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HDB FINANCIALSERVICES LIMITED

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IPO Report

24th June '25

Snapshot

Company is the seventh largest leading, diversified retail-focused non-banking financial company ("**NBFC**") in India in terms of the size of Total Gross Loan book at ₹902.2 billion as at March 31, 2024, amongst its NBFC peers. Company is categorized as an Upper Layer NBFC (NBFC-UL) by the RBI. It offer a large portfolio of lending products that cater to a growing and diverse customer base through a wide omni-channel distribution network. Company's lending products are offered through its three business verticals: Enterprise Lending, Asset Finance and Consumer Finance.

VALUATION

Company is bringing the issue at price band of Rs 700-740 per share at p/b multiple of approx. 3.3x on post issue basis.

Company has highly granular retail loan book, bolstered by a large and rapidly growing customer base with a focus on serving the underbanked customer segments. Also, it has large, diversified and seasoned product portfolio with a sustainable track record of diversification, growth and profitability through the cycles. Company has high-quality liability franchise with access to low cost, diversified borrowing sources and the highest credit rating along with track record of robust financial performance with sustainable and profitable growth. Company has Stable, highly experienced and professional management team supported by a talented workforce with distinguished parentage of HDFC Bank, India's largest private bank, enjoying strong trust and brand equity with consumers. Hence we recommend "Subscribe" to this ipo.

Price Band (Rs./Share)	**700-740**
Opening date of the issue	**25th June '2025**
Closing Date of the issue	**27th June '2025**
No of shares pre issue	79,39,63,540 Eq Shares
Issue Size	Rs 12500 Cr
Fresh Issue	3,37,83,784 Eq Shares
Offer For Sale	13,51,35,135 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	20
BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 7,58,78,378 Eq Shares)
Non-Institutional	15% of the offer (Approx 2,27,63,514 Eq Shares)
Retail	35% of the offer (Approx 5,31,14,865 Eq Shares)
Employee Reservation	Rs 20 Cr
Shareholder Reservation	Rs 1250 Cr
Lead managers	BNP Paribas, BofA Securities, Goldman Sach, HSBC Securities, JM Financial, IIFL Securities, Jefferies India, Morgan Stanley, Motilal Oswal, Nomura Financial, Nuvama Wealth, UBS Securities
Registrar to the issue	MUFG Intime India Pvt Ltd

WHAT WE LIKE

Highly granular retail loan book, bolstered by a large and rapidly growing customer base with a focus on serving the underbanked customer segments

Company is India's second largest and third fastest growing customer franchise amongst its NBFC peers according to the CRISIL Report, and have served 19.2 million customers as at March 31, 2025, which grew at a CAGR of 25.45% between March 31, 2023 and March 31, 2025. The growth of company's customer base is supported by the government's policies aiming to promote financial inclusion for the middle-class.

Large, diversified and seasoned product portfolio with a sustainable track record of diversification, growth and profitability through the cycles

Company have built a balanced and diversified portfolio of lending products that seek to fulfil a wide range of needs and aspirations for its customers, including its underbanked customers. As at March 31, 2025, company's product portfolio consisted of 13 lending products spanning across three business verticals of Enterprise Lending, Asset Finance and Consumer Finance. Company's product suite varies by type of loan, type of customer, tenure and interest rate.

Track record of robust financial performance with sustainable and profitable growth

Company have an established track record of delivering robust financial performance. Its Total Gross Loan book has grown from ₹700.3 billion as of Fiscal 2023 to ₹1,068.8 billion as of Fiscal 2025, reflecting a CAGR of 23.54%. Company's interest income has grown at a CAGR of 24.49% from ₹89,277.8 million during Fiscal 2023 to ₹138,357.9 million during Fiscal 2025, driven by a growing yield on its Total Gross Loan book, from 13.59% in Fiscal 2023 to 14.04% in Fiscal 2025. Company have also been focusing on growing company's fee-income services such as distribution of life and non-life insurance products.

COMPANY BACKGROUND

Company began its journey in 2007 as a subsidiary of HDFC Bank Limited ("**HDFC Bank**"), which is the largest private sector bank in India in terms of total assets of ₹39,102.0 billion as at March 31, 2025, with businesses (including those of its subsidiaries) spanning across retail and commercial banking, asset management, life insurance, general insurance and broking. Under HDFC Bank's parentage, company have embedded a philosophy of balancing between delivering long-term sustainable growth and profitability. Company have derived benefits from HDFC Bank's parentage, including its brand recognition, while still establishing a set-up independent from HDFC Bank across company's various functions including sourcing, underwriting, operations and risk management functions.

Company is India's second largest and third fastest growing customer franchise amongst its NBFC peers (for which data is available), according to the CRISIL Report, and have served 19.2 million customers as at March 31, 2025, which grew at a CAGR of 25.45% between March 31, 2023 and March 31, 2025. Company primarily cater to underserved and underbanked customers in low to middle-income households with minimal or no credit history. As at March 31, 2025, over 80% of company's branches are located outside India's 20 largest cities by population (based on the 2011 census report) and over 70% are located in Tier 4+ towns. Company's customers mainly comprise of salaried and self-employed individuals, as well as business owners and entrepreneurs. Company aim to meet the demands of its various customer categories with its diversified product offerings, strong geographical presence across India, technology backed rapid turnaround times and strong customer service. Company's focus has remained on building a highly granular loan book with 20 largest customers accounting for less than 0.34% of its Total Gross Loans as at March 31, 2025. Company's aggregated average ticket size stood at approximately ₹165,000 as at March 31, 2025.

Company is a diversified NBFC, with a goal of having an optimal mix across products, while maintaining a balanced approach to secured and unsecured loans in its loan book. Company's strategy of portfolio diversification across both products and geographies creates a strong and sustainable franchise. Secured loans represented 73.01% of its Total Gross Loans and unsecured loans represented 26.99% of its Total Gross Loans as at March 31, 2025. Company's diversified product portfolio serves multiple credit needs of customers across three business verticals:

• *Enterprise Lending*, accounting for 39.30% of its Total Gross Loans as at March 31, 2025—secured and unsecured loans primarily to micro, small and medium enterprises ("**MSMEs**") to meet their varied and evolving business needs;

• *Asset Finance*, accounting for 38.03% of company's Total Gross Loans as at March 31, 2025—secured loans for purchase of new and used commercial vehicles, construction equipment and tractors, all of which are income generating assets for company's customers; and

• *Consumer Finance*, accounting for 22.66% of company's Total Gross Loans as at March 31, 2025—secured and unsecured loans for purchase of consumer durables, digital and lifestyle products, two-wheelers, automobiles and other unsecured personal loans.

Company also offer business process outsourcing ("**BPO**") services such as back-office support services, collection and sales support services to its Promoter as well as fee-based products such as distribution of insurance products primarily to its lending customers.

Company's omni-channel "phygital" distribution model combines a large branch network, in-house tele-calling teams and various external distribution networks and channel partners. As at March 31, 2025, company had a pan-India network of 1,771 branches in 1,170 towns and cities across 31 States and Union Territories, with over 80% of company's branches located outside the 20 largest cities in India by population, based on the 2011 census report. Company operate an organised and verticalised branch structure with separate sales, credit and collections teams for each of its verticals with a common operations team. This allows company to tailor its operations based on the product and customer segments that company cater to. Company's network of branches is complemented by its external distribution channel partnerships with over 80 brands and original equipment manufacturers ("**OEMs**") and external distribution networks with over 140,000 retailers and dealer touchpoints as at March 31, 2025. Company's diversified loan book is distributed across states with a deep understanding of micro-markets across India for each of its business verticals.

Company have a hybrid underwriting structure depending on the product, customer segment and ticket size. It have implemented a hybrid credit approach with a centralised credit assessment and underwriting unit for Consumer Finance products (where ticket size is small and tenure is short) and decentralised regional and branch-level credit assessment and local underwriting teams that have a more nuanced and contextual understanding of the customer's profile for Enterprise Lending and Asset Finance products (where ticket size is bigger and tenure is longer). Company's loan book is well seasoned as it has weathered multiple credit cycles in India since its inception. Company's tech-enabled operating processes have contributed to maintaining a strong asset quality and low Credit Costs despite its fast-growing customer base and distribution network. This is evidenced by its GNPA and NNPA ratios of 2.26% and 0.99%, respectively, as at March 31, 2025 and Credit Costs Ratio of 2.14% for Fiscal 2025. Company remain focused on ensuring that it employ highly conservative policies for provisioning, with 55.95% of Provisioning Coverage Ratio as at March 31, 2025, the third highest amongst the peers according to the CRISIL Report and a 3.31% provisioning on its Total Gross Loans, as at March 31, 2025.

INVESTMENT RATIONALE

Tailored sourcing supported by an omni-channel and digitally powered pan-India distribution network	Company’s phygital sourcing network is composed of its own internal distribution network, its external distribution network as well as its digital capabilities. Company have a pan-India presence with no region accounting for more than 35% of company’s Total Gross Loans as at March 31, 2025. Given the highly fragmented geographic dispersion of India’s underbanked population beyond the metropolitan cities, company have further tailored its distribution presence to strengthen its visibility beyond metropolitan cities and towns in India. Company have customized different sourcing strategies for each of its business verticals to optimise distribution. Company have strived to ensure that it is present wherever its customers are by following a dispersed branch-led distribution strategy across India combined with a scaled and growing omni-channel presence through its partnerships with OEMs, network of dealers and distribution points, point of sales at retail stores and direct selling agents. Company’s distribution strategy is complemented by a variety of digital channels, including in partnership with fintechs, its website and its own customized and user-friendly application.
Comprehensive systems and processes contributing to robust credit underwriting and strong collections	A key focus of company’s credit risk management framework has been to establish strong credit underwriting and collections capabilities which has ensured its sustainable growth. Company have instituted a robust and comprehensive underwriting and collections process led by its Chief Credit Officer and supported by a dedicated and experienced team of professionals. *Underwriting* Company have built an in-house, experienced and dedicated underwriting team of over 4,500 members as at March 31, 2025 that operates independently of its sales team. Company have ensured that there are no overlap of responsibilities between its credit and sales teams in terms of targets, key responsibility areas and outcomes.
Advanced technology tools driving enhanced customer experience and efficiency across each stage of the customer lifecycle	Company have an advanced technology and data analytics platform that covers all key areas and stages of its business, including customer sourcing, onboarding and underwriting as well as operations and collections. As such, company’s technology capabilities are benefiting its customers, its third-party partners as well as its sales teams. Company’s technology platform provides it with a competitive advantage by increasing its efficiency in sourcing and retaining revenue, increasing employee productivity and optimising its cost of operations. Company’s advanced technology and data analytics are also an important part of maintaining its credit quality.
High-quality liability franchise with access to low cost, diversified borrowing sources and the highest credit rating	Company have a diversified liability franchise supported by a strong credit rating of AAA stable by CRISIL and CARE, which is the highest that can be assigned on the credit rating scale for any NBFC in India, according to the CRISIL Report. This has allowed company to fund its operations at competitive rates and tenors across fixed and floating-rate debt instruments. Company’s Average Cost of Borrowings stood at 7.90% as at March 31, 2025, which is the sixth lowest amongst competitors.

OBJECTS OF OFFER

The Offer comprises the Fresh Issue and the Offer for Sale
Offer for Sale
The Offer includes an Offer for Sale aggregating to ₹100,000.0 million by the Promoter Selling Shareholder, amounting to approximately 80.00% of the total Offer size
Fresh Issue
Company proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting its Tier – I Capital base to meet company's future capital requirements including onward lending, arising out of the growth of its business.

RISKS

Company's Gross Stage 3 Loans amounted to 2.26% of Total Gross Loans as at March 31, 2025, which was an increase from 1.90% as at March 31, 2024. Non-payment or default by company's customers, its inability to provide adequate provisioning coverage for non-performing assets or change in regulatorily mandated provisioning requirements may adversely affect company's financial condition and results of operations.

Source:RHP

INDUSTRY OVERVIEW

OVERVIEW AND MARKET LANDSCAPE OF NBFC SECTOR IN INDIA

Systemic Credit

Corporate credit determines the growth in overall credit as it accounts for nearly two-third of systemic credit. The slowdown in economic activity, coupled with heightened risk aversion among lenders, tightened the overall credit growth to approximately 6.3% in Fiscal 2021. In Fiscal 2022, the systemic credit growth picked up steam despite the second wave of COVID-19 hurting economic growth in the first quarter of the fiscal. The retail credit has been a strong driving force behind the growth in overall credit. Retail credit witnessed a growth of 9% year-on-year during Fiscal 2021 and 13% during Fiscal 2022, while non-retail credit grew at a slower pace of 3% and 9% during Fiscal 2021 and Fiscal 2022.
The systemic credit grew at 10.5% year-on-year in Fiscal 2022 to reach approximately ₹161 trillion. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activities. In 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. Going ahead, CRISIL Intelligence projects systemic credit to grow at 13%-15% CAGR between FY 25 and FY 28.

Retail credit growth is projected to grow on a strong footing, 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.

NBFC Credit to grow faster than systemic credit

The credit growth of NBFCs which has trended above India's GDP growth historically, is expected to continue to rise at a faster pace. NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than ₹ 2 trillion AUM at the turn of the century to ₹ 48 trillion at the end of FY 25. During FY19 to FY 25 , NBFC credit is estimated to have witnessed a growth at CAGR of 13.2%. NBFCs AUM as of FY19 was approximately ₹ 23 trillion which grew at a 6 year CAGR of 13.2% to ₹ 48 trillion as of FY 25. Rapid revival in the economy is expected to drive consumer demand in FY 26, leading to healthy growth in NBFCs.

Financials (Mn)	FY23	FY24	FY25
Total Income	124028.80	141711.20	163002.80
Total Expenses	84450.80	97990.6	112594.3
Pre Provision Profit	39578.00	43720.60	50408.50
Provisions	13304.00	10673.90	21130.50
PBT	26274.00	33046.70	29278.00
Tax	6680.50	8438.30	7518.80
PAT	19593.50	24608.40	21759.20
Eq Cap	7,914.00	7,930.80	7,957.80
Net Worth	1,14,369.70	1,37,427.10	1,58,197.50
EPS	24.80	31.10	27.40
Book value	144.52	173.30	198.80
NIM %	8.25	7.85	7.56
ROE%	18.68	19.55	14.72
ROA%	2.97	3.03	2.16
CRAR%	15.91	14.12	14.67
GNPA%	2.73	1.90	2.26
NNPA%	0.95	0.63	0.99

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/B	ROE %	NAV
HDB Financial Services Limited	***10.00***	***27.3***	**--**	***14.72***	***198.80***
Peers					
Bajaj Finance Limited	1.00	26.89	5.9	19.35	155.60
Sundaram Finance Limited	10.00	170.53	4.0	15.48	1187.8
L&T Finance Limited	10.00	10.61	1.8	10.79	102.5
Mahindra & Mahindra Financial Services Limited	2.00	18.32	1.7	10.91	154.90
Cholamandalam Investment and Finance Company Limited	2.00	50.72	5.6	19.71	281.5
Shriram Finance Limited	2.00	50.82	2.2	18.17	300.30

(Source: RHP)

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