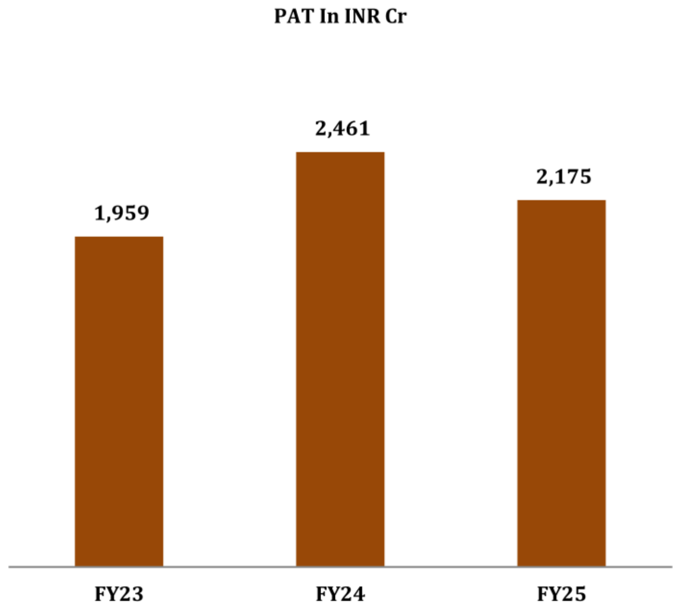
- **Diversification And Expansion via Addressable Customer Segments Via Enhanced Product Offerings:**
HDBFS has developed a highly diversified portfolio of lending products tailored to its target customer segments. Product innovation has been a key focus area and a driver of diversified, sustainable growth. The company aims to continue adding new products while enhancing existing offerings to strengthen its value proposition. To serve a broad customer base across geographies, HDB has implemented an automated underwriting process that leverages real-time customer scorecards, enabling faster credit decisions.

- **Diversified Asset & Liability profile**
HDBFS operates a well-balanced lending portfolio across three segments: Enterprise Lending (~39%), Asset Finance (~38%), and Consumer Finance (~23%). As of FY25, the average ticket sizes in these segments stood at approximately Rs6.2 lakh, Rs8.9 lakh, and Rs0.5 lakh, with average tenures of 6, 4, and 2 years, respectively. On the liability side, HDB maintains a diversified funding base, enabling it to raise capital at competitive rates and tenors through both fixed and floating-rate instruments, supporting stable and cost-effective growth.

- **Hybrid underwriting model with seasoned portfolio**
HDBFS follows a hybrid credit underwriting framework, tailored by product type, customer profile, and ticket size. For Consumer Finance, where loan sizes are smaller and tenures shorter, underwriting is largely centralised, handled by a dedicated credit assessment unit. In contrast, Enterprise Lending and Asset Finance, which involve larger loans with longer durations, are assessed via a decentralised structure, with regional and branch-level teams leveraging local insights and contextual understanding of borrower profiles. The loan book is well-seasoned, having navigated multiple credit cycles since inception. However, asset quality has shown some relative stress, with FY25 slippage and write-off ratios at over 5% and 2.25%, respectively — elevated compared to peers in the retail NBFC space

- **Consistent growth with resilient profitability**
Over FY21–25, HDBFS delivered a strong operating performance, supported by a granular, branch-driven retail portfolio that enabled it to maintain a healthy calculated NIM of ~8% on average. This translated into robust earnings and AUM growth, with CAGR of 41% and 15%, respectively. While the company faced elevated credit costs during this period—reflected in average loan loss provisions of ~3%—it still managed to sustain an attractive return profile, posting RoA of over 2% and RoE of 14%+, a trend expected to continue going forward.





Consolidated Income Statement (Value in Rs. Crs)			
Particulars	**FY25**	**FY24**	**FY23**
Net Operating Income	16,300.28	14,173.07	12,402.88
Total Expenditure	6,745.94	5,817.38	6,152.73
Operating Profit (Excl OI)	9,554.34	8,355.69	6,250.15
Other Income	1.24	0.85	22.24
Operating Profit	9,555.58	8,356.54	6,272.39
Interest	6,433.36	4,906.73	3,533.15
Depreciation	194.42	145.14	111.84
Profit Before Tax	2,927.80	3,304.67	2,627.40
Provision for Tax	751.88	843.83	668.05
Profit After Tax	2,175.92	2,460.84	1,959.35
EPS (Rs.)	27.32	31.04	24.76

Source:- ACE Equity, AUM Research

Consolidated Balance Sheet (Value in Rs. Crs)			
Particulars	**FY25**	**FY24**	**FY23**
EQUITY AND LIABILITIES			
Share Capital	795.78	793.08	791.40
Share Warrants & Outstandings	105.35	69.22	39.61
Total Reserves	14,918.62	12,880.41	10,605.96
Shareholder's Funds	**15,819.75**	**13,742.71**	**11,436.97**
Secured Loans	44,957.23	43,614.94	32,040.07
Unsecured Loans	6,003.71	5,148.29	3,311.68
Deferred Tax Assets / Liabilities	-883.25	-939.95	-1,000.87
Other Long Term Liabilities	583.12	553.46	467.57
Long Term Trade Payables	13.84	105.73	-
Long Term Provisions	46.53	74.42	54.62
Total Non-Current Liabilities	**50,721.18**	**48,556.89**	**34,873.07**
Trade Payables	438.84	403.27	291.84
Other Current Liabilities	3,779.80	2,859.08	2,310.86
Short Term Borrowings	36,436.83	25,567.44	19,513.56
Short Term Provisions	1,877.83	1,822.84	1,649.52
Total Current Liabilities	**42,533.30**	**30,652.63**	**23,765.78**
Total Liabilities	**1,09,074.23**	**92,952.23**	**70,075.82**
ASSETS			
Loans	67,075.30	55,244.89	41,963.91
Gross Block	804.27	640.58	736.41
Less: Accumulated Depreciation	528.85	455.90	403.39
Net Block	**275.42**	**184.68**	**333.02**
Non Current Investments	16.04	39.63	57.94
Long Term Loans & Advances	71.12	66.51	72.93
Other Non Current Assets	535.18	279.69	3.19
Total Non-Current Assets	**67,973.06**	**55,815.40**	**42,430.99**
Current Investments	2,044.09	3,340.70	1,185.31
Sundry Debtors	225.17	124.61	65.76
Cash and Bank	953.30	696.13	653.82
Other Current Assets	79.66	66.39	219.37
Short Term Loans and Advances	37,798.95	32,909.00	25,520.57
Total Current Assets	**41,101.17**	**37,136.83**	**27,644.83**
Net Current Assets (Including Current Investments)	-1,432.13	6,484.20	3,879.05
Total Current Assets Excluding Current Investments	39,057.08	33,796.13	26,459.52
Total Assets	**1,09,074.23**	**92,952.23**	**70,075.82**

Source:- ACE Equity, AUM Research

Aum Capital RESEARCH DESK

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