

IPO Report

Choice

“Subscribe For Long Term” to HDB Financial Services Ltd.

Strong brand play, but valuations leave limited upside



Salient features of the IPO:

- **HDB Financial Services Ltd.** (HFSL), is one of the leading, diversified retail-focused non-banking financial companies (NBFCs) in India in terms of total gross loan book size, is coming up with an IPO to raise around Rs. 12,500cr, which opens on 25th Jun. and closes on 27th Jun. 2025. The price band is Rs. 700 - 740 per share.
- The IPO is a combination of fresh issue (Rs. 2,500cr) and OFS portion (of Rs. 10,000cr). The company will not receive any proceeds from the OFS portion. The net proceeds from the fresh issue will be utilized to augment the Company’s Tier-I capital base, supporting its future capital requirements, including onward lending across its business verticals i.e. Enterprise Lending, Asset Finance, and Consumer Finance.
- One of the promoter & promoter group (P&PG) entities is participating in the OFS and is offloading 13.514cr equity shares. Post-IPO, the P&PG and public shareholders will have 74.19% and 25.58% stake in the company, respectively.

Key competitive strengths:

- Highly granular retail loan book, bolstered by a large and rapidly growing customer base with a focus on serving the underbanked customer segments
- Large, diversified and seasoned product portfolio with a sustainable track record of diversification, growth and profitability through the cycles
- Tailored sourcing supported by an omni-channel and digitally powered pan-India distribution network
- Comprehensive systems and processes contributing to robust credit underwriting and strong collections
- Advanced technology tools driving enhanced customer experience and efficiency across each stage of the customer lifecycle
- High-quality liability franchise with access to low cost, diversified borrowing sources and the highest credit rating

Risk and concerns:

- General slowdown in the global economic activities
- Business may be adversely affected by seasonal trends in the Indian economy
- The company's financial performance is sensitive to interest rate fluctuations
- The company operates under strict regulations governing India's financial services industry
- Competition

Below are the key highlights of the company:

- Incorporated on June 4, 2007, HFSL is the seventh-largest diversified, retail-focused NBFC in India based on total gross loan book as of March 31, 2024, according to the RHP. Classified as an Upper Layer NBFC (NBFC-UL) by the RBI, the company offers a broad portfolio of lending products, catering to a growing and diverse customer base through an extensive omni-channel distribution network.
- HFSL is a subsidiary of HDFC Bank, India’s largest private sector bank. Despite its strong parentage, HFSL operates independently across key functions such as sourcing, underwriting, operations, and risk management. Leveraging the brand strength of HDFC Bank, HFSL is well-positioned to pursue sustainable growth and profitability.
- The company offers its lending products through three key business verticals: Enterprise Lending, contributing 39.30% of the total gross loan portfolio as of March 31, 2025; Asset Finance, accounting for 38.03%; and Consumer Finance, comprising the remaining 22.66%.
- HFSL is a diversified NBFC focused on maintaining an optimal product mix with a balanced approach between secured and unsecured lending. As of March 31, 2025, secured loans accounted for 73.01% of the total gross loan book, while unsecured loans constituted 26.99%.

Issue details	
Price band	Rs. 700 - 740 per share
Face value	Rs. 10
Shares for fresh issue	3.378 - 3.571cr shares
Shares for OFS	13.514 - 14.286cr shares
Fresh issue size	Rs. 2,500cr
OFS issue size	Rs. 10,000cr
Total issue size	16.891 - 17.857cr shares (Rs. 12,500cr)
Employee reservation	0.027 - 0.0286cr shares
Shareholder reservation	1.689 - 1.785cr shares
Net issue size	15.175 - 16.042cr shares (Rs. 11,230cr)
Bidding date	25 th Jun. - 27 th Jun. 2025
Implied MCAP at higher price band	Rs. 61,388cr
Implied enterprise value at higher price band	Rs. 1,45,301cr
Book running lead manager	JM Financial Ltd., NP Paribas, BofA Securities India Ltd., Goldman Sachs (India) Securities Pvt. Ltd., HSBC Securities and Capital Markets (India) Pvt. Ltd., IIFL Capital Services Ltd., Jefferies India Pvt. Ltd., Morgan Stanley India Company Pvt. Ltd., Motilal Oswal Investment Advisors Ltd., Nomura Financial Advisory and Securities (India) Pvt. Ltd., Nuvama Wealth Management Ltd., and UBS Securities India Pvt. Ltd.
Registrar	MUFG Intime India Pvt. Ltd.
Sector	Non-Banking financial company
Promoters	HDFC Bank Ltd.

Category	Percent of issue (%)	Number of shares
QIB portion	50%	7.587 - 8.021cr shares
Non institutional portion (Big)	10%	1.517 - 1.604cr shares
Non institutional portion (Small)	5%	0.758 - 0.802cr shares
Retail portion	35%	5.311 - 5.615cr shares

Indicative IPO process time line	
Finalization of basis of allotment	30 th Jun. 2025
Unblocking of ASBA account	01 st Jul. 2025
Credit to demat accounts	01 st Jul. 2025
Commencement of trading	02 nd Jul. 2025

Pre and post - issue shareholding pattern		
	Pre-issue	Post-issue
Promoter & promoter group	94.32%	74.19%
Public	5.44%	25.58%
Shares held by Employee Trusts	1.60%	0.23%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot	
Number of shares per lot	20
Application money	Rs. 14,800 per lot

Key highlights of the company (Contd...):

Companies	CMP (Rs/sh)	Face Value	Market Cap	6M (%)	12M (%)	Cost of borrowings (%)	Yield on advances (%)	FY25 NIM (%)	FY25 GNPA (%)	FY25 NNPA (%)	PCR (%)
HDB Financial Services Ltd	740	10	61,388	-	-	7.9%	14.0%	7.6%	2.3%	1.0%	56.0%
Bajaj Finance Ltd	905	1	5,62,005	-86.8%	-87.5%	8.0%	18.8%	9.9%	1.2%	0.6%	53.0%
Sundaram Finance Ltd	4,820	10	53,552	12.9%	3.3%	7.4%	12.4%	5.3%	1.4%	0.8%	49.0%
L&T Finance Ltd	190	10	47,450	39.5%	3.5%	7.8%	15.2%	8.7%	3.3%	1.0%	71.0%
Mahindra & Mahindra Financial Services Ltd	263	2	36,556	1.3%	-12.2%	7.6%	13.8%	6.5%	3.7%	1.8%	51.2%
Cholamandalam Investment & Finance Company Ltd	1,558	2	1,31,044	31.1%	8.3%	7.1%	14.3%	7.7%	4.0%	2.6%	45.3%
Shriram Finance Ltd	666	2	1,25,251	16.0%	18.6%	8.8%	16.7%	8.6%	4.6%	2.6%	43.3%
Average						7.8%	15.2%	7.8%	3.0%	1.6%	52.1%

Companies	FY25 PAT (Rs.cr)	FY25 Gross Loan Book (R.cr)	FY25 AUM (Rs.cr)	FY25 Total Assets	EV	Net worth	FY25 Debt	D/Ex
HDB Financial Services Ltd	2,176	1,06,878	1,07,262	1,08,663	1,45,301	18,320	87,398	4.8
Bajaj Finance Ltd	16,779	4,16,661	4,16,661	4,66,127	8,38,307	96,693	2,89,846	3.0
Sundaram Finance Ltd	1,879	-	51,401	75,337	1,03,827	13,197	52,406	4.0
L&T Finance Ltd	2,643	97,701	97,701	1,20,384	1,28,989	25,564	92,372	3.6
Mahindra & Mahindra Financial Services Ltd	2,261	1,19,673	1,19,673	1,44,105	1,38,229	21,529	1,07,519	5.0
Cholamandalam Investment & Finance Company Ltd	4,263	1,84,746	1,84,746	2,01,887	2,96,579	23,668	1,75,036	7.4
Shriram Finance Ltd	9,576	2,59,916	2,63,190	2,93,722	2,81,996	56,470	1,78,111	3.2
Average								4.4

Companies	P/BV (x)	P/E (x)	EV/Loan Book	Mcap/ Loan Book	BVPS (Rs/sh)	EPS (Rs/sh)	RoE (%)	RoA (%)	CAR (%)	C/I(%)
HDB Financial Services Ltd	3.4	28.2	1.4	0.6	221	26.2	11.9%	2.0%	19.2%	42.8%
Bajaj Finance Ltd	5.8	33.5	2.0	1.3	156	27.0	17.4%	3.6%	21.9%	34.1%
Sundaram Finance Ltd	4.1	28.5	-	-	1,188	169.1	14.2%	2.5%	20.4%	31.1%
L&T Finance Ltd	1.9	18.0	1.3	0.5	102	10.6	10.3%	2.2%	22.3%	40.4%
Mahindra & Mahindra Financial Services Ltd	1.7	16.2	1.2	0.3	155	16.3	10.5%	1.6%	18.3%	41.7%
Cholamandalam Investment & Finance Company Ltd	5.5	30.7	1.6	0.7	281.4	50.7	18.0%	2.1%	19.8%	39.3%
Shriram Finance Ltd	2.2	13.1	1.1	0.5	300	50.9	17.0%	3.3%	20.7%	27.9%
Average	3.5	23.3	1.4	0.7			14.6%	2.5%	20.6%	35.7%

Note: Considered financials for the period during FY25 (with IPO adjustments); Source: Choice Broking Research

- According to the RHP, HFSL is India's second-largest and third fastest-growing customer franchise among NBFC peers. As of March 31, 2025, the company had served 19.2 mn customers, registering a CAGR of 25.45% between March 31, 2023, and March 31, 2025. The expansion of its customer base has been driven by supportive government policies focused on enhancing financial inclusion for the middle class.
- While rural India contributes 47% to the country's GDP, it accounts for only 10% of total banking deposits and 9% of credit as of March 2025 (as per the RHP). HFSL's strength lies in its ability to cater to the underbanked segment, supported by its robust underwriting capabilities for customers with little or no credit history. As of March 31, 2025, 11.57% of HFSL's Total Gross Loans were extended to customers classified as "new to credit."
- As of March 31, 2025, HFSL has established a robust pan-India presence with a network of 1,771 physical branches across more than 1,170 towns and cities in 31 States and Union Territories. The branch network has expanded from 1,492 branches as of March 31, 2023, reflecting the company's consistent growth.
- Over 80% of these branches are located outside India's 20 largest cities (as per the 2011 Census), with more than 70% situated in Tier 4+ towns. The company primarily caters to salaried and self-employed individuals, business owners, and entrepreneurs. The company continues to focus on building a granular loan portfolio, with its 20 largest customers contributing to less than 0.34% of its total gross loans as of March 31, 2025.
- As of March 31, 2025, the company's loan book remains well-diversified and granular, with no single product contributing more than 25% to the total gross loan book. The total outstanding loans stood at Rs. 1,06,878cr as of March 31, 2025, up from Rs. 70,030cr as of March 31, 2023, representing a CAGR of 23.54%. The average tenure of the total gross loan book was approximately four years as of March 31, 2025.
- As of March 31, 2025, the average ticket sizes of the Company's loan book stood at approximately Rs. 0.062cr for Enterprise Lending, Rs. 0.089cr for Asset Finance, and Rs. 0.005cr for Consumer Finance, with corresponding average loan tenures of 6 years, 4 years, and 2 years, respectively. The overall average ticket size across all segments was around Rs. 1.65 lakh as of the same date.

Key highlights of the company (Contd...):

- HFSL has a well-diversified liability franchise, backed by strong credit ratings of AAA (Stable) from both CRISIL and CARE, which is the highest rating assigned to any NBFC in India, as per the RHP. These superior ratings have enabled the company to access funding at competitive rates and varied tenors across both fixed and floating-rate debt instruments. As of March 31, 2025, HFSL's average cost of borrowings stood at 7.90%, ranking as the sixth lowest among its peers, according to the RHP.
- The company follows an omni-channel "phygital" distribution model that integrates its extensive branch network, dedicated in-house tele-calling teams, and a wide network of external distribution partners. This phygital sourcing model leverages both internal and external distribution channels along with robust digital capabilities. Recognizing the fragmented geographic spread of India's underbanked population, particularly beyond metropolitan areas, the company has strategically expanded its distribution footprint to enhance visibility and reach in non-metro cities and towns across the country.
- These include leading Indian and global auto OEMs, consumer and digital durable brands, dealerships for automobiles, two-wheelers, tractors, and construction equipment, as well as point-of-sale locations such as malls, supermarkets, retail stores, lifestyle outlets, and direct selling agents. As of March 31, 2025, HFSL has established partnerships with over 80 brands and OEMs, with its external distribution network expanding to more than 140,000 retailers and dealer touchpoints.
- The Reserve Bank of India had issued a draft circular last year proposing that multiple group entities within a banking group cannot undertake similar businesses. While the final guidelines are awaited, if implemented, HDFC Bank may be required to significantly reduce its stake in HDB Financial. This regulatory uncertainty remains a key overhang and risk for the company.
- As of FY25, Bajaj Finance leads with a market share of 6.38%, followed by Shriram Finance at 5.44%, and Cholamandalam Investment and Finance Company at 3.82%. Mahindra & Mahindra Finance holds a 2.47% market share, while HFSL, L&T Finance, and Sundaram Finance have market shares of 2.22%, 2.02%, and 1.06%, respectively.
- As of March 31, 2025, HFSL's total borrowings stood at Rs.87,397cr. The company maintains a well-diversified funding profile, with no single source accounting for more than 50% of its total borrowings. Commercial banks contributed 37.75% of the overall borrowings in FY25. The company reported a debt-to-equity ratio of 5.5x for FY25, reflecting a high leverage position that enables it to fund a significant portion of its loan book through cost-effective debt.
- The company's interest income has witnessed robust growth, increasing from Rs. 8,363cr in FY22 to Rs. 13,835.8cr in FY25, reflecting a CAGR of 18.3%. This growth was primarily driven by the expansion of the total gross loan book, which grew from Rs. 61,326.3cr in FY22 to Rs. 1,06,877.6cr in FY25, at a CAGR of 20.3%. PAT also grew at a healthy CAGR of 29.1%, rising from Rs. 1,011.4cr in FY22 to Rs. 2,175.9cr in FY25. Consequently, the PAT margin improved from 12.7% in FY22 to 22% in FY25. The company reported a ROE of 14.72% in FY25, up from 11.25% in FY22, while ROA improved to 2.16% in FY25 from 1.62% in FY22.

Peer comparison and valuation: HFSL is the seventh largest leading, diversified retail-focused NBFC in India in terms of the size of total gross loan. The company is categorized as an Upper layer NBFC (NBFC-UL) by RBI. Its lending products are offered through three business verticals which is Enterprise lending (39.3%), Asset lending (38%) and consumer finance (22.7%). The company's loan book comprises 73% secured loans and 27% unsecured loans, with its customer base primarily consisting of salaried individuals, self-employed professionals, and business owners. GNPA stood at 2.3% and NNPA at 1% for FY25.

At the higher price band, the issue is valued at a P/BV of 3.4x (based on post-issue BVPS), which is in line with the peer average, making the issue appear fully priced. While the company has delivered steady growth in interest income driven by the expansion of its gross loan book, profitability has been impacted by interest rate volatility, leading to a decline in PAT for FY25. Additionally, the NIM has been under pressure and remains lower compared to peers. The declining ROE and PCR further underscore operational concerns. Although the company is well-positioned for long-term growth, supported by its strong brand and expanding customer base, considering the near-term operational challenges, we recommend a **"Subscribe For Long Term"** rating for this issue.

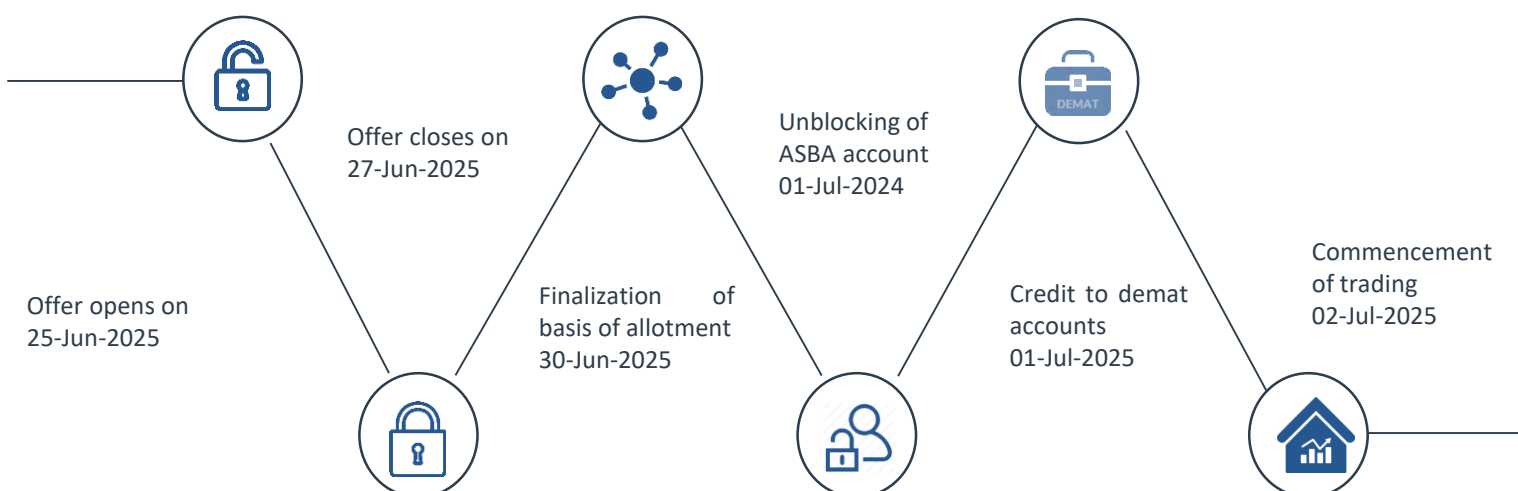
About the issue:

- HFSL is coming up with an IPO with 16.891 - 17.857cr shares (fresh issue: 3.378 - 3.571cr shares; OFS shares: 16.891 - 17.857) in offering. This offer represents 20.36% of the post-issue paid-up equity shares of the company. Total IPO size is Rs. 12,500cr.
- The issue is through book building process with a price band of Rs. 700 - 740 per share.
- Lot size comprises of 20 equity shares and in-multiple of 20 shares thereafter.
- The issue will open on 25th Jun. 2025 and close on 27th Jun. 2025.
- 1.689 - 1.785cr shares are reserved for shareholders and 0.027 - 0.028cr shares are reserved for employees.
- The IPO is a combination of fresh issue (Rs. 2,500cr) and OFS portion (of Rs. 10,000cr). The company will not receive any proceeds from the OFS portion. The net proceeds from the fresh issue will be utilized to augment the Company's Tier-I capital base, supporting its future capital requirements, including onward lending across its business verticals i.e. Enterprise Lending, Asset Finance, and Consumer Finance.
- One of the promoter & promoter group (P&PG) entities is participating in the OFS and is offloading 13.514cr equity shares. Post-IPO, the P&PG and public shareholders will have 74.19% and 25.58% stake in the company, respectively.
- 50% of the net issue is reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	94.32%	74.19%
Public	5.44%	25.58%
Shares held by employee trust	0.24%	0.23%

Source: Choice Equity Broking

Indicative IPO process time line:





Competitive strengths:

- Highly granular retail loan book, bolstered by a large and rapidly growing customer base with a focus on serving the underbanked customer segments
- Large, diversified and seasoned product portfolio with a sustainable track record of diversification, growth and profitability through the cycles
- Tailored sourcing supported by an omni-channel and digitally powered pan-India distribution network
- Comprehensive systems and processes contributing to robust credit underwriting and strong collections
- Advanced technology tools driving enhanced customer experience and efficiency across each stage of the customer lifecycle
- High-quality liability franchise with access to low cost, diversified borrowing sources and the highest credit rating

Business strategy:

- Diversify and expand the addressable customer segments by widening and enhancing the product offering
- Continue to expand the pan-India omni-channel distribution network
- Continue to invest in technology, data analytics and artificial intelligence to further improve customer experience, increase organisational productivity and decrease costs
- Continue to diversify the borrowing profile to optimise borrowings costs
- Further strengthen and improve the robust risk management framework as well as underwriting and collections capabilities to minimise the risk of credit losses
- Continue to attract, upskill and retain talented employees by strengthening the organizational culture



Risk and concerns:

- General slowdown in the global economic activities
- Business may be adversely affected by seasonal trends in the Indian economy
- The company's financial performance is sensitive to interest rate fluctuations
- The company operates under strict regulations governing India's financial services industry
- Competition

Financial statements:

Restated consolidated profit and loss statement (Rs. cr)						
	FY22	FY23	FY24	FY25	CAGR over FY22-25	Annual growth over FY24
Interest Income	8,363.0	8,927.8	11,156.7	13,835.8	18.3%	24.0%
Growth (%)		6.8%	25.0%	24.0%		
Interest Expended	3,325.5	3,511.9	4,864.3	6,390.2	24.3%	31.4%
Growth (%)		5.6%	38.5%	31.4%		
Net Interest Income	5,037.5	5,415.9	6,292.4	7,445.6	13.9%	18.3%
Net Interest Margin (%)	8.2%	8.2%	8.2%	7.9%		
Other Income	2,943.3	3,475.1	3,014.4	2,464.5	-5.7%	-18.2%
% of Interest Income	35.2%	38.9%	27.0%	17.8%		
Total Income	7,980.8	8,891.0	9,306.8	9,910.1	7.5%	6.5%
Growth (%)		11.4%	4.7%	6.5%		
Operating & Other expenses	4,167.5	4,933.2	4,934.7	4,869.3	5.3%	-1.3%
Pre-Prov. Operating Profit	3,813.3	3,957.8	4,372.1	5,040.9	9.7%	15.3%
Provisions and contingencies	2,465.7	1,330.4	1,067.4	2,113.1	-5.0%	98.0%
Operating Profit before Tax	1,347.6	2,627.4	3,304.7	2,927.8	29.5%	-11.4%
Growth (%)		95.0%	25.8%	-11.4%		
Pre-tax Margin (%)	16.9%	29.6%	35.5%	29.5%		
Tax	336.2	668.1	843.8	751.9	30.8%	-10.9%
% of PBT	24.9%	25.4%	25.5%	25.7%		
Reported PAT	1,011.4	1,959.4	2,460.8	2,175.9	29.1%	-11.6%
Net Profit Margin (%)	12.7%	22.0%	26.4%	22.0%		
Growth (%)		193.7%	125.6%	88.4%		

Restated consolidated balance sheet statement (Rs. cr)						
	FY22	FY23	FY24	FY25	CAGR over FY22-25	Annual growth over FY24
Capital	790.4	791.4	793.1	795.8	0.2%	0.3%
Reserves and Surplus	8,749.3	10,645.6	12,949.6	15,024.0	19.7%	16.0%
Provisions	314.8	369.0	502.9	564.5	21.5%	12.2%
Borrowings	48,973.1	54,865.3	74,330.7	87,397.8	21.3%	17.6%
Other financial liabilities	3,198.4	3,379.2	3,980.2	4,881.3	15.1%	22.6%
Total Liabilities	62,025.9	70,050.4	92,556.5	1,08,663.3	20.6%	17.4%
Cash and balance	684.0	653.8	702.5	984.3	12.9%	40.1%
Loans	57,162.5	66,382.7	86,721.3	1,03,343.0	21.8%	19.2%
Investment	2,233.5	1,243.3	3,380.3	2,060.1	-2.7%	-39.1%
Fixed assets	292.6	387.1	511.2	735.1	35.9%	43.8%
Deferred tax assets (Net)	1,051.2	1,000.9	940.0	883.3	-5.6%	-6.0%
Other assets	602.2	382.7	301.3	657.5	3.0%	118.2%
Total Assets	62,025.9	70,050.4	92,556.5	1,08,663.3	20.6%	17.4%

Source: Choice Equity Broking

Financial statements (Contd...):

Financial Ratios				
Particulars	FY22	FY23	FY24	FY25
Return / Profitability Ratios (%)				
Net interest margin (NIM)	8.2%	8.2%	7.9%	7.6%
Cost of borrowings	6.7%	6.8%	7.5%	7.9%
Yield on loans	13.6%	13.6%	13.9%	14.0%
RoA	1.6%	3.0%	3.0%	2.2%
RoE	11.3%	18.7%	19.5%	14.7%
Business Ratios (%)				
AUM (Rs cr)	61,444.1	70,083.8	90,234.7	1,07,261.7
Gross Loan (Rs.cr)	61,326.3	70,030.7	90,217.9	1,06,877.6
Disbursements (Rs cr)	29,033.2	44,801.8	60,899.3	66,107.5
CAR (Basel III)	20.2%	20.1%	19.3%	19.2%
Equity / Assets	15.4%	16.3%	14.8%	14.6%
AUM / Assets	99.1%	100.0%	97.5%	98.7%
Cost/Income	34.5%	39.0%	42.7%	42.8%
Asset Quality ratios (%)				
PCR	54.1%	65.1%	66.8%	56.0%
GNPA	5.0%	2.7%	1.9%	2.3%
NNPA	2.3%	1.0%	0.6%	1.0%
Per Share Data (Rs)				
EPS (Diluted)	12.2	23.6	29.7	26.2
BVPS	115.0	137.9	165.7	190.7
Valuation ratios (x)				
P/E (x)	60.7	31.3	24.9	28.2
P/BV (x)	6.4	5.4	4.5	3.9
Growth ratios (%)				
AUM		14.06%	28.75%	18.87%
NII		7.51%	16.18%	18.33%
PAT		93.73%	25.59%	-11.58%

Source: Choice Equity Broking

IPO rating rationale

Subscribe: An IPO with strong growth prospects and valuation comfort.

Subscribe for Long Term: Relatively better growth prospects but with valuation discomfort.

Avoid: Concerns on both fundamentals and demanded valuation.

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