

HDB Financial services Ltd

Underbanked to Unlocked: HDB's Scalable Lending model

We recently attended the IPO analyst meet of HDB Financial Services, a subsidiary of HDFC Bank. The proposed IPO comprises a fresh equity issuance of Rs2,500cr along with an OFS of Rs10,000cr by the parent. HDB, an NBFC-UL, operates a diversified lending portfolio across Enterprise Lending (39%), Asset Finance (38%), and Consumer Finance (23%), catering to MSMEs, income-generating vehicle loans, and consumer credit segments. The company primarily serves the underserved and underbanked segments—largely LMH with limited or no formal credit history. As of FY25, over 80% of its 1,771 branches are located outside India's top 20 cities, with more than 70% situated in Tier-4 and smaller towns. The loan portfolio is highly granular, with the top 20 customers accounting for less than 0.34% of total gross advances. The average ticket size stood at approximately Rs1.65 lakh, with the portfolio mix comprising 73% secured and 27% unsecured loans. On the liabilities side, HDB benefits from a strong, diversified borrowing base, backed by the highest domestic credit ratings (CRISIL AAA/Stable and CARE AAA/Stable). At the IPO price of Rs740/share, the issue is valued at <3x FY26E P/ABV, which is at a steep discount to larger peers such as Bajaj Finance and Chola (refer exhibit 9), discounting relatively lower return ratios and growth. We recommend a SUBSCRIBE rating to the issue, supported by: 1) A robust brand franchise and granular retail lending model, 2) A wide-reaching omni-channel (phygital) distribution platform, and 3) Access to low-cost funding anchored by a AAA-rated credit profile

Diversified Asset and Liability profile

HDB 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

HDB 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, HDB 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.

Financial and valuation summary

YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24A	FY25A
NII	45,963	50,319	54,156	62,905	74,461
PPoP	35,695	38,133	39,578	43,721	50,409
Provisions	30,688	24,657	13,304	10,674	21,131
PAT	3,915	10,114	19,594	24,608	21,759
AUM growth (%)	4.6	(0.2)	14.0	28.8	18.5
NIM (%)	7.6	8.2	8.2	7.9	7.6
C / I (%)	49.5	52.2	55.5	53.0	49.1
GNPA (%)	4.5	5.0	2.7	1.9	2.2
RoA (%)	0.6	1.6	3.0	3.0	2.2
RoE (%)	4.8	11.2	18.7	19.5	14.7
P/BV (x)	6.9	6.1	5.1	4.3	3.7

Source: Bloomberg, Centrum Broking

IPO Note

India I NBFC

22 June, 2025

Subscribe

Price: Rs740.0

Target Price: NA

Forecast return: NA

Institutional Research

Details of offer

Particulars	Details
Price Band (Rs/sh)	Rs700-740
Opening Date of the issue	25th Jun 2025
Closing Date of the issue	27th Jun 2025
No. of shares pre issue	793.9mn
No. of shares post issue	827.7mn
Fresh Issue	Rs33.8mn
Issue size	Rs135.1mn
Minimum Bid Lot	20 shares
Book Building QIBs	44.9%
HNIs	13.5%
Retail	31.4%
Employee	0.2%
Shareholders	10.0%

Source: Company RHP, Centrum Broking

Shareholding Pattern	Pre Issue	Post Issue
Promoter %	94.32	74.18
Public %	5.68	25.82
Total	100.00	100.00

Source: Company RHP, Centrum Broking

* at the higher end of the issue price



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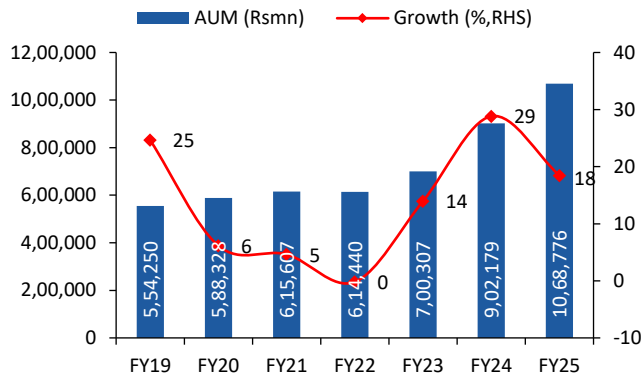
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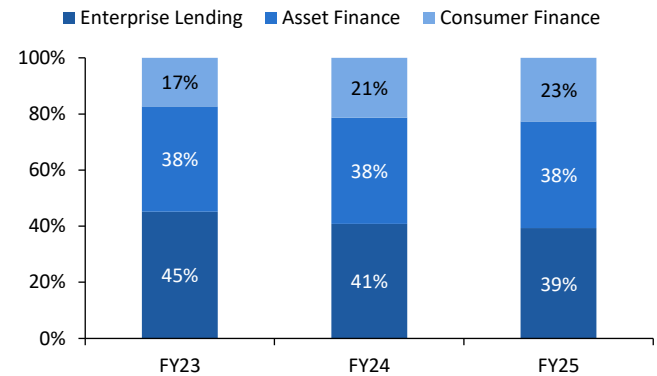
Story in Charts

Exhibit 1: AUM growth trend



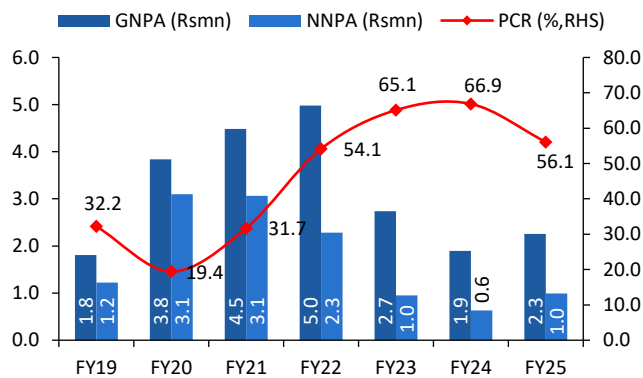
Source: Company Data, Centrum Broking

Exhibit 2: Gross advances mix



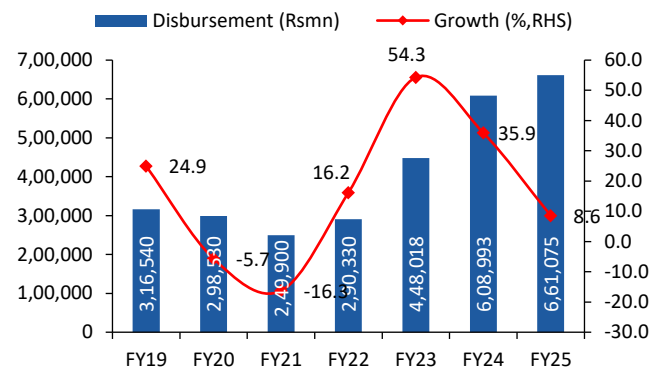
Source: Company Data, Centrum Broking

Exhibit 3: Asset quality trend



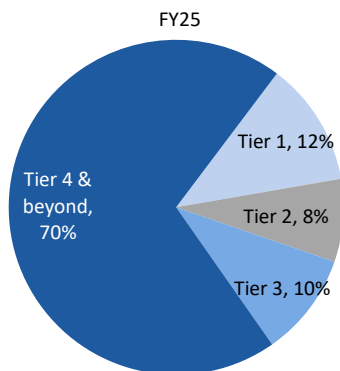
Source: Company, Centrum Broking

Exhibit 4: Disbursement trend



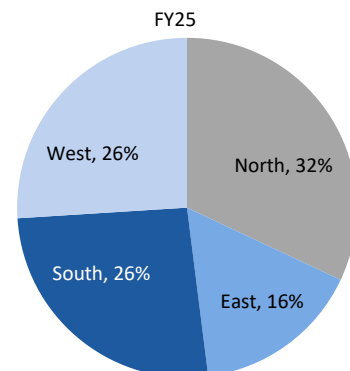
Source: Company, Centrum Broking

Exhibit 5: Strong presence beyond Metro Markets



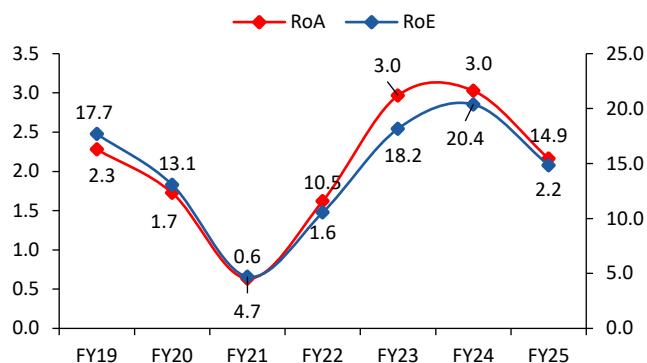
Source: Company, Centrum Broking

Exhibit 6: Presence across geographies



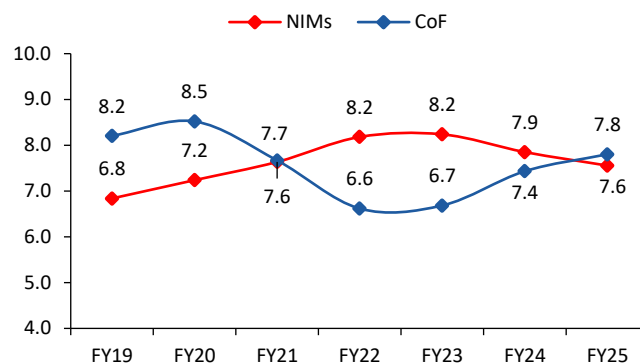
Source: Company, Centrum Broking

Exhibit 7: Return ratios trend



Source: Company, Centrum Broking

Exhibit 8: NIMs and CoF



Source: Company, Centrum Broking

Exhibit 9: Peer Comparison Table

Company	EPS (Rs.)				BVPS (Rs)				RoAA (%)				RoAE (%)			
	FY23A	FY24A	FY25A	FY26E	FY23A	FY24A	FY25A	FY26E	FY23A	FY24A	FY25A	FY26E	FY23A	FY24A	FY25A	FY26E
Bajaj Finance	17.0	20.7	26.9	33.8	90.0	124.4	155.7	180.1	5.3	5.1	4.6	4.1	23.5	22.1	19.2	19.9
Chola	32.4	41.2	51.8	66.9	173.8	232.7	281.2	346.2	2.7	2.5	2.4	2.5	20.5	20.2	19.7	20.9
HDB Financial	24.8	31.0	27.3	39.3	138.2	167.9	188.8	249.3	3.0	3.0	2.2	2.7	18.2	20.4	14.9	17.4

Company	CMP (Rs)	Rating	TP (Rs)	P/E (x)				PABV (x)				P/BV (x)			
				FY23A	FY24A	FY25A	FY26E	FY23A	FY24A	FY25A	FY26E	FY23A	FY24A	FY25A	FY26E
Bajaj Finance	902	NR	-	29.5	30.6	33.3	26.8	10.2	7.3	6.0	5.1	10.0	5.8	5.7	5.0
Chola	1,550	Add	1726	47.8	37.6	29.9	23.9	10.2	7.4	6.1	5.1	8.9	6.7	5.5	4.6
HDB Financial	740	Subscribe	-	29.9	23.8	27.1	18.8	5.4	4.4	3.9	3.0	5.1	4.3	3.7	2.8

Source: Company, Centrum Broking

Exhibit 10: PEER COMPARISON ON KPIs

Particulars	HDB Financial Services			Bajaj Finance			Cholamandalam Invst		
	FY2025	FY2024	FY2023	FY2025	FY2024	FY2023	FY2025	FY2024	FY2023
No. of Customers (in million)	19.2	15.8	12.2	101.8	83.6	69.1	4.4	3.6	-
No. of Branches (count)	1,771	1,682	1,492	-	-	-	1,613	1,387	1,191
No. of Locations (count)	1,170	1,148	1,054	4,263	4,145	3,733	-	-	-
No. of Total Employees (count)	60,432	56,560	45,883	61,269	50,653	39,781	64,941	38,235	13,248
Total Gross Loans by verticals*									
- Enterprise Lending (₹ Cr)	42,005.9	36,822.6	31,618.7	-	-	-	-	-	-
- Asset Finance (₹ Cr)	40,648.8	34,194.7	26,326.3	-	-	-	-	-	-
- Consumer Finance (₹ Cr)	24,222.9	19,200.7	12,085.7	-	-	-	-	-	-
Total Gross Loans (₹ Cr)	1,06,877.6	90,217.9	70,030.7	-	2,47,852.5	1,82,938.0	1,85,340.0	1,46,945.00	1,07,077.2
Total Gross Loans Growth y-o-y% %	18.5%	28.8%	14.2%	-	35.5%	23.4%	26.1%	37.2%	40.7%
Secured Loans as % of Total Gross Loans	73.0%	71.3%	72.9%	-	48.5%	44.4%	-	91.0%	93.2%
Net Interest Income (₹ Cr)	7,445.6	6,292.4	5,415.9	33,111.2	26,939.3	20,856.6	11,235.1	8,383.1	6,333.4
Other Financial Charges (₹ Cr)	1,192.5	953.1	756.4	5,640.9	5,007.4	4,204.0	1,666.5	1,046.6	524.4
Net Total Income (₹ Cr)	8,693.5	7,357.3	6,257.0	40,982.5	33,102.5	26,401.3	13,569.9	9,985.7	7,229.2
Credit Cost (₹ Cr)	2,113.1	1,067.4	1,330.4	7,882.9	4,572.2	3,066.5	2,494.3	1,321.8	849.7
Profit after Tax (PAT) (₹ Cr)	2,175.9	2,460.8	1,959.4	16,661.5	12,644.1	10,289.7	4,258.5	3,422.8	2,666.2
PAT growth y-o-y% %	-11.6%	25.6%	93.7%	31.8%	22.9%	62.0%	24.4%	28.4%	24.2%
EPS (₹)	27.4	31.0	24.8	269.3	207.3	170.4	50.7	41.2	32.5
Average Yield	14.0%	13.9%	13.6%	18.82%	18.9%	18.2%	14.3%	13.9%	13.2%
Average Cost of Borrowings	7.9%	7.5%	6.8%	7.4%	7.3%	6.5%	8.1%	8.0%	6.9%
Net Interest Margin	7.6%	7.9%	8.3%	12.09%	12.5%	12.6%	6.8%	6.6%	6.9%
Cost to Income Ratio	42.8%	42.7%	39.0%	34.1%	34.7%	35.8%	39.3%	40.9%	38.5%
Operating Expense Ratio	3.8%	3.9%	3.7%	5.10%	5.3%	5.7%	3.2%	3.2%	3.0%
Credit Cost Ratio	2.1%	1.3%	2.0%	2.88%	2.1%	1.9%	1.5%	1.0%	0.9%
Gross Stage 1 & 2 Loans (₹ Cr)	1,04,463.9	88,506.1	68,115.9	-	2,45,252.2	1,80,762.5	-	1,43,300.2	103,855.6
Gross Stage 3 Loans (₹ Cr)	2,413.7	1,711.8	1,914.9	-	2,600.4	2,175.5	-	3,644.8	3,221.6
Gross Non-Performing Assets (GNPA)	2.3%	1.9%	2.7%	1.2%	1.1%	1.2%	2.8%	2.5%	3.0%
Net Non-Performing Assets (NNPA)	1.0%	0.6%	1.0%	0.6%	0.5%	0.4%	1.6%	1.3%	1.6%
Provision Coverage Ratio (PCR)	56.0%	66.8%	65.1%	52.5%	56.5%	63.8%	45.3%	46.5%	46.0%
Provisioning Coverage on Stage 1 & 2 loans	2.1%	2.7%	3.5%	1.5%	1.2%	1.4%	0.6%	0.6%	0.8%
Total Equity (₹ Cr)	15,819.8	13,742.7	11,437.0	87,995.7	72,010.5	51,493.1	23,627.4	19,556.5	14,296.1
Return on Equity (ROE)	14.7%	19.6%	18.7%	20.8%	20.5%	22.0%	19.7%	20.2%	20.5%
Return on Assets (ROA)	2.2%	3.0%	3.0%	5.0%	4.9%	5.4%	2.4%	2.5%	2.7%
Total Borrowings (₹ Cr)	87,397.8	74,330.7	54,865.3	2,75,217.6	2,20,378.7	1,61,684.6	174,946.1	1,34,473.6	97,356.1
Debt to Equity Ratio	5.9	5.8	5.3	3.2	3.1	3.2	7.7	7.1	7.1
CRAR – Tier I	14.7%	14.1%	15.9%	-	21.5%	23.2%	14.4%	15.1%	14.8%
CRAR – Tier II	4.6%	5.1%	4.1%	-	1.0%	1.8%	5.3%	3.5%	2.4%
Total Disbursements by verticals*									
Enterprise Lending (₹ Cr)	18,503.5	17,358.9	14,107.5	-	-	-	-	-	-
Asset Finance (₹ Cr)	22,008.9	20,983.0	15,869.5	-	-	-	-	-	-
Consumer Finance (₹ Cr)	25,595.1	22,557.3	14,824.7	-	-	-	-	-	-
Total Disbursements (₹ Cr)	66,107.5	60,899.3	44,801.8	-	-	-	1,00,869.0	88,725.0	66,532.0
Breakdown of Branches by Region									
- East (%)	16.5%	16.4%	14.5%	-	-	-	30.3%	29.7%	30.4%
- North (%)	31.6%	32.2%	33.1%	-	-	-	23.9%	22.5%	22.3%
- South (%)	26.5%	25.8%	25.6%	-	-	-	21.9%	23.3%	22.5%
- West (%)	25.5%	25.6%	26.7%	-	-	-	23.9%	24.5%	24.9%

Source: RHP

Exhibit 11: ROAE tree

	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Interest income	13.30%	14.10%	13.80%	13.40%	13.50%	13.70%	13.80%
Interest expense	6.60%	7.00%	6.30%	5.30%	5.30%	6.00%	6.40%
Net Interest Income	6.80%	7.10%	7.50%	8.10%	8.20%	7.70%	7.40%
Other Income	3.90%	4.40%	4.00%	4.70%	5.30%	3.70%	2.40%
Total Income	10.70%	11.50%	11.40%	12.80%	13.50%	11.40%	9.90%
Employee expenses	5.00%	5.50%	4.80%	5.60%	6.10%	4.70%	3.60%
Other expenses	0.90%	1.00%	0.90%	1.10%	1.30%	1.30%	1.20%
Total Expenses	5.99%	6.47%	5.66%	6.69%	7.47%	6.07%	4.84%
PPOP	4.70%	5.00%	5.80%	6.10%	6.00%	5.40%	5.00%
Credit costs	1.30%	2.50%	5.00%	4.00%	2.00%	1.30%	2.10%
PBT	3.40%	2.50%	0.80%	2.20%	4.00%	4.10%	2.90%
Tax	1.10%	0.80%	0.20%	0.50%	1.00%	1.00%	0.70%
RoAA	2.28%	1.73%	0.63%	1.62%	2.97%	3.03%	2.16%
Leverage	7.8	7.6	7.4	6.5	6.1	6.7	6.9
RoAE	17.70%	13.10%	4.70%	10.50%	18.20%	20.40%	14.90%

Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24A	FY25A
Interest income	84,793	83,574	89,275	1,11,548	1,38,363
Interest expense	38,829	33,255	35,119	48,643	63,902
NII	45,963	50,319	54,156	62,905	74,461
Other income	24,655	29,489	34,754	30,164	24,640
Total income	70,619	79,808	88,910	93,068	99,101
Operating expenses	34,924	41,675	49,332	49,347	48,693
Employee	29,556	35,004	40,576	38,508	36,196
Others	5,368	6,671	8,756	10,840	12,497
PPOP	35,695	38,133	39,578	43,721	50,409
Provisions	30,688	24,657	13,304	10,674	21,131
PBT	5,007	13,476	26,274	33,047	29,278
Tax	1,092	3,362	6,681	8,438	7,519
PAT	3,915	10,114	19,594	24,608	21,759

Ratios					
YE Mar	FY21A	FY22A	FY23A	FY24A	FY25A
Growth (%)					
AUM	4.6	(0.2)	14.0	28.8	18.5
Borrowings	0.4	(3.3)	14.5	33.8	18.5
NII	11.2	9.5	7.6	16.2	18.4
Other income	(2.9)	19.6	17.9	(13.2)	(18.3)
Opex	(7.3)	19.3	18.4	0.0	(1.3)
PPoP	22.8	6.8	3.8	10.5	15.3
Provisions	112.9	(19.7)	(46.0)	(19.8)	98.0
PAT	(61.0)	158.4	93.7	25.6	(11.6)
Profitability (%)					
Yield on advances	14.1	13.6	13.6	13.9	14.0
Cost of funds	7.7	6.6	6.7	7.4	7.8
NIM (on AuM)	7.6	8.2	8.2	7.9	7.6
Other Income/ Total Income	34.9	36.9	39.1	32.4	24.9
Other Income / Total Assets	3.9	4.8	5.0	3.3	2.3
Cost/Income	49.5	52.2	55.5	53.0	49.1
Employee	41.9	43.9	45.6	41.4	36.5
Others	7.6	8.4	9.8	11.6	12.6
Opex/ Avg AuM	5.8	6.8	7.5	6.2	4.9
Provisions	5.1	4.0	2.0	1.3	2.1
Tax Rate	21.8	24.9	25.4	25.5	25.7
RoA	0.6	1.6	3.0	3.0	2.2
RoE	4.8	11.2	18.7	19.5	14.7

DuPont (% avg assets)					
YE Mar	FY21A	FY22A	FY23A	FY24A	FY25A
Interest income	13.7	13.4	13.5	13.7	13.8
Interest expense	6.3	5.3	5.3	6.0	6.4
NII	7.5	8.1	8.2	7.7	7.4
Other income	4.0	4.7	5.3	3.7	2.4
Total income	11.4	12.8	13.5	11.4	9.9
Operating expenses	5.7	6.7	7.5	6.1	4.8
Employee	4.8	5.6	6.1	4.7	3.6
Others	0.9	1.1	1.3	1.3	1.2
PPOP	5.8	6.1	6.0	5.4	5.0
Provisions	5.0	4.0	2.0	1.3	2.1
PBT	0.8	2.2	4.0	4.1	2.9
Tax	0.2	0.5	1.0	1.0	0.7
PAT	0.6	1.6	3.0	3.0	2.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24A	FY25A
Financial assets	6,11,707	6,00,799	6,82,797	9,08,041	10,63,874
Cash	9,764	6,840	6,538	7,025	9,843
Loans	5,86,014	5,71,625	6,63,827	8,67,213	10,33,430
Investment	15,929	22,335	12,433	33,803	20,601
Non-financial assets	14,703	19,460	17,707	17,524	22,759
Deferred tax assets	7,300	10,512	10,009	9,399	8,832
Fixed Assets	915	781	1,224	1,625	2,431
Other Non-fin. assets	6,488	8,167	6,474	6,500	11,496
Total Assets	6,26,411	6,20,259	7,00,504	9,25,565	10,86,633
Financial liabilities	4,63,711	4,48,340	5,13,242	6,86,825	8,13,941
Borrowings	4,63,711	4,48,340	5,13,242	6,86,825	8,13,941
Non-financial liabilities	78,237	76,521	72,892	1,01,313	1,14,495
Other Non-fin liabilities	78,237	76,521	72,892	1,01,313	1,14,495
Total equity	84,462	95,397	1,14,370	1,37,427	1,58,198
Share capital	7,892	7,904	7,914	7,931	7,958
Other equity	76,571	87,493	1,06,456	1,29,496	1,50,240
Total Liabilities	6,26,411	6,20,259	7,00,504	9,25,565	10,86,633
Balance Sheet ratios (%)					
Debt / Equity	5.5	4.7	4.5	5.0	5.1
Assets / Equity	7.5	6.9	6.3	6.5	6.8
Cash / Borrowings	2.1	1.5	1.3	1.0	1.2
Details on loans					
AUM	6,15,607	6,14,440	7,00,307	9,02,179	10,68,776
Disbursements	2,49,900	2,90,330	4,48,018	6,08,993	6,61,075
Capital Adequacy (%)					
CRAR	18.9	20.2	30.1	19.2	19.2
Tier-1	13.4	18.9	15.9	14.1	14.7
Tier-2	5.4	5.0	14.1	5.1	4.5
Asset quality (%)					
GNPA (Rs mn)	27,609	30,588	19,162	17,136	24,205
Growth (%)	22.2	10.8	(37.4)	(10.6)	41.3
NNPA (Rs mn)	18,861	14,029	6,688	5,680	10,631
Growth (%)	3.6	(25.6)	(52.3)	(15.1)	87.2
GNPA	4.5	5.0	2.7	1.9	2.2
NNPA	3.1	2.3	1.0	0.6	1.0
PCR	31.7	54.1	65.1	66.9	56.1
NNPA / Equity	22.3	14.7	5.8	4.1	6.7
Per share (Rs)					
EPS	5.0	12.8	24.8	31.0	27.3
BVPS	107.0	120.7	144.5	173.3	198.8
ABVPS	89.1	107.4	138.2	167.9	188.8
DPS	0.0	0.0	0.0	0.0	0.0
Valuation (x)					
P/E	149.2	57.8	29.9	23.8	27.1
P/BV	6.9	6.1	5.1	4.3	3.7
P/ABV	8.3	6.9	5.4	4.4	3.9
Dividend yield	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

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