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HDB Financial Services Ltd

IPO Note

24th Jun 2025

HDB Financial Services Ltd.

Rating	Issue Opens On	Issue Closes On	Listing Date	Price Band (INR)	Issue Size (INR Mn.)
SUBSCRIBE	June 25, 2025	June 27, 2025	July 2, 2025	700 - 740	1,25,000

Company Overview:

- HDB Financial Services Limited (HDB), a subsidiary of HDFC Bank, is the seventh-largest retail-focused NBFC in India by gross loan book and is classified as an Upper Layer NBFC by RBI. Despite promoter backing, it operates independently across sourcing, underwriting, operations, and risk management. Further, it offers BPO services to its parent and distributes insurance and other fee-based products.
- HDB focuses on low to middle-income borrowers across three segments - Enterprise Lending (39.3%), Asset Finance (38.0%), and Consumer Finance (22.7%). As of March 31, 2025, 73.0% of its loan book was secured. The company had 19.2 million customers and 1,771 branches across 1,170 locations, with over 70% in Tier 4 and beyond. Supported by a 38,326-strong sales team, it uses digital tools across operations.
- Financially, HDB reported a gross loan book of INR 1,068.8 billion and an AUM of INR 1,072.6 billion. It has secured CRISIL AAA/Stable and CARE AAA/Stable ratings, with a borrowing cost of 7.9% and a credit cost ratio of 2.1%. Despite increase in credit cost, it reported a ROE of 14.7% in FY25.

Outlook:

HDB Financial, is a subsidiary of "**HDFC Bank**" - largest private bank in India by assets as of March 31, 2025. Over the years, it has built an extensive network of 1,771 branches across 170 cities. With 70%+ of its branches located in Tier-4 towns and other rural areas, it has built a niche in serving underbanked and underpenetrated geographies, for establishing a well-diversified operations. Further, it relies on digital channels such as WhatsApp, web portal and mobile application, along with a base of over 3,700+ tele-callers and 8,800+ field resources to generate leads and manage collections effectively.

The Company has been able to grow its AUM and Pre-Provisioning Operating Profit (PPoP) at a 23.7% and 12.9% CAGR over FY23-25, respectively, compared to the peer average of 25.3% AUM growth and 19.4% PPoP growth.

We expect that its AUM and disbursement will witness higher growth compared to FY25, led by higher urban and rural consumer demand driven by government's intervention in reducing income tax rates, RBI's efficient inflation management and expected cuts in GST rates for the overall consumption basket.

HDB's initial issue is priced at 3.4x TTM P/B (considered equity raise for calculating TTM BV) compared to the peer average of 4.4x TTM P/B. We believe the issue is attractively priced considering its parentage, peer group ROA average and its growth potential. We assign a "**SUBSCRIBE**" rating to the initial issue of the HDB Financial Service.

Particulars (INR Mn.)	FY23	FY24	FY25
Net Interest Income (NII)	54,159	62,924	74,456
PPOP	39,578	43,721	50,409
Provisions	13,304	10,674	21,131
Profit After Tax	19,594	24,608	21,759
RoE (%)	17%	18%	14%
P/B	5.1x	4.2x	3.7x

Source: IPO Prospectus

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (Mn.)	168.9
Fresh issue (# shares) (Mn.)	34
Offer for sale (# shares) (Mn.)	135.1
Price band (INR)	700-740
Post issue MCAP (INR Mn.)	582,048 - 613,879

Source: IPO Prospectus

Issue	# Shares	INR Mn	%
QIB	8,44,59,459	Max. 62,500	Not more than 50%
NIB	2,53,37,838	Min. 18,750	Not less than 15%
Retail	5,91,21,622	Min. 43,750	Not less than 35%
Net Offer	16,89,18,919	1,25,000	100%

Source: IPO Prospectus

Shareholding Pattern	Pre Issue (%)	Post Issue (%)
Promoters & Promoter Group	94.32%	74.19%
Others	5.68%	25.81%
Total	100.0%	100.0%

Source: IPO Prospectus

Objects of the Offer	INR Mn.
Augmentation of Tier-I capital base to meet future capital requirements	25,000

Source: IPO Prospectus

BRLM

1. JM Financial Ltd
2. BNP Paribas
3. BofA Securities India Ltd
4. Goldman Sachs (India) Securities Pvt Ltd
5. HSBC Securities and Capital Market (India) Pvt Ltd
6. IIFL Capital Services Ltd
7. Jefferies India Private Ltd
8. Morgan Stanley India Company Private Ltd
9. Motilal Oswal Investment Advisors Ltd
10. Nomura Finance Advisory & Securities (India) Pvt Ltd
11. Nuvama Wealth Management Ltd
12. UBS securities India Pvt Ltd

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	Friday, 27th June'25
Basis of Allotment	Monday, 30th June'25
Initiation of Refunds	Tuesday, 1st July'25
Credit of Shares to Demat	Tuesday, 1st July'25
Listing Date	Wednesday, 2nd July'25

Source: IPO Prospectus

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HDB Financial Services Ltd.

Industry Overview

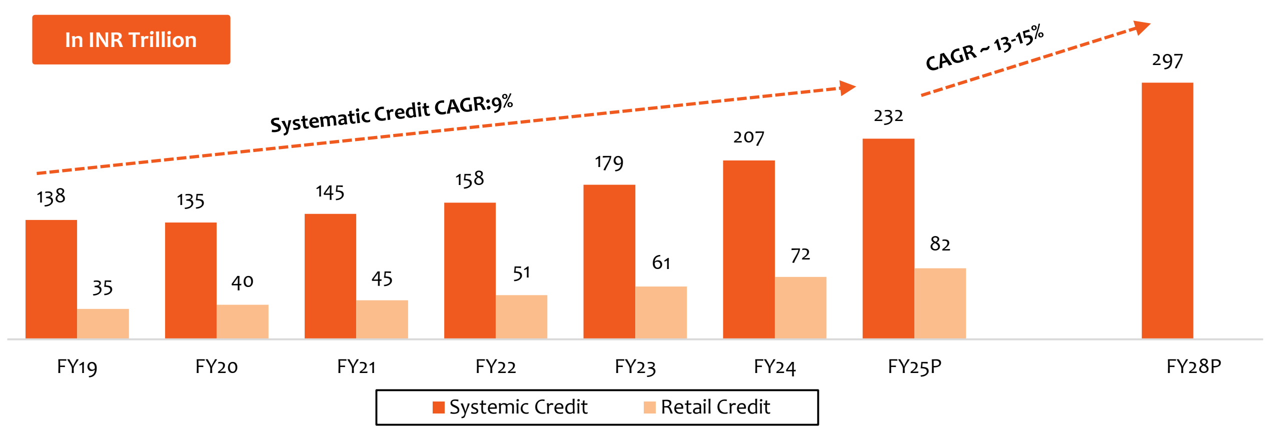
Evolution and Growth of NBFCs:

- The Non-Banking Financial Company (NBFC) sector in India has witnessed substantial evolution in terms of scale, operational sophistication, technological adoption, and the breadth of financial products offered.
- Assets Under Management (AUM) have grown significantly—from less than INR 2 trillion in FY00 to approximately INR 48 trillion in FY25.
- Between FY19 and FY25, NBFC credit expanded at a 13.2% CAGR, driven by strong demand across retail, MSME, and corporate segments.
- Credit growth is expected to grow at a healthy pace of 15.0–17.0% CAGR over the next few years, supported by rising consumer demand and increased credit penetration, particularly in the underserved segments. The ongoing recovery in consumption trends is also anticipated to contribute meaningfully to the credit momentum in FY26.

Market Share and Role in the Financial Ecosystem:

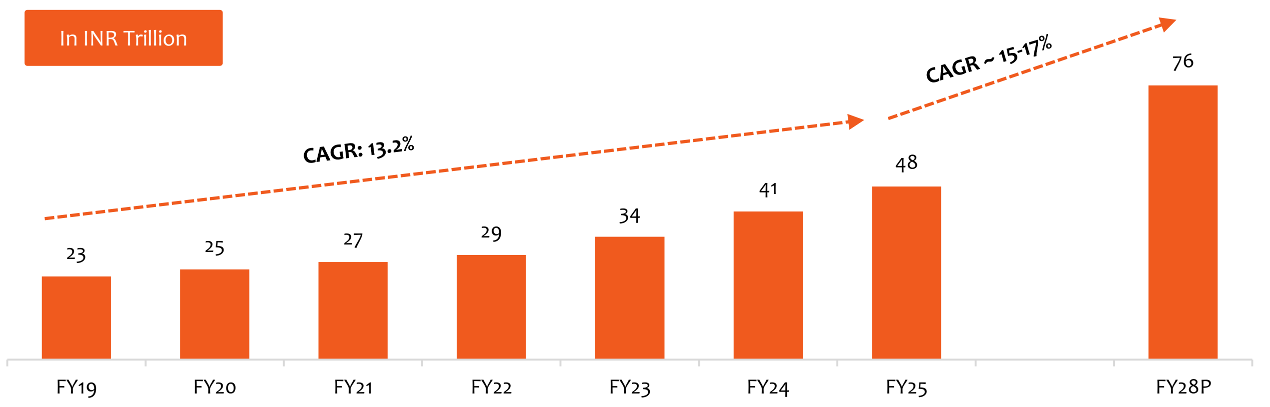
- NBFCs accounts for 21% share of systemic credit as of FY25, compared to 72% by banks, with their share expected to rise to 22% by FY28.
- They compete with banks, microfinance institutions, and digital lenders, leveraging their strengths in last-mile credit delivery, faster processing, and tailored solutions.
- With deep rural and semi-urban penetration, NBFCs play a key role in financial inclusion by serving underserved segments, including informal sector borrowers and those without credit histories.

Systemic credit to grow by 13-15% between FY25 and FY28:



Note: P: Projected; systemic credit includes domestic banking credit (after deduction of bank lending to NBFC), NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by banks and NBFCs
Source: IPO Prospectus, Deven Choksey Research

NBFC credit to grow at 15-17% between FY 25 and FY 28:

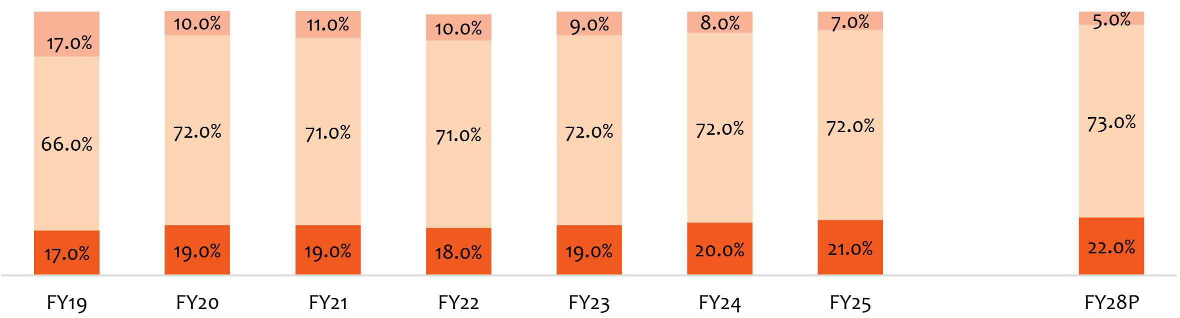


Source: IPO Prospectus, DevenChoksey Research

HDB Financial Services Ltd.

Industry Overview

Share of NBFC Credit in overall Systemic credit to reach 22% by FY28P:



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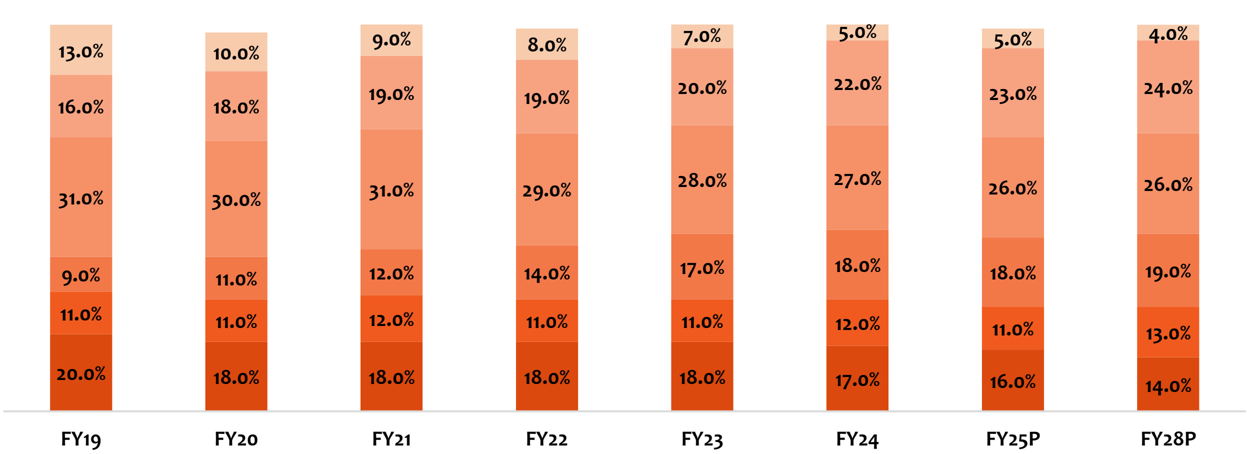
Source: IPO Prospectus, DevenChoksey Research

NBFC-Focused Asset Classes:

- **MSME loans** accounts for a significant portion of the overall credit, as the outstanding amount stood at INR 42.3 trillion as of March 31, 2025. Secured MSME loans, primarily in the form of Loans Against Property (LAP), stood at approximately INR 12.8 trillion as of FY25, while it is projected to grow at a 17.0-19.0% CAGR over FY25-28E. Parallelly unsecured business loans has grown at 19.5% CAGR over FY19-25 to INR 9.7 trillion and is expected to expand at 18.0-20.0% CAGR over FY25-28E.
- **Home/Housing loan** segment remains a key vertical for all lenders with total outstanding of INR 38.1 trillion as of FY25, due to its stable, consistent performance and lower slippages driven by higher collaterals. The segment is expected to witness stable demand across urban and semi-urban borrower segments.
- The **auto loan** segment outstanding stood at INR 12.0 trillion as of FY25. CV financing is expected to grow at 11.0-13.0% CAGR over FY25-28. NBFCs have maintained dominant position in all types of vehicle financing led by their expertise in the niche category, underscoring their strength in mobility-focused credit offerings.
- The **personal loan** segment outstanding loans stood at INR 14.6 trillion as of FY25 and is expected to grow at a 16.0-18.0% CAGR over FY25-28.
- The **gold loan** segment outstanding loans is estimated at INR 12.4 trillion, with NBFCs expected to witness a 17.0-18.0% CAGR credit growth in the segment over FY25-28E. As of FY25, NBFCs hold approximately 11% share of the total gold loan credit, leveraging their rural reach and quick disbursal capabilities.

Distribution of NBFC Credit across asset classes:



Source: IPO Prospectus, DevenChoksey Research

HDB Financial Services Ltd.

Industry Overview

- The **microfinance loan** segment's outstanding is estimated to be at INR 3.8 trillion and is expected to grow at 8.0-10.0% CAGR over FY25-28E. NBFC-MFIs continue to expand their footprint in this segment, with their market share increasing from 29% in FY19 to 39% in FY25, driven by their deep outreach and focused lending to underserved communities.
- The **consumer durable financing** segment's outstanding stood at INR 0.8 trillion as of FY25 and is expected to witness a robust growth momentum of 20.0-22.0% CAGR over FY25–28, led by increase in aspirations of middle-class consumers. NBFCs are the primary lenders in this category, contributing nearly 68% of the total outstanding credit, supported by widespread point-of-sale networks and flexible EMI structures.

Growth of asset classes:

Asset Class	FY25E Portfolio O/s (INR Tn.)	Share of NBFCs/HFCs/ NBFC-MFIs	Overall Portfolio CAGR (FY20–25E)	NBFCs Portfolio CAGR (FY20–25E)	FY25–26 Growth for Overall Portfolio	FY25-26 Growth for NBFCs
MSME Loans	42.3	27%	18%	20%	18–20%	27–29%
Housing Loans	38.1	20%	13%	11%	13–14%	15–16%
Auto Loans	12	46%	14%	14%	15–16%	16–17%
Personal Loans	14.6	24%	21%	30%	16–18%	22–24%
Gold Loans	12.4	11%	37%	54%	19–21%	17–18%
Microfinance Loans	3.8	51%	10%	16%	8–10%	8–10%
Consumer Durables	0.8	68%	17%	21%	18–20%	20–22%

Source: IPO Prospectus, DevenChoksey Research

Challenges in the NBFC Sector:

- **Competition:** Intense competition from established banks and fintech start-ups.
- **Regulatory Environment:** NBFCs are a highly regulated industry, primarily by the RBI, and are subject to various laws, rules, and regulations. For example, the NBFC Scale Based Regulations categorize companies like HDB Financial Services Limited as "Upper Layer" (NBFC-UL), subjecting them to additional capital, prudential guidelines, and governance requirements, including mandatory listing within three years of identification as an NBFC-UL.
- **Asset Quality and Recovery Risk:** Unsecured loans carry high risk, making recovery difficult in case of defaults. Lack of an established and transparent secondary market can make asset recovery challenging.
- **Data Insufficiency:** Many small borrowers and MSMEs lack adequate credit history and formal income proof, making creditworthiness assessment difficult for lenders

HDB Financial Services Ltd.

Company Overview

HDB Financial Services Limited (HDB) is a diversified retail-focused Non-Banking Financial Company (NBFC) in India. It operates as a subsidiary of HDFC Bank Limited.

As of FY25, HDB had 19.2 million customers and operated through 1,771 branches across 1,170 locations in 170 cities and towns in India.

It has a large and diversified product portfolio structured across three main business verticals :

1. **Lending Business**
   - The company provides lending across three primary business verticals: Enterprise Lending, Asset Finance, and Consumer Finance.
2. **BPO Services**
   - Additionally, the company delivers business process outsourcing services—including back-office support, collections, and sales support—to its Promoter, HDFC Bank.
   - BPO service income contributed 7.46% of total revenue in Fiscal 2025.
3. **Distribution of Insurance Products**
   - The company also offers fee-based products, such as distributing insurance products, primarily to its lending customers.
   - Income from insurance distribution commissions was 7.32% of total revenue in Fiscal 2025.

Source: IPO Prospectus, DevenChoksey Research

Segment	Segment Description	Loan Size (INR)	Tenor	Interest Rate	Secured	Locations	Total Gross Loans (INR Bn)
Enterprise Lending	Funding for small businesses (working capital/capex), Secured & unsecured loans for enterprise needs	25k to 250mn	Up to 15 years	9 to 18% Secured (Floating), 11 to 30% Unsecured (Fixed)	Secured/ Unsecured	900+	420.1
Asset Finance	Loans for income-generating vehicles/equipment, Finance to fleet owners, new users, buyers	100k to 250mn	Up to 6 years	9 to 18% Fixed	Secured	900+	406.5
Consumer Finance	Loans for durables, digital products, two-wheelers, micro loans, Personal/household loans for short-/medium-term requirements	4k to 5mn	Up to 7 years	11 to 34% Fixed	Secured/ Unsecured	1,000+	242.2

Source: IPO Prospectus, DevenChoksey Research

HDB Financial Services Ltd.

Company Overview

Granular Loan Book:

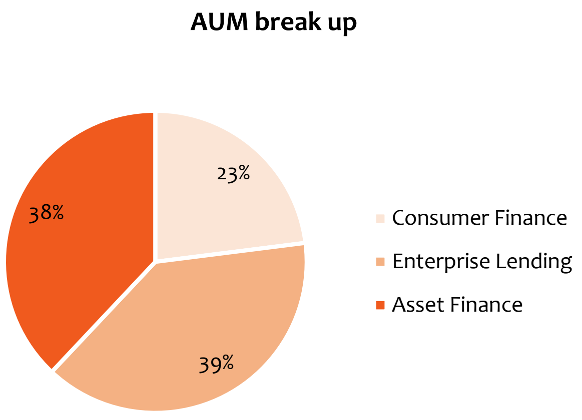
The company maintains a highly granular and diversified loan book, which enhances its resilience and stability across economic cycles.

Key highlights:

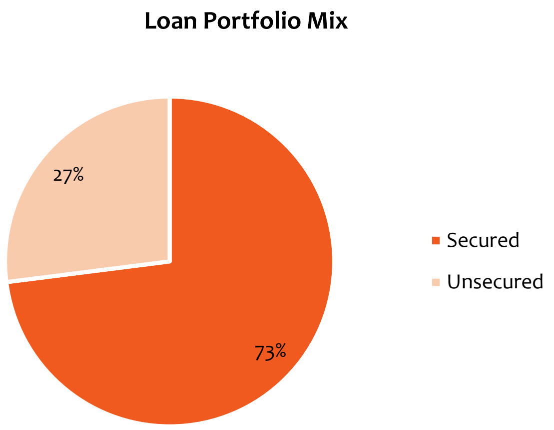
- **Low Customer Concentration:** The top 20 customers account for only 0.34% of total gross loans (as of March 31, 2025), minimizing concentration risk.
- **No Large Corporate or Real Estate Exposures:** The company has no single corporate, real estate, or structured finance asset on its balance sheet.
- **Modest Average Loan Size:** The average loan size is ~INR 165k, with product-wise averages ranging from ~INR 50k for a Consumer Finance loan to ~INR 890k for a Asset Finance loan.

Product Diversification:

The loan book consists of 13 products across three business verticals, with no single product exceeding 25% of total gross loans.



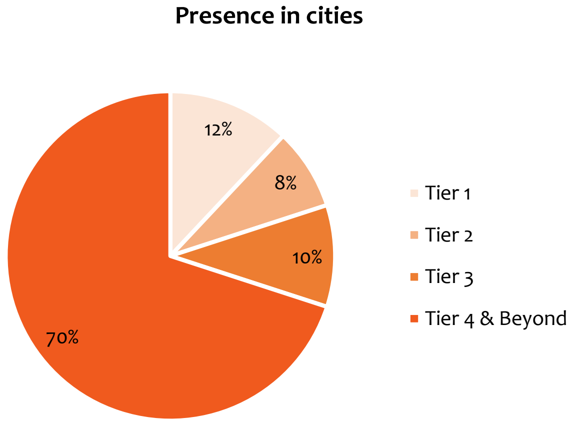
Source: IPO Prospectus, DevenChoksey Research



Source: IPO Prospectus, DevenChoksey Research

Geographic Diversification:

- **Lower Geographic Risk:** Over 80% of branches are outside India's 20 largest cities, and 70%+ branches are located across Tier 4+ towns, reducing geographic concentration risk.
- **Focus on Underserved Segments:** The company primarily serves low to middle-income, underserved, and underbanked households ("aspirational India"), with 11.6% of loans extended to "new to credit" customers.



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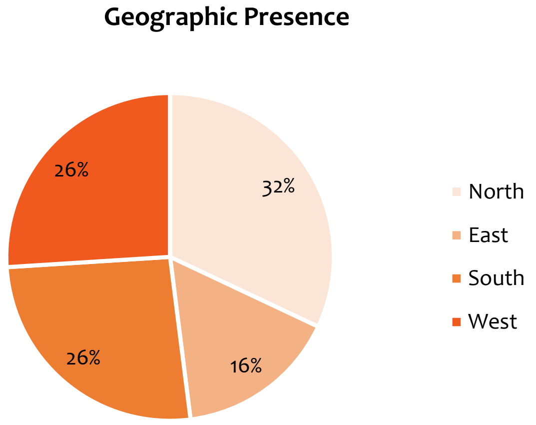

Source: IPO Prospectus, DevenChoksey Research

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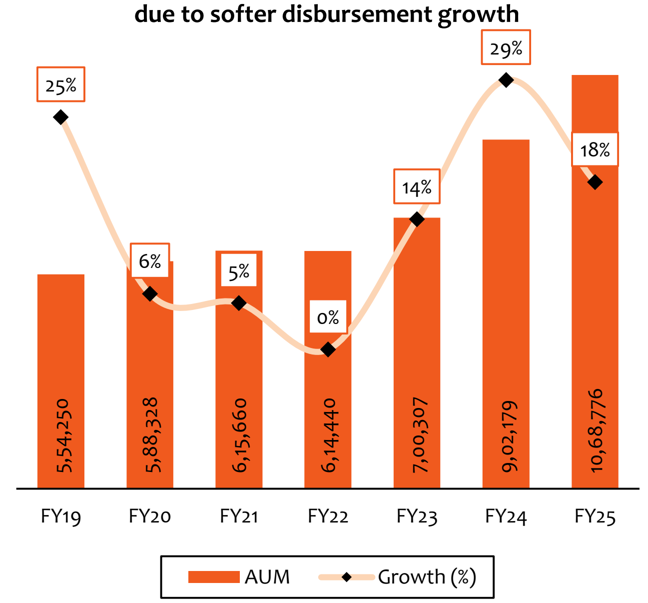
HDB Financial Services Ltd.

Company Overview

AUM and Disbursements:

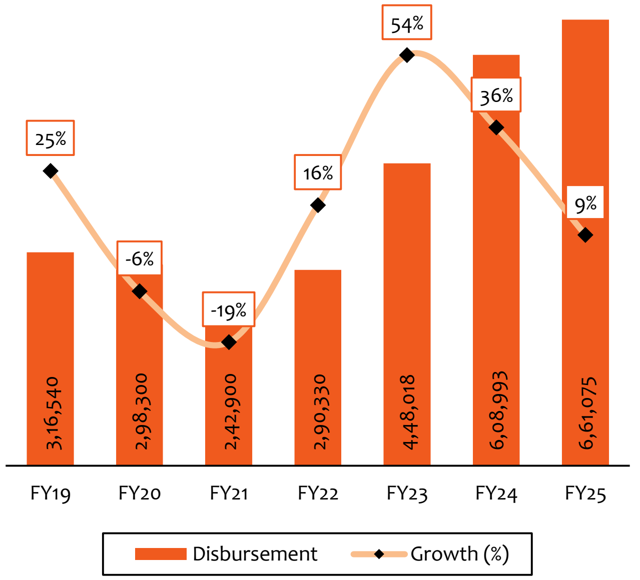
- During FY25, AUM growth moderated to 18% from 29% in FY24, driven by softer disbursement growth of 9% un FY25 compared to 36% growth in FY24. Weaker traction in disbursements is estimated to be softer led by reduced consumer demand impacted by higher inflation, and slowdown in overall domestic economic activities during FY25.

AUM (INR Mn) growth has moderated in FY25 due to softer disbursement growth



Source: IPO Prospectus, DevenChoksey Research

Disbursement (INR Mn) growth reduced due to weaker consumption trend

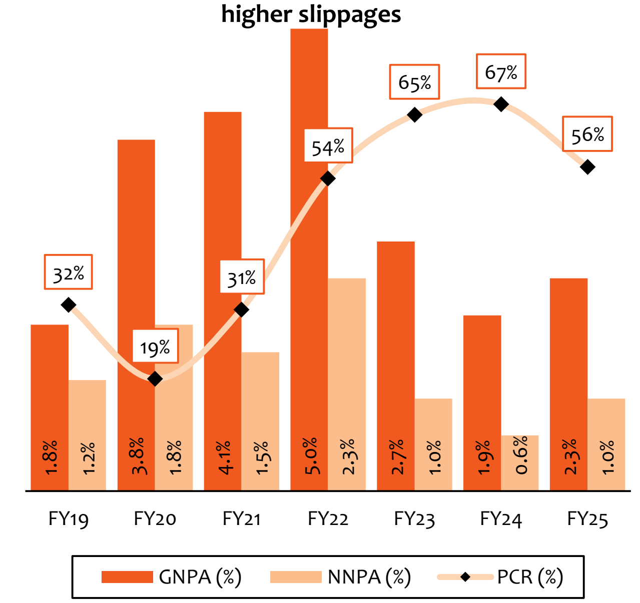


Source: IPO Prospectus, DevenChoksey Research

Asset Quality:

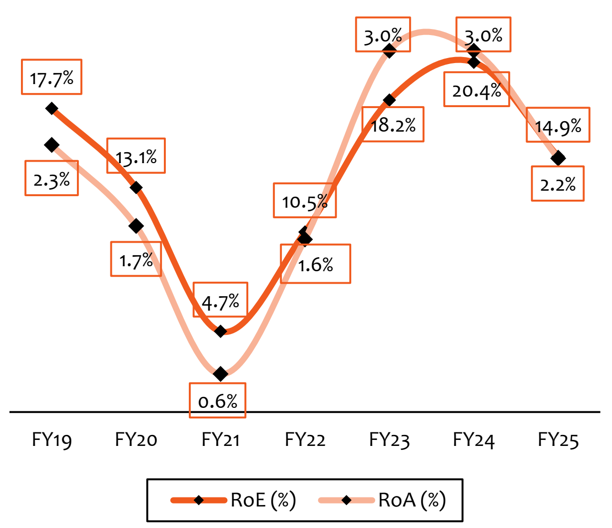
- Gross NPA inched up from 1.90% in FY24 to 2.26%, while the Net NPA inched up from 0.63% in FY24 to 0.99% in FY25, led by slippages driven by distress in selective loan segments.
- The credit cost spiked to 2.1% in FY25 due to elevated provisioning driven by increase in slippages.

Asset quality deteriorated in FY25 led by higher slippages



Source: IPO Prospectus, DevenChoksey Research

Return Ratio's have been impacted in FY25 led by higher credit costs



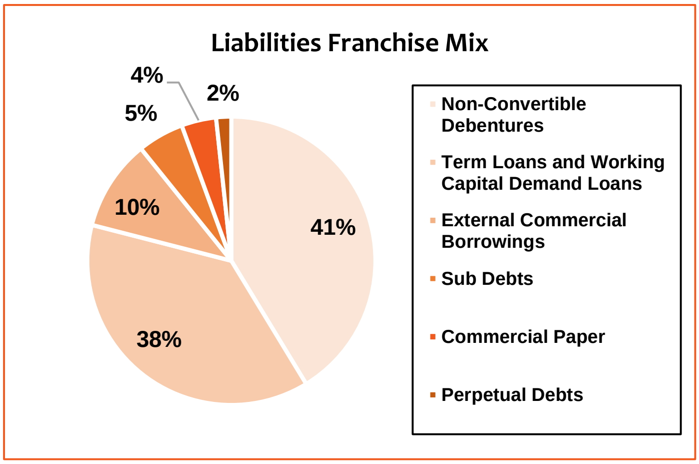
Source: IPO Prospectus, DevenChoksey Research

HDB Financial Services Ltd.

Company Overview

Sources of Funds

- The company is a non-deposit taking NBFC and relies on wholesale borrowing sources, including non-convertible debentures (NCDs), term loans, external commercial borrowings (ECBs), and commercial papers.
- Average Cost of Borrowings for Fiscal 2025 stood at 7.90%, up 37bps and 114bps compared to FY24 and FY23 respectively, led by increase in repo rates and banks MCLR rates.



Source: IPO Prospectus, Deven Choksey Research

Strong credit ratings enabling low cost funding

The Company benefits significantly from its high credit ratings, which play a crucial role in its ability to secure funding at competitive rates from the market and banks.

HDB's Credit Ratings (As of 31st March 2025)

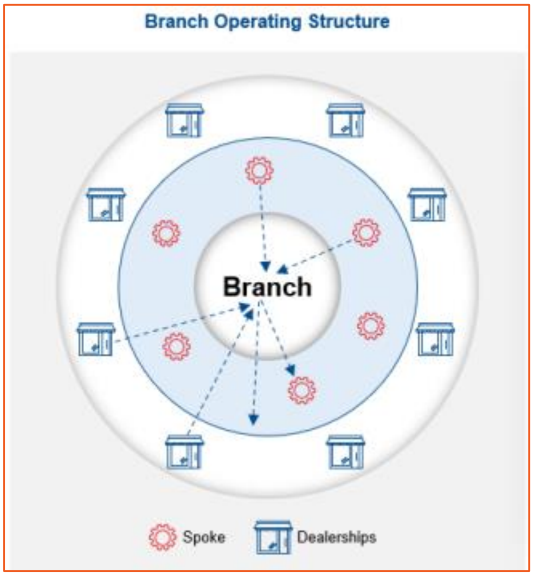
	Borrowings / Security Type	CARE Rating	CRISIL Rating
1	Term Loans from Banks and Financial Institutions	CARE AAA; Stable	CRISIL AAA/Stable
2	Secured Redeemable Non-Convertible Debentures	CARE AAA; Stable	CRISIL AAA/Stable
3	Commercial Paper	CARE A1+	CRISIL A1+
4	Subordinated Bonds	CARE AAA; Stable	CRISIL AAA/Stable
5	Perpetual Bonds	CARE AAA; Stable	CRISIL AAA/Stable

Source: IPO Prospectus, DevenChoksey Research

Widespread branch-driven operations

The company has established a pan-India network of 1,771 branches in 1,170 towns and cities across 31 States and Union Territories, with over 80% of the branches located outside the 20 largest cities in India by population.

1,771	~38,000	~7,000
Number of branches (#)	Size of Sales Team	# of Channel Partners



Source: IPO Prospectus, Deven Choksey Research

It also leverages partnerships with over 80 brands and OEMs, supported by a dealer network of 140,000+ touchpoints across multiple industries, including automobiles, consumer goods, and commercial vehicles.

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HDB Financial Services Ltd.

Strategies:

Expanding Customer Reach Through Broadened and Enhanced Product Offerings:

- The company has developed a diversified lending portfolio aligned with customer lifecycle needs, driven by product innovation.
- Automation in underwriting, such as real-time scorecards for Two-Wheeler Loans, has improved efficiency and expanded reach. This supports enhanced customer experience and strengthens cross-sell potential across business segments.

Expansion of Pan-India Omni-Channel Distribution Network:

- As of March 31, 2025, the company has built a pan-India hybrid distribution network comprising 1,771+ branches across 1,170+ locations in 31 States and Union Territories, supported by digital channels, 80+ OEM and brand partnerships, and over 140,000 dealer and retailer touchpoints.
- It aims to further scale this network and deepen partner engagement to ensure presence across all customer access points nationwide.

Ongoing Investments in Technology, Data Analytics, and AI to Enhance Customer Experience and Drive Operational Efficiency:

- The company's tech platform is a key growth enabler, enhancing efficiency across operations.
- Ongoing adoption of AI, analytics, and automation will improve customer experience, streamline lending, and drive cross-sell and productivity.
- Strengthening data security remains a priority amid rising digital risks.

Diversification of Borrowing Profile to Optimize Cost of Funds:

- The company continues to broaden its funding base to optimize leverage and reduce borrowing costs.
- In FY25, ECBs reached USD 1.05 Bn. Its diversified sources include banks, mutual funds, insurers, pension funds, and institutions, accessed via loans, NCDs, subordinated and perpetual bonds, ECBs, and commercial papers.

Enhancement of Risk Management, Underwriting, and Collections Framework to Minimize Credit Losses:

- As the company scales its customer base, it remains committed to maintaining strong credit quality through a robust risk management framework.
- Leveraging 17 years of customer insight and underwriting expertise, it continues to refine credit, collections, and risk processes through employee training, technology adoption, and faster decisioning.

Risks:

- **Promoter Ownership Reduction:** The Promoter may be required to significantly reduce its ownership to less than 20% if a draft RBI circular is implemented, potentially harming business operations, financial position, and share price due to overlapping businesses. This could also lead to restrictions on product offerings.
- **Increased Gross Stage 3 Loans:** Gross Stage 3 Loans increased to 2.26% of total loans as of March 31, 2025. Non-payment by customers, or inadequate provisioning for non-performing assets, could adversely affect the company's financial condition and operations.
- **Unsecured Loan Portfolio Risk:** Unsecured loans, comprising 26.99% of total loans as of March 31, 2025, lack collateral support. In case of borrower non-payment, the company may be unable to recover the unpaid balance, potentially increasing Gross Stage 3 Loans and borrowing costs.
- **Secured Loan Collateral Risk:** While secured loans make up 73.01% of total loans, the value of collateral may decline, or enforcement could be delayed. This exposes the company to potential losses, negatively impacting its business, cash flows, and financial condition
- **Legal and Regulatory Proceedings:** The company, its Promoter, and Director's face various legal proceedings, including actions by regulatory authorities. Adverse outcomes could materially harm their reputation, business, results of operations, and financial conditions
- **Contingent Liabilities:** The company has certain contingent liabilities and commitments, totaling INR 1,242.6 Mn in claims not acknowledged as debt as of March 31, 2025. If these materialize, they could adversely affect the company's business and results of operations

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HDB Financial Services Ltd.

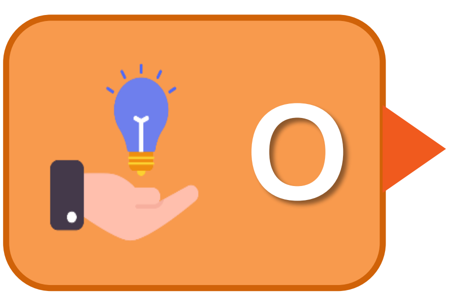
SWOT Analysis

Strengths:

- **Strong Brand Association:** Being a subsidiary of HDFC Bank, it benefits from a strong brand reputation and extensive customer trust.
- **High Credit Ratings:** HDB Financial holds the highest credit ratings (CRISIL AAA, CARE AAA), ensuring favorable borrowing terms.
- **Diverse Product Offering:** The company offers a variety of services including lending, BPO services, and financial product marketing, ensuring broad market coverage.
- **Large Distribution Network:** With a high number of employees (89,943 as of FY 2025) and a significant customer base (19.2 Mn), it maintains an expansive reach and strong customer acquisition potential.

Weaknesses:

- **High Operating Expenses:** A substantial portion of the operating expenses (74.33% in employee expenses) could hinder profitability.
- **Dependency on Borrowings:** A significant portion of its funding comes from borrowings (e.g., 41.25% from NCDs), which can create liquidity risks in a rising interest rate environment.
- **Exposure to Non-performing Assets (NPAs):** While it has low NPAs compared to peers, the company still faces challenges related to asset quality and repayment risk.
- **High Leverage:** The company has high leverage (5.9 times debt/equity ratio), increasing its exposure to financial risks.



Opportunities:

- **Rural Market Penetration:** With an increasing focus on expanding into rural markets, there is significant growth potential for microfine Optimize small-ticket loans.
- **Growth in Retail Credit:** The growing penetration of household credit in India offers a substantial opportunity for expanding its retail loan portfolio.
- **Technological Advancements:** Investing in technology for better customer engagement, digital onboarding, and loan servicing could streamline operations and reduce costs.
- **Partnerships and Collaboration:** Potential partnerships with other financial institutions or entry into new business segments could offer growth avenues

Threats:

- **Rising Competition:** Intense competition from other large NBFCs like Bajaj Finance and Cholamandalam could affect market share.
- **Economic Vulnerability:** The financial services sector is vulnerable to economic downturns, policy changes, and external shocks such as pandemics.
- **Regulatory Risks:** Changes in RBI regulations, especially those related to NBFCs, could impose operational restrictions or increase compliance costs.
- **Credit Risk in Microfinance:** Despite efforts to mitigate risks, microfinance remains susceptible to defaults, especially in economically unstable rural areas.

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HDB Financial Services Ltd.

Peer Analysis

Peers	HDB Financial	Bajaj Finance	Cholamandalam	IIFL Finance	Poonawala Fincorp
Market cap	6,13,879	56,89,192	13,31,085	2,03,826	3,40,556
Book Value	1,58,198	9,66,929	2,36,687	1,24,122	81,747
AUM	10,72,617	41,66,610	19,98,760	7,83,410	3,56,310
PPOP (FY25)	50,409	3,00,279	82,311	25,728	13,228
PAT (FY25)	21,759	1,67,795	42,585	379	-983
Asset Quality					
GNPA (FY25)	2.3%	1.0%	4.0%	2.2%	1.8%
NNPA (FY25)	1.0%	0.4%	2.6%	1.0%	0.9%
Credit cost%	2.1%	1.6%	1.4%	3.1%	5.5%
Profitability					
NIM (FY25)	7.6%	9.9%	6.7%	5.1%	8.4%
ROE (%)	14.7%	17.4%	18.0%	3.4%	-1.2%
ROA (%)	2.2%	3.6%	2.1%	0.9%	-0.3%
Spread					
Spread %	6.1%	9.7%	7.7%	6.7%	NA
Yield on Advances %	14.0%	17.0%	14.8%	15.9%	NA
Cost of funding %	7.9%	7.3%	7.1%	9.2%	8.1%
Operational Efficiency					
Cost to Income %	42.8%	33.1%	39.3%	51.5%	51.1%
CRAR %	19.2%	21.9%	19.8%	18.5%	22.9%
Valuation					
P/E ratio (TTM)	28.2x	33.9x	31.3x	538.1x	-346.4x
P/B (TTM)	3.4x	5.9x	5.6x	1.6x	4.2x

Note: The TTM P/B ratio for HDBFS is derived using the post-issue book value.
Source: Factset, IPO Prospectus, DevenChoksey Research

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HDB Financial Services Ltd.

Outlook:

HDB Financial, is a subsidiary of "**HDFC Bank**" - largest private bank in India by assets as of March 31, 2025. Over the years, it has built an extensive network of 1,771 branches across 170 cities. With 70%+ of its branches located in Tier-4 towns and other rural areas, it has built a niche in serving underbanked and underpenetrated geographies, for establishing a well-diversified operations. Further, it relies on digital channels such as WhatsApp, web portal and mobile application, along with a base of over 3,700+ tele-callers and 8,800+ field resources to generate leads and manage collections effectively.

The Company has been able to grow its AUM and Pre-Provisioning Operating Profit (PPoP) at a 23.7% and 12.9% CAGR over FY23-25, respectively, compared to the peer average of 25.3% AUM growth and 19.4% PPoP growth. Its PPoP growth lags the peer average group, due to its higher operating expenses, driven by large investments in digital channels and team to generate leads, for processing higher disbursements and managing collections effectively. During its higher OpEx structure and higher credit cost of 2.1% in FY25, it maintained an attractive 2.0%+ ROA return profile.

The Company in its initial issue is planning to raise INR 25.0bn by issuing fresh equity to augment its Tier-1 capital and to sustain higher AUM growth. We expect that its AUM and disbursement will witness higher growth compared to FY25, led by higher urban and rural consumer demand driven by government's intervention in reducing income tax rates, RBI's efficient inflation management and expected cuts in GST rates for the overall consumption basket.

HDB's initial issue is priced at 3.4x TTM P/B (considered equity raise for calculating TTM BV) compared to the peer average of 4.4x TTM P/B. We believe the issue is attractively priced considering its parentage, peer group ROA average and its growth potential. We assign a "**SUBSCRIBE**" rating to the initial issue of the HDB Financial Service.

Valuation Table

Company Name	CMP (INR)	Market Cap (INR Bn)	AUM CAGR (%)	PPOP CAGR (%)	CoF (%)	NIM (%)	NNPA (%)	P/B		P/E		ROE (%)	ROA (%)
			FY23-25	FY23-25				FY25	TTM	FY25	TTM	FY25	FY25
HDB Financial	740	614	23.7%	12.9%	7.9%	7.6%	1.0%	3.9x	3.4x	28.2x	28.2x	14.7%	2.2%
						Domestic Peers							
IIFL Finance	480	204	10.1%	-4.4%	9.2%	5.1%	1.0%	1.4x	1.6x	46.3x	53.8x	3.4%	0.9%
Bajaj Finance	916	5,689	29.8%	26.7%	7.3%	9.9%	0.4%	4.4x	5.9x	25.4x	34.2x	17.4%	3.6%
Cholamandalam	1,583	1,331	36.0%	36.0%	7.1%	6.7%	2.6%	4.2x	5.6x	23.4x	31.2x	18.0%	2.1%
Mean			**25.3%**	**19.4%**	**7.9%**	**6.0%**	**1.3%**	**3.3x**	**4.4x**	**31.7x**	**39.7x**	**12.9%**	**2.2%**
Median			**29.8%**	**26.7%**	**7.3%**	**6.7%**	**1.0%**	**4.2x**	**5.6x**	**25.4x**	**34.2x**	**17.4%**	**2.1%**

Note: The TTM P/B ratio for HDBFS is derived using the post-issue book value.
Source: Factset, IPO Prospectus, DevenChoksey Research

HDB Financial Services Ltd.

Financials:

Income Statement (INR Mn)	FY23	FY24	FY25
Interest Income	**89,278**	**1,11,567**	**1,38,358**
Finance Cost	35,119	48,643	63,902
Net Interest Income (NII)	**54,159**	**62,924**	**74,456**
Other Income	34,751	30,144	24,645
Total Operating Income	88,910	93,068	99,101
Operating Expenses	49,332	49,347	48,693
Pre-Proovision Operating Profit (PROP)	39,578	43,721	50,409
Provisions	**13,304**	**10,674**	**21,131**
Profit before Tax	26274	33046.7	29278
Income Tax	6,681	8,438	7,519
Net Profit	**19,594**	**24,608**	**21,759**
Adjusted EPS	**23.62**	**29.66**	**26.23**

Cash Flow (INR Mn)	FY23	FY24	FY25
Net Cash Flow from Operating Activities	-68,506	-1,67,360	-1,36,263
Net Cash Flow from Investing Activities	9,733	-21,456	11,590
Net Cash Flow from Financing Activities	57,960	1,91,336	1,27,699
Net Increase/(Decrease) in Cash	-813	2,520	3,026
Cash & Cash Equivalents at the Beginning	**4,772**	**3,959**	**6,479**
Cash & Cash Equivalents at the End	**3,959**	**6,479**	**9,505**

Balance sheet (INR Mn)	FY23	FY24	FY25
Financial assets			
Cash and cash equivalents	3,959	6,479	9,505
Bank balance other than cash and cash equivalents	2,579	547	338
Derivative financial instruments	1,653	19	1,080
Trade receivables	658	1,246	2,252
Loans	6,63,827	8,67,213	10,33,430
Investments	12,433	33,803	20,601
Other financial assets	349	395	477
Non-financial assets			
Current tax assets (net)	251	413	769
Deferred tax assets (net)	10,009	9,400	8,833
Property, plant and equipment	1,224	1,625	2,431
Other intangible assets	204	222	323
Right-of-use assets	2,443	3,265	4,597
Other non-financial assets	917	940	1,998
Total Assets	**7,00,504**	**9,25,565**	**10,86,633**
Liabilities and Equity			
Financial liabilities			
Derivative financial instruments	0	48	21
Trade payables	2,918	5,090	4,527
Debt securities	2,70,964	3,48,511	3,94,652
Borrowings (other than debt securities)	2,42,278	3,38,314	4,19,289
Subordinated liabilities	35,411	56,482	60,037
Other financial liabilities	27,784	29,553	39,441
Non-financial liabilities			
Current tax liabilities (net)	420	587	657
Provisions	3,690	5,029	5,645
Other non-financial liabilities	2,669	4,525	4,168
Equity			
Equity share capital	7,914	7,931	7,958
Other equity	1,06,456	1,29,496	1,50,240
Total Equity	**1,14,370**	**1,37,427**	**1,58,198**
Total Liabilities and Equity	**7,00,504**	**9,25,565**	**10,86,633**

Source: IPO Prospectus, Deven Choksey Research

HDB Financial Services Ltd.

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