Jefferies

India | Consumer Finance

HDB Financial Services

Equity Research
April 15, 2026

March Q Results: Profit Beat; Margins and Provision Surprise Positively

For March Q, HDB's PAT was Rs7.5bn (42% YoY), 3% beat vs. JEFe on lower provn. AUM growth eased to 11%, but disbursement growth picked up. NIMs (14bps QoQ) surprised positively on lower CoF. AQ trends improved across segments. Mgmt flags no major impact of W.Asia conflict on growth/ collections yet, but we factor some drag. We expect pick up in AUM growth, lower credit costs & range bound NIMs to drive 22% EPS CAGR & ROE expansion to 15%+ by FY28e. Buy.

AUM growth moderates, but disbursement growth improves: For March Q, AUM grew 11% YoY to Rs1.15trn (12% 3Q), tad below our est. Disbursement growth at 13% YoY (10% 3Q) was ahead, but higher rundown rates dragged loan growth. AUM growth moderated in enterprise segment (7% YoY vs 9% 3Q) and asset finance (10% vs 13% 3Q), while in consumer finance improved to 19% YoY (16% 3Q). Disbursement growth in enterprise and consumer finance picked up, but asset finance (vehicle) disbursements fell 1%. Disbursement growth were led by consumer durable, PVs, unsecured BL and LAP. It expects to push growth as asset quality pressures are easing. Management sees no material impact of the W.Asia conflict on growth/ collections so far, but stays watchful—swift supply-chain normalisation is important per mgmt. With secured mix of 74% vs. mgmt comfort zone of 70-72%, mgmt sees scope for scaling up unsecured BL. We trim our growth est. factoring slower growth in asset finance & higher rundown rates and forecast AUM growth of 15.6% in FY27e (FY26e 11%) and 18.3% in FY28e.

Margin surprise positively on lower CoF: 4Q NIMs rose 14 bps QoQ to 8.2% vs. our 8.1% est. Avg yields fell 10 bps QoQ due to product mix, while CoF fell c.35bps QoQ reflecting impact of Dec repo rate cut. Despite some rise in bond yields and marginal CoF, mgmt sees CoF to stay stable in 1Q. Mgt guided for similar margins in 1QFY27 & ~8%+ over the medium term. We expect some inch up in CoF from 4Q lows, but see overall NIMs holding up at 8% in FY27; we expect NIM to dip slightly in FY28e.

Asset quality improves, credit cost surprise positively: GS3 improved 36bps QoQ to 2.4% (GS2: -50bps QoQ), while net slippages fell sharply by 190bps QoQ to 0.9%. Improvement was broad-based: vehicle (GS3 -50bps QoQ), consumer (-30bps) and enterprise (-20bps). Recoveries from hard buckets stays sluggish, but forward flows have slowed and rollbacks on recent slippages have been healthy. We forecast credit cost at 2.4%/2.1% in FY27/28e (FY26 2.5%).

Trim estimates; Retain Buy: We trim our FY27-28e by 4%, factoring in tad lower growth and NIMs. We expect profit to grow at 22% CAGR over FY26-28e and ROE to improve c.15% by FY28e (13.9% FY26e). HDB is down 16% YTD and is trading at 2.3x FY27e BV (18x FY27e PE). We retain Buy with a revised PT of Rs845 (Rs900) based on slightly lower multiple of 2.5x June 28e BV (2.7x March 28e). This factors slightly slower growth and higher bond yields that usually affects sector valuations.

FY (Mar)	2026A	2027E	2028E	2029E
EPS	31.14	35.92	46.49	56.00
EPS Growth	14.0%	15.3%	29.4%	20.5%
P/B	2.5x	2.2x	1.9x	1.6x
ROE	14%	14%	15%	16%

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	INR615.20^
PRICE TARGET | % TO PT	↓INR845 (INR900) | +37%
52W HIGH-LOW	INR891.65 - INR557.00
FLOAT (%) | ADV MM (USD)	24.6% | 735.43
MARKET CAP	INR510.8B | INR510.8B
TICKER	HDBFS IN

^Prior trading day's closing price unless otherwise noted.

FY (Mar)	CHANGE TO JEFe		JEF vs CONS	
	2027	2028	2027	2028
REV	NA	NA	NA	NA
EPS	-4%	-4%	NA	NA

2027 (INR)	Q1	Q2	Q3	Q4	FY
EPS	--	--	--	--	↓35.92
PREV					37.32

Exhibit 1 - HDB: Summary Key Metrics

	FY26	FY27E	FY28E	FY29E
AUM (Rs bn)	1,187	1,372	1,623	1,930
AUM growth (% YoY)	11%	16%	18%	19%
Net Profit (Rs bn)	25.4	29.8	38.6	46.5
EPS (Rs/share)	31.1	35.9	46.5	56.0
ROA	2.2%	2.2%	2.5%	2.5%
ROE	14%	14%	15%	16%
P/BV	2.6	2.3	2.0	1.7
P/E	20.7	17.9	13.9	11.5

Source: Company data, Jefferies estimates

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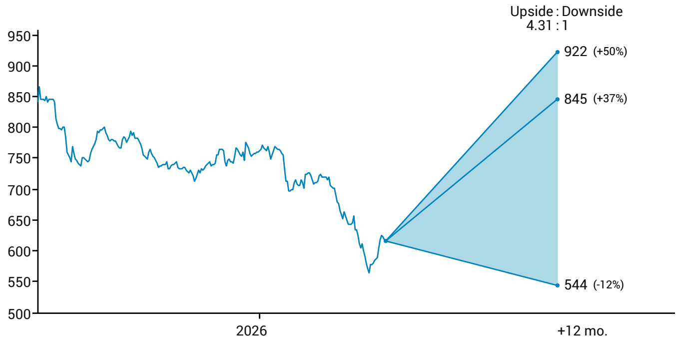
The Long View: HDB Financial Services

Investment Thesis

- While there are near-term growth headwinds, we expect AUM growth to stabilise in 2H and gain momentum FY27e onward.
- NIMs should expand due to easing rates and some changes in loan mix in the medium term.
- We expect asset quality pressure to stabilise in 2H and improve in FY27; credit cost should moderate too.
- We expect modest growth in earnings in FY26 but see healthy recovery in earnings and returns over FY26-28; this should support valuation multiples.

Risk/Reward - 12 Month View



Base Case,
INR845, +37%

- Consolidated AUM CAGR of 17% (over FY26-28e)
- Avg. consolidated NIMs of 7.9% over FY26-28e
- Consolidated GNPA 2.4% and NNPA 1.1% in FY27e
- Valuation at 2.5x P/BV Jun-28E

Upside Scenario,
INR922, +50%

- Consolidated AUM CAGR of 19% (over FY26-28e)
- Avg. consolidated NIMs of 8.2% over FY26-28e
- Consolidated GNPA 2.2% and NNPA 0.9% in FY27e
- Valuation at 2.7x P/BV Jun-28E

Downside Scenario,
INR544, -12%

- Consolidated AUM CAGR of 15% (over FY26-28e)
- Avg. consolidated NIMs of 7.7% over FY26-28e
- Consolidated GNPA 2.6% and NNPA 1.3% in FY26e
- Valuation at 1.6x P/BV Jun-28E

Sustainability Matters

Top Material issue(s): 1) Lending practices/Selling Practices - lending practices, proper compliance with underwriting standards, little or no promoter/mgmt influence over lending decisions. 2) ESG incorporation into credit analysis - credit flow to sectors focused on environment-friendly products, sectors promoting socioeconomic causes. **3) Customer Privacy & Data Security -** investment in core tech infra and people to protect against cyberattacks and data breaches. 4) Responsible Finance.

Company Target(s): 1) Ensure financial inclusion by offering loans for business, consumer and purchase of old and new vehicles that contribute toward economy. 2) Operational eco efficiency - digital agreements are 16% of total. 3) Employee training and development - have equal opportunity policy & talent development pipeline. 4) Have a grievance redress policy.

Qs to Mgmt: 1) What steps is the company taking to provide cybersecurity and data privacy to customers? 2) What are the company's initiatives in employee training/re-skilling?

Catalysts

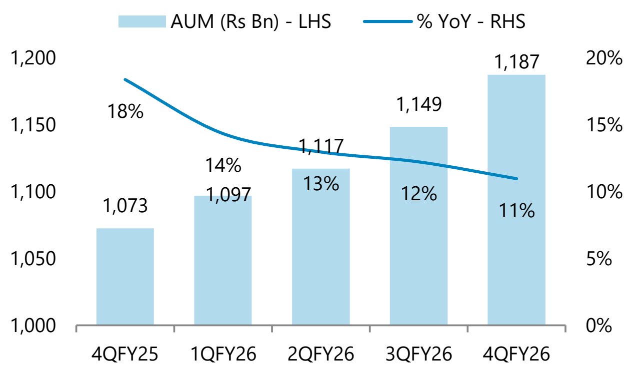
- Pickup in economic activity and credit demand for key segments.
- Sharper-than-expected NIM expansion.
- Improvement in asset quality environment and sharper-than-expected reduction in credit costs.

Exhibit 2 - HDB:4QFY26 results summary

Particulars (Rs mn)	4QFY25	3QFY26	4QFY26	% YoY	% QoQ
Income statement					
Interest income	36,233	39,890	40,813	13%	2%
Interest Expended	16,505	17,040	16,825	2%	-1%
Net Interest Income	**19,728**	**22,850**	**23,988**	**22%**	**5%**
Other operating income	3,395	3,783	3,706	9%	-2%
Lending revenue	**23,123**	**26,633**	**27,694**	**20%**	**4%**
Sale of services- BPO revenue	3,033	3,062	2,935	-3%	-4%
Total Revenue	**26,156**	**29,695**	**30,629**	**17%**	**3%**
Operating Expenditure	12,775	13,360	13,671	7%	2%
BPO expenses	2,857	2,882	2,729	-4%	-5%
Operating profit	**13,381**	**16,335**	**16,958**	**27%**	**4%**
Core PPOP	**13,205**	**16,155**	**16,752**	**27%**	**4%**
Total provisions	6,338	7,122	6,846	8%	-4%
Lending PBT	**6,867**	**8,980**	**9,906**	**44%**	**10%**
Provision for Tax	1,733	2,354	2,606	50%	11%
Lending PAT	**5,134**	**6,626**	**7,300**	**42%**	**10%**
PAT overall	**5,310**	**6,859**	**7,506**	**41%**	**9%**
Exceptional item	-	(420)	-	NA	NA
PAT (post exceptional items)	**5,134**	**6,439**	**7,506**	**46%**	**17%**
Loan Book (Rs bn)					
AUM	**1,072,620**	**1,148,530**	**1,187,330**	**11%**	**3%**
Enterprise Lending	420,059	439,976	447,904	7%	2%
Asset Finance	406,488	435,393	446,719	10%	3%
Consumer Finance	242,229	270,402	289,123	19%	7%
Gross Loans	**1,067,800**	**1,145,770**	**1,184,930**	**11%**	**3%**
Disbursements	176,430	179,170	199,220	13%	11%
Loan quality					
Gross Stage 3 (Rs bn)	24	32	29	20%	-10%
Gross Stage 3 (%)	2.3%	2.8%	2.4%	18bps	-36bps
Net Stage 3 (Rs bn)	11	14	13	21%	-10%
Stage 3 ECL coverage	56%	56%	56%	-43bps	-6bps
Ratios					
Yields (% of loans)- calc.	14.1%	14.1%	14.0%	-6bps	-11bps
COF (% of loans)- calc.	7.6%	7.3%	6.9%	-71bps	-35bps
NIM (% of loans) - calc.	7.56%	8.09%	8.23%	68bps	14bps
NIM (% of AUM) - calc.	7.56%	8.09%	8.23%	68bps	14bps
Credit costs (% of avg. loans)	2.4%	2.5%	2.35%	-8bps	-17bps
ROA	3.4%	2.4%	2.5%	-90bps	10bps
Total Capital Adequacy (%)	19.2%	21.8%	21.4%	218bps	-41bps

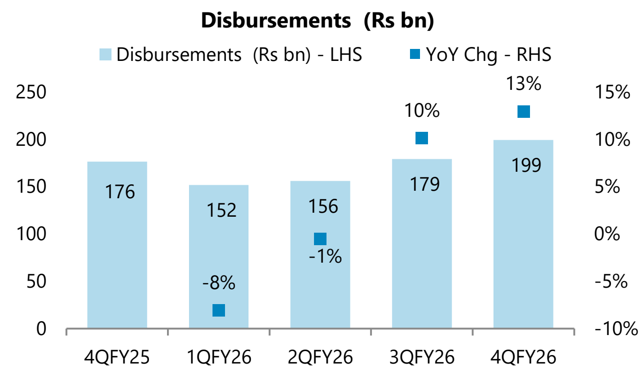
Source: Company data, Jefferies

Exhibit 3 - AUM growth moderated to 10.7% in March Q



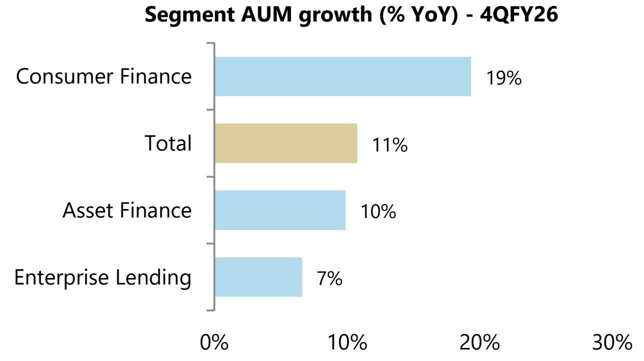
Source: Company data, Jefferies

Exhibit 4 - Disbursement growth improved to 13% YoY led by growth in Consumer and Enterprise lending segments



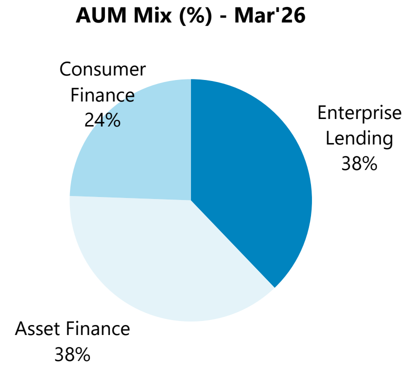
Source: Company data, Jefferies

Exhibit 5 - Loan growth improved for Consumer segment while moderated across Asset finance and Enterprise lending segments



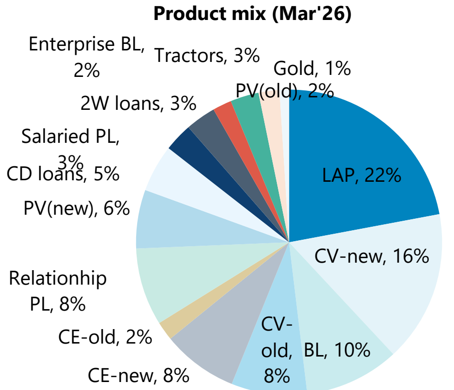
Source: Company data, Jefferies

Exhibit 6 - AUM mix was stable QoQ



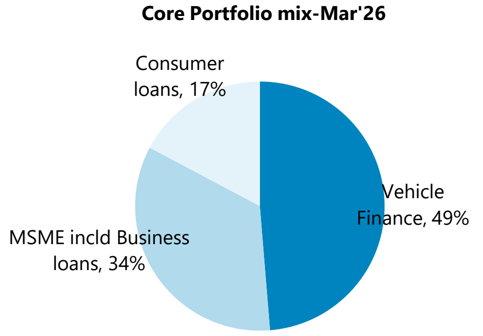
Source: Company data, Jefferies

Exhibit 7 - LAP, unsecured BL, PV and consumer durable loans saw pick up in momentum



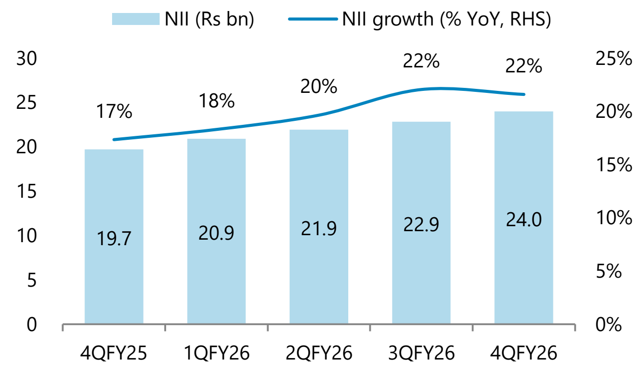
Source: Company data, Jefferies

Exhibit 8 - VF forms ~49% of the AUM mix as of Mar'26



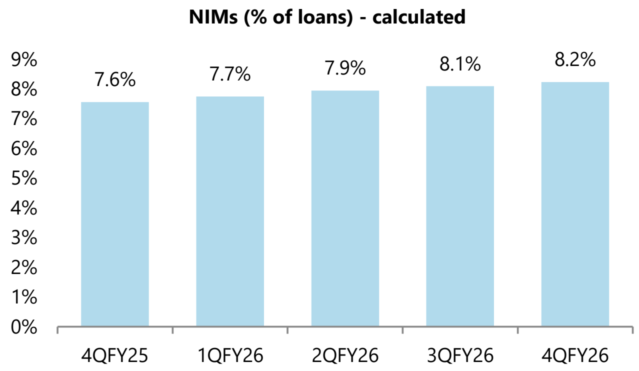
Source: Company data, Jefferies

Exhibit 9 - NII growth was stable QoQ in 4QFY26



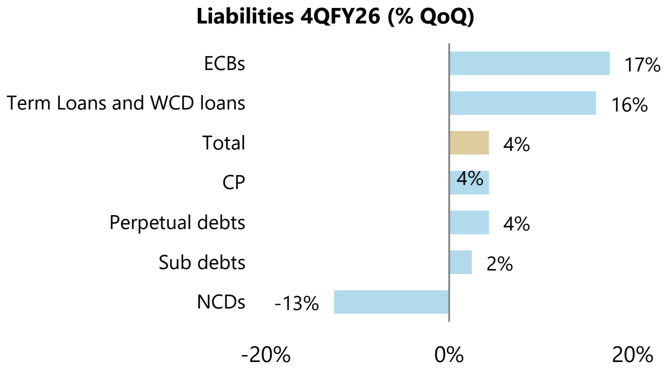
Source: Company data, Jefferies

Exhibit 10 - Margins expanded and surprised positively as lower yields due to mix changes was more than offset by fall in CoF



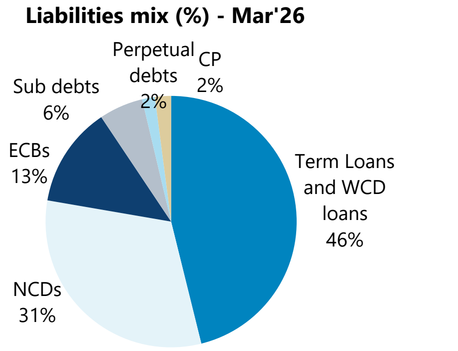
Source: Company data, Jefferies

Exhibit 11 - Mix of term loans and ECBs increased during the Ma Q



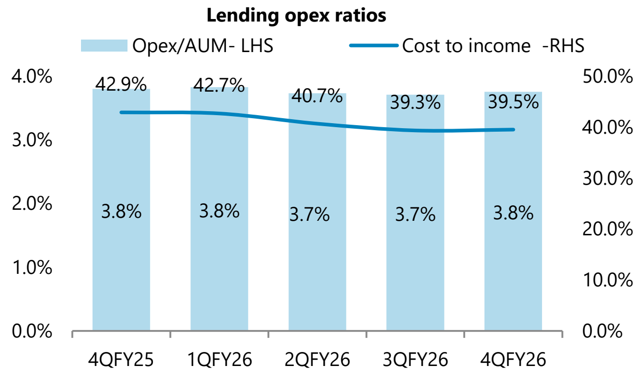
Source: Company data, Jefferies

Exhibit 12 - Mix of terms loans increased to 46% in Mar Q (40% in 3QFY26)



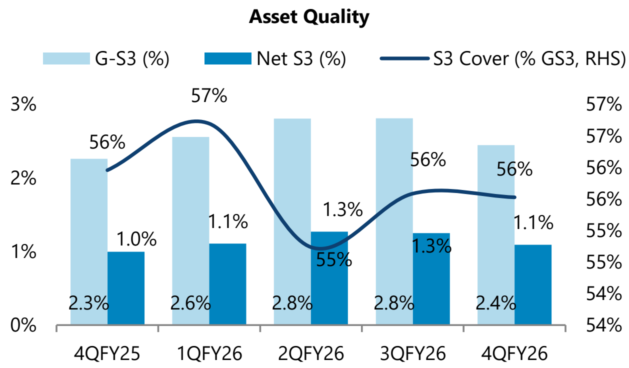
Source: Company data, Jefferies

Exhibit 13 - Mgt has guided for opex to AUM of 3.7% in medium term



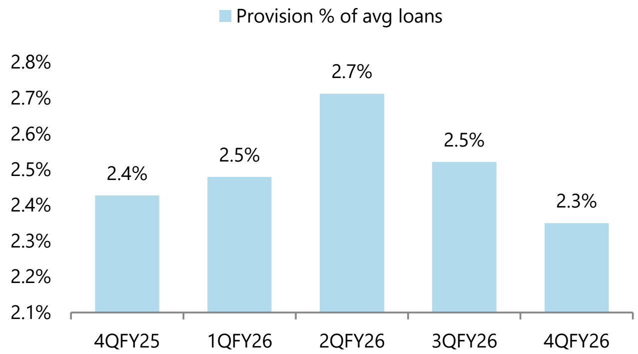
Source: Company data, Jefferies

Exhibit 14 - GS3 improved sequentially, driven largely by better asset quality across segments



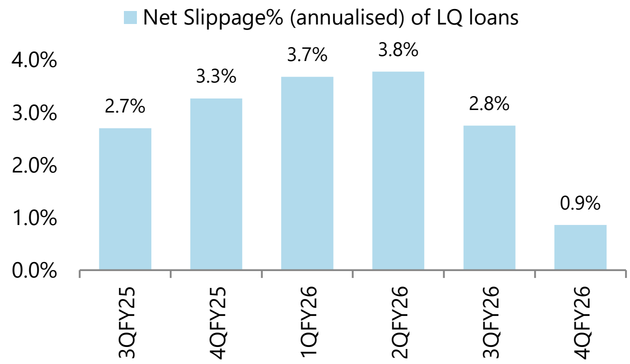
Source: Company data, Jefferies

Exhibit 15 - Credit costs came in tad better than our est in Mar Q



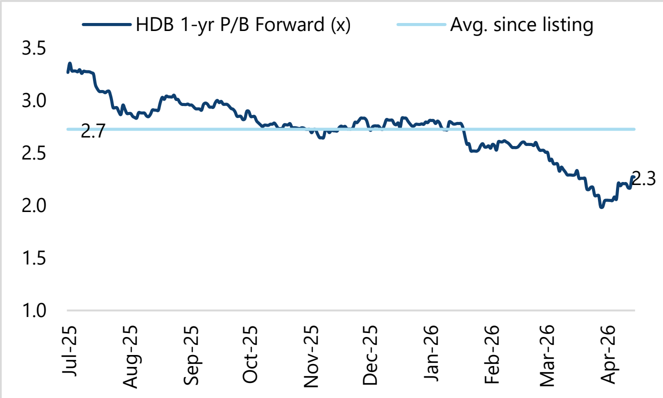
Source: Company data, Jefferies

Exhibit 16 - Slippages improved sharply by 190bps QoQ in 4QFY26



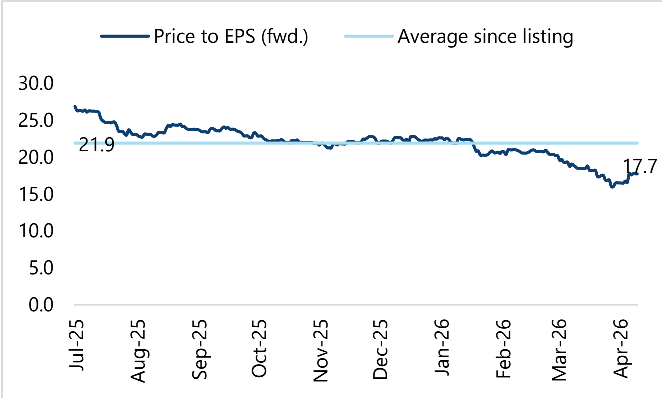
Source: Company data, Jefferies

Exhibit 17 - HDB trades at 2.3x FY1PB at a discount to its average valuations since listing



Source: Company data, Jefferies estimates

HDB is trading at a 17.7x 1YF PE



Source: Company data, Jefferies estimates

Exhibit 18 - HDB: Summary Profit and Loss

Income Statement (Rsm)	FY25	FY26	FY27E	FY28E	FY29E
Interest income	138,358	157,883	177,487	208,776	249,430
Interest expense	63,902	68,202	75,442	90,127	109,692
Net interest income	**74,456**	**89,681**	**102,045**	**118,649**	**139,737**
Other income	12,478	14,175	16,171	18,901	22,381
Lending Revenue	**86,934**	**103,856**	**118,216**	**137,550**	**162,118**
Sale of revenue	12,167	12,239	12,000	12,000	12,000
Total income	**99,101**	**116,095**	**130,216**	**149,550**	**174,118**
Lending Opex	37,239	42,047	48,284	55,123	63,239
BPO Opex	11,454	11,427	11,204	11,204	11,204
Operating expenses	48,693	53,474	59,488	66,327	74,443
Pre-provision Profit	**50,408**	**62,621**	**70,728**	**83,223**	**99,676**
Total Provision	21,130	28,148	30,716	31,456	37,315
PBT	**29,278**	**34,473**	**40,012**	**51,766**	**62,361**
Provision for Tax	7,519	8,615	10,203	13,200	15,902
PAT	**21,759**	**25,858**	**29,809**	**38,566**	**46,459**
Reported PAT	**21,759**	**25,858**	**29,809**	**38,566**	**46,459**

Source: Company data, Jefferies estimates

Exhibit 19 - HDB: Summary Balance sheet

Balance Sheet (Rsm)	FY25	FY26	FY27E	FY28E	FY29E
Advances	1,033,430	1,146,895	1,324,258	1,567,882	1,864,143
Investments	20,601	37,476	43,315	51,243	60,926
Fixed assets	7,351	7,735	8,895	10,230	11,764
Cash balances	9,843	16,736	17,744	23,800	27,912
Current assets/ DTA	15,408	27,673	31,787	35,230	41,887
Total Assets	**1,086,633**	**1,236,515**	**1,426,000**	**1,688,385**	**2,006,632**
Equity Capital	7,958	8,303	8,303	8,303	8,303
Reserves & Surplus	150,239	198,337	226,358	262,610	306,281
Shareholders' funds	**158,197**	**206,640**	**234,661**	**270,913**	**314,584**
Borrowings	873,977	992,301	1,147,910	1,366,095	1,630,963
Current liabilities/Other liabilities	54,459	37,574	43,429	51,377	61,085
Total Liabilities	**1,086,633**	**1,236,515**	**1,426,000**	**1,688,385**	**2,006,632**
AUM	**1,072,620**	**1,187,330**	**1,372,332**	**1,623,498**	**1,930,268**

Source: Company data, Jefferies estimates

Exhibit 20 - HDB: Key Summary metrics

Key Ratios	FY25	FY26	FY27E	FY28E	FY29E
EPS (Rs)	**27.3**	**31.1**	**35.9**	**46.5**	**56.0**
Earnings growth (% YoY)	-12%	14%	15%	29%	20%
PPP / Share	63	77	85	100	120
BV/share (Rs)	199	249	283	327	379
Adjusted BV / Share (Rs)	185	233	265	307	355
ROAA (% of avg. asset)	**2.2%**	**2.2%**	**2.2%**	**2.5%**	**2.5%**
ROAE (% of avg. net worth)	**14.7%**	**14.2%**	**13.5%**	**15.3%**	**15.9%**
NIM on book loan	7.8%	8.2%	8.3%	8.2%	8.1%
NIM (% of avg. on AUM)	7.5%	7.9%	8.0%	7.9%	7.9%
Gross NPLs (% of loans)	2.3%	2.4%	2.4%	2.3%	2.3%
Net NPLs (% of loans)	1.0%	1.1%	1.1%	1.1%	1.1%
Coverage (% of gross NPL)	56.0%	55.5%	55.5%	55.5%	55.5%
Capital Adequacy Ratio (% of RWA)	19.2%	20.7%	19.8%	18.8%	17.9%
- Tier I CAR (% of RWA)	14.7%	16.7%	16.4%	15.9%	15.5%
Cost/Income ratio (% of income)	49.1%	46.1%	45.7%	44.4%	42.8%
Cost Asset Ratio (% of avg. asset)	4.8%	4.6%	4.5%	4.3%	4.0%
Loan Growth (% YoY)	19.2%	11.0%	15.5%	18.4%	18.9%
AUM Growth (% YoY)	18.9%	10.7%	15.6%	18.3%	18.9%
Equity / Assets (%)	14.6%	16.7%	16.5%	16.0%	15.7%
Equity / Loans (%)	15.3%	18.0%	17.7%	17.3%	16.9%
Provision/ avg. AUM (%)	2.1%	2.5%	2.4%	2.1%	2.1%
Yield on AUMs (%)	14.6%	14.5%	14.4%	14.4%	14.5%
Cost of Funds (%)	7.9%	7.3%	7.1%	7.2%	7.3%

Source: Company data, Jefferies estimates

Exhibit 21 - HDB: Summary valuation

Valuations (June 2028e)	Rs
BVPS	340
Target PB (x)	2.5
Value of lending business (Rs)	843
Price target rounded off (Rs)	**845**
Implied P/E (x)	17.3
Implied EPS -June'28e	49

Source: Company data, Jefferies estimates

Company Description

HDB Financial Services

HDB Financial Services Limited, incorporated in 2007, is a leading retail-focused NBFC and a subsidiary of HDFC Bank. As of March 2025, HDB had an AUM of Rs1.07trn, with over 70% of loans backed by tangible assets and a diversified portfolio across Tier 2–4 cities. It is classified as an Upper Layer NBFC (NBFC-UL) by RBI and operates across three verticals: enterprise lending (39% of AUM as on FY25), asset finance (38%), and consumer finance (23%). The company also offers business process outsourcing (BPO) services to its Promoter, as well as fee-based products such as distribution of insurance products, primarily to its lending customers.

Company Valuation/Risks

HDB Financial Services

Our price target of Rs845 is based on 2.5x June-28e P/B. Downside risks include slower-than-expected recovery in auto volumes and loan growth, higher asset quality stress, and higher margin pressure.

Analyst Certification:

I, Bhaskar Basu, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Kamal Mulchandani, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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(Article 3(1)e and Article 7 of MAR)

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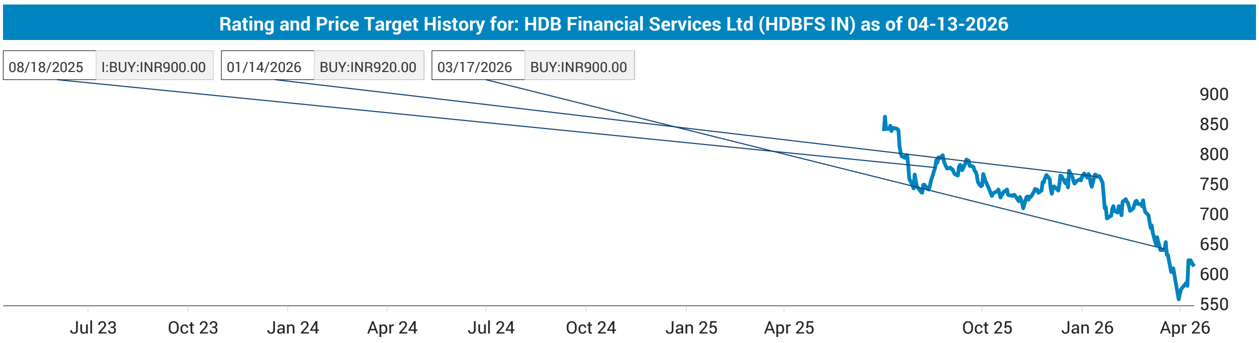

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