

HDB Financial Services Ltd. | REDUCE

Weak quarter; downgrade to Reduce

HDB Financial Services reported 11% miss in PAT (-2%/+2% YoY/QoQ) on account of higher than expected credit costs of ~2.7% (vs. 2.3% JMFe) as asset quality trends were negatively impacted by CV/CE. PPoP was in line with our estimates (+24%/+9% YoY/QoQ) led by +21bps expansion in NIMs (calc.) (7.9% in Q2FY26). Disbursements were muted (down 1% YoY) leading to further moderation in AUM YoY growth to 13% in 2QFY26. Management guided NIMs of ~7.9-8.0%, AUM growth of 18-20% CAGR 26 and credit costs of 2.2% over the medium term post-FY. We believe despite a strong franchise, HDB stands inferior among diversified peers in terms of AUM growth (~12% CAGR over FY25-27E) and returns profile (avg RoA/RoE of 2.2%/14% in FY26/27E) vs. CIBC (AUM CAGR/avg RoA/RoE of 19%/2.5%/20%) and BAF (~24% AUM CAGR/ avg RoA/RoE of 24%/4.0%/20%) over FY25-27E. We have cut our FY26-28E EPS by ~3%-7% leading to cut in TP to INR740 (INR780 earlier), valuing it at 2.6x FY27E P/B. We change our rating from HOLD to REDUCE to align with our new rating system.

Moderation AUM growth led by weak disbursements: Weak disbursements growth (-1%/+3% YoY/QoQ), resulted in subdued AUM growth of +13%/+2% YoY/QoQ (broadly in-line with JMFe) with mixed trends across segments. While asset finance and enterprise lending posted a sequential disbursement growth of ~14%/10%, consumer finance declined by ~9% QoQ. Overall AUM growth therefore moderated with asset finance/consumer finance/enterprise lending posting weak sequential growths of 2%/2%/1% respectively. Share of consumer finance in the overall mix has been gradually inching up and management hopes to continue in that trajectory. Going into 2H, management expects growth to pick up led by key policy initiatives such as the GST rationalization exercise and rate cuts, along with a good monsoon, and a strong festive season etc. Management has guided for a medium term AUM growth of ~18-20% CAGR.

In-line operating performance: HDB reported an inline PPoP of INR 15.3bn (+24%/+9% YoY/QoQ). NII growth was strong at +20%/+5% YoY/QoQ (-4% JMFe), supported by a 21bps QoQ expansion in NIMs to 7.9%, driven by a 34bps QoQ decline in CoFs. This was offset by lower than expected opex of INR 13.2bn (-6% JMFe). However PAT was a substantial miss (-11% JMFe) led by elevated credit costs of 2.7% (vs. 2.3% JMFe). RoA (calc.) for 2Q stood at ~1.9%. Adjusting for IPO-money RoA stood at ~2% for the quarter. We revise our NIM (calc.) assumptions downward (-10bps) to 7.8%/8.1% for FY26E/FY27E, driving average RoA/RoE of 2.3%/14% over the same period.

Asset quality deteriorates: GS3/NS3 rose sequentially to 2.8%/1.3% (+25bps/+17bps QoQ) on account of higher slippages in the CV/CE segments primarily due to seasonal factors such as floods in Assam and other northern regions, which impacted utilization levels in Jul/Aug. Stage-3 PCR declined 196bps QoQ to 54.7%. However overall ECL cover was steady QoQ at ~3.3%. We expect credit costs to decline gradually, and thus build in an average credit cost of ~2.4% over 2HFY26, and then decline further to ~2.2% by FY27 in-line with management guidance.

Valuation and View: We believe that despite a strong franchise, HDBFS stands inferior among diversified peers in terms of AUM growth (12% CAGR over FY25-27E) and returns profile (avg RoA/RoE of 2.3%/14%) vs CIBC (AUM CAGR/avg RoA/RoE of 19%/2.5%/20%) and BAF (24% AUM CAGR/ avg RoA/RoE of 24%/4.1%/21%) over FY25-27E. Thus, we do not expect material upside in HDBFS from here on given its limited visibility on growth/RoE, and assign REDUCE rating (as per our new rating system) with TP of INR 740, valuing it with an unchanged target multiple of 2.6x FY27E P/BV.



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Recommendation and Price Target

Current Reco.	REDUCE
Previous Reco.	HOLD
Current Price Target (12M)	740
Upside/(Downside)	-0.5%
Previous Price Target	780
Change	-5.1%

Key Data – HDBFS IN

Current Market Price	INR743
Market cap (bn)	INR616.7/US\$7.0
Free Float	25%
Shares in issue (mn)	829.6
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,344.2/US\$15.3
52-week range	892/728
Sensex/Nifty	82,605/25,324
INR/US\$	88.1

Price Performance

%	1M	6M	12M
Absolute	-5.6	0.0	0.0
Relative*	-6.5	0.0	0.0

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	24,608	21,759	24,922	31,953	37,612
Net Profit (YoY) (%)	25.6%	-11.6%	14.5%	28.2%	17.7%
Assets (YoY) (%)	32.1%	17.4%	15.1%	14.5%	15.4%
ROA (%)	3.0%	2.2%	2.1%	2.4%	2.4%
ROE (%)	19.5%	14.7%	13.7%	14.5%	14.9%
EPS	31.0	27.3	30.0	38.5	45.3
EPS (YoY) (%)	25.3%	-11.9%	9.9%	28.2%	17.7%
P/E (x)	23.9	27.2	24.7	19.3	16.4
BV	173	199	249	284	326
BV (YoY) (%)	19.9%	14.7%	25.2%	14.2%	14.7%
P/BV (x)	4.29	3.74	2.99	2.61	2.28

Source: Company data, JM Financial. Note: Valuations as of 15/Oct/2025

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

HDBFS – 2QFY26 Performance Highlights

Exhibit 1. HDB Financial 2QFY26 Results snapshot

Earnings Table (INR mn)	2Q25	1Q26	2Q26	YoY (%)	QoQ (%)	2Q26F	A/E (%)
Net Interest Income	18,325	20,918	21,925	19.6%	4.8%	22,876	-4.2%
Total Non-Interest income	5,758	6,339	6,589	14.4%	3.9%	6,427	2.5%
Total Income	24,083	27,257	28,514	18.4%	4.6%	29,303	-2.7%
Employee Cost	8,798	9,601	9,577	8.9%	-0.2%		
Other expenses & Depreciation	2,984	3,634	3,632	21.7%	-0.1%		
Total Operating Expenses	11,782	13,235	13,209	12.1%	-0.2%	14,019	-5.8%
Operating Profit (PPP)	12,301	14,022	15,305	24.4%	9.1%	15,284	0.1%
Total Provisions	4,310	6,697	7,483	73.6%	11.7%	6,527	14.6%
PBT	7,991	7,325	7,822	-2.1%	6.8%	8,757	-10.7%
Tax	2,081	1,648	2,008	-3.5%	21.8%	2,233	-10.1%
Reported Profit	5,910	5,677	5,814	-1.6%	2.4%	6,524	-10.9%
Balance Sheet Data (INR bn)							
AUM	991	1,097	1,117	12.8%	1.9%	1,125.9	-0.8%
Disbursements	157	152	156	-0.5%	2.8%	158.4	-1.5%
Ratios Analysis (%)							
Yield on loans (Calc.)	14.1%	14.1%	14.0%	(5) bps	(9) bps	14.6%	(56) bps
Cost of Funds (Calc)	7.9%	7.8%	7.4%	(48) bps	(34) bps	7.7%	(25) bps
NIMs on AUM	7.5%	7.7%	7.9%	39 bps	21 bps	8%	(31) bps
Cost to Income (%)	48.9%	48.6%	46.3%	(260) bps	(223) bps	47.8%	(152) bps
Credit costs (%)	1.8%	2.5%	2.7%	93 bps	23 bps	2.3%	35 bps
Gross S3 (%)	2.10%	2.56%	2.81%	70 bps	25 bps	3%	17 bps
Net S3 (%)	0.83%	1.14%	1.31%	48 bps	17 bps	1%	13 bps
Coverage	60.7%	56.7%	54.7%	(595) bps	(196) bps	57%	(196) bps
Capital Adequacy (%)							
Tier I (%)	14.6%	15.7%	17.3%	262 bps	155 bps		
CAR (%)	19.3%	20.2%	21.8%	252 bps	164 bps		
Return ratios (%)							
ROA (%)	2.4%	1.9%	1.9%	(43) bps	(0) bps	2.1%	-0.1%
ROE (%)	16.2%	13.1%	12.2%	(401) bps	(92) bps	13.6%	-1.4%

Source: Company, JM Financial

HDBFS – Key concall takeaways

Growth/AUM mix

- Key government policy changes such as the GST rationalization exercise, along with rate cuts, good monsoon, and a strong festive season etc. should aid overall growth, specifically in the consumer finance space going into 2H.
- Within enterprise lending, recent regulatory changes along with the surge in gold prices has supported growth in gold loans. As asset quality pressures ease, the company aims to increase lending in the unsecured space.
- In the business loans segment, the company has been cautious over the last 3 quarters owing to stress, but management is looking to grow here going forward as stress has abated.
- Within the CV space, used CV was ~9% of book and new CV was ~16% of the book.
- Within the CE space, government initiatives should aid growth.
- Business loans – company has been cautious over the last 3 quarters owing to stress, but company is looking to grow here going forward as stress has abated.

Margins

- The company targets to keep NIMs in the range of 7.9-8%.

Asset Quality

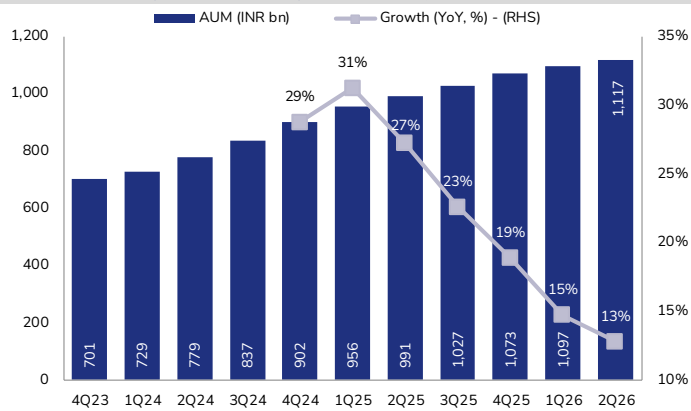
- Net slippages for the quarter were attributable mostly to the CV segment. Construction equipment space also got affected to some extent (but a lesser contribution to overall slippages). This was also seasonal in nature; due to some amount of idling that happens as a result of floods in Assam and certain northern states that affected utilization levels (mostly in July/Aug). Going forward, management expects this stress to abate.
- Stabilization in asset in enterprise lending has continued into 2Q. No increase in stress visible in the segment.

Guidance

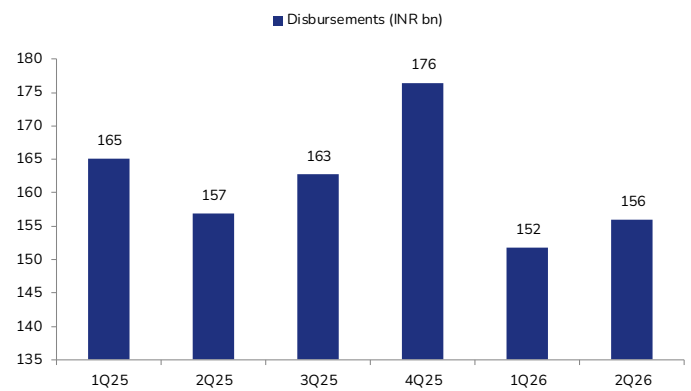
- The management has guided for a medium term growth target for AUM (3-5 year period) at ~18-20% CAGR.
- Credit cost target for the medium-term (3-5 year period) is in a 2.2% +/- range.
- Consumer finance would grow at a faster pace in the medium-term, compared to other segments.

Other Highlights

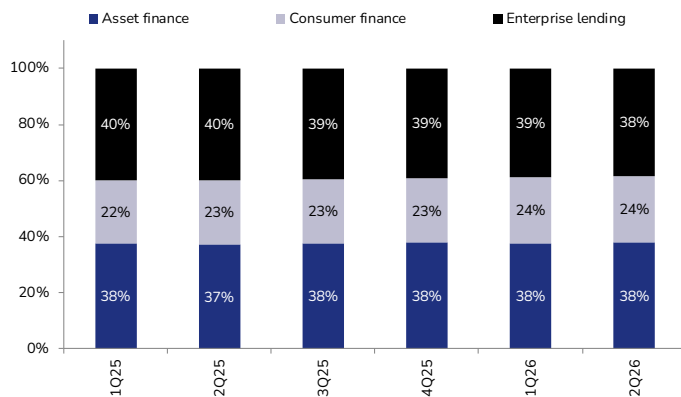
- Customer franchise grew to 21mn with an increase of 4.2% QoQ and 19.6% YoY.
- RoA (annualized) for 2Q stood at 1.93%, which includes opening assets of approximately INR 90 bn of OFS money as on June 30, 2025. Adjusted for this, the RoA would be 2.02%.

Exhibit 2. AUM growth slowing down led by...

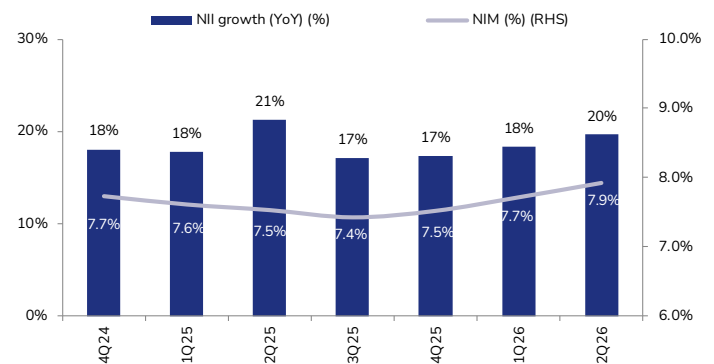
Source: Company, JM Financial

Exhibit 3. ...weak disbursements (-1% YoY/3+% QoQ)

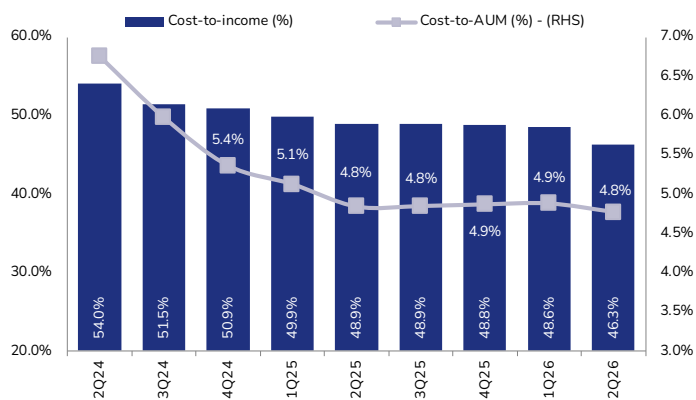
Source: Company, JM Financial

Exhibit 4. Consumer finance in the overall mix has been gradually inching up

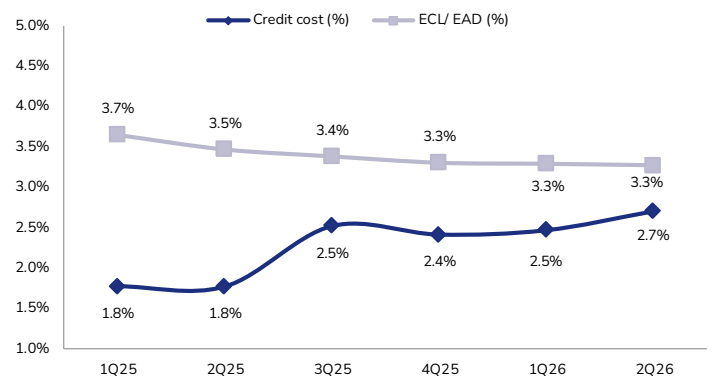
Source: Company, JM Financial

Exhibit 5. NIMs improve sequentially led by declining CoFs

Source: Company, JM Financial

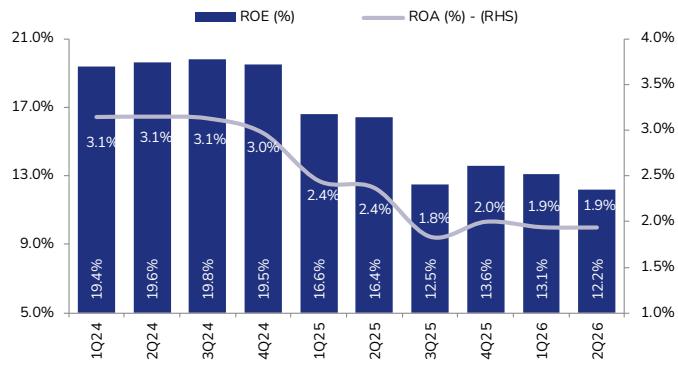
Exhibit 6. Cost ratios have moderated sequentially

Source: Company, JM Financial

Exhibit 7. Credit costs increased as slippages remain elevated; ECL/EAD levels stable sequentially

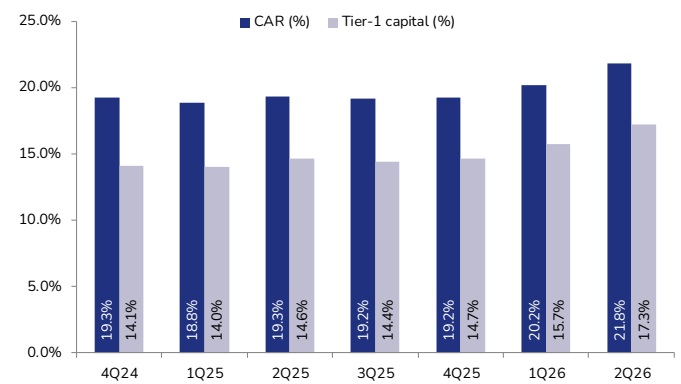
Source: Company, JM Financial

Exhibit 8. Muted returns profile



Source: Company, JM Financial

Exhibit 9. Capital levels remain strong



Source: Company, JM Financial

Exhibit 10. Change in estimates - JMFe

Particulars	New estimates			Old estimates			Change in estimates		
	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Recommendation	REDUCE			HOLD					
Target price (Rs)	740			780			-5%		
Assumptions									
AUM (Rs bn)	1,200	1,357	1,549	1,205	1,366	1,561	0%	-1%	-1%
YoY growth	12%	13%	14%	12%	13%	14%	-50bps	-27bps	-12bps
Net interest margins (calculated) (%)	7.8%	8.1%	8.1%	8.0%	8.2%	8.2%	-18bps	-7bps	-6bps
Opex as a % of AUM	4.8%	4.8%	4.8%	5.0%	5.1%	5.0%	-21bps	-21bps	-19bps
Credit cost (%)	2.5%	2.2%	2.1%	2.1%	1.8%	1.7%	35bps	45bps	44bps
Output									
Net revenues (Rs bn)	88.93	103.40	117.88	91.14	104.90	119.61	-2%	-1%	-1%
Operating profit (Rs bn)	61.31	71.25	81.19	59.95	67.40	76.28	2%	6%	6%
Profit after tax (Rs bn)	24.92	31.95	37.61	26.81	33.24	38.61	-7%	-4%	-3%
Diluted EPS (Rs)	30.0	38.5	45.3	32.3	40.1	46.5	-7%	-4%	-3%
Adjusted BVPS (Rs)	249	284	326	253	293	340	-2%	-3%	-4%
RoA (%)	2.1%	2.4%	2.4%	2.3%	2.4%	2.5%	-13bps	-6bps	-8bps
RoE (%)	13.7%	14.5%	14.9%	14.6%	14.7%	14.7%	-89bps	-22bps	15bps

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	62,924	74,456	88,932	1,03,395	1,17,880
Non Interest Income	30,144	24,645	26,734	29,501	32,822
Total Income	93,068	99,101	1,15,666	1,32,896	1,50,702
Operating Expenses	49,347	48,693	54,360	61,651	69,514
Pre-provisioning Profits	43,721	50,408	61,305	71,245	81,188
Total Provisions	10,674	21,130	28,076	28,642	31,038
PBT	33,047	29,278	33,229	42,604	50,149
Tax	8,438	7,519	8,307	10,651	12,537
Reported Profits	24,608	21,759	24,922	31,953	37,612
Dividend	0	0	1,695	2,556	3,009
Retained Profits	24,608	21,759	23,227	29,397	34,603

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	7,931	7,958	8,296	8,296	8,296
Reserves & Surplus	1,29,496	1,50,239	1,98,128	2,27,525	2,62,128
Borrowed Funds	7,43,307	8,73,977	9,35,907	10,71,745	12,39,005
Preference Shares	44,831	54,459	1,08,918	1,25,256	1,44,044
Total Liabilities	9,25,565	10,86,633	12,51,249	14,32,822	16,53,473
Net Advances	8,67,213	10,33,430	11,56,041	13,07,072	14,92,170
Investments	33,803	20,601	23,045	26,056	26,329
Cash & Bank Balances	7,025	9,843	17,998	20,350	23,231
Fixed Assets	1,625	2,431	2,674	2,942	3,236
Total Assets	9,25,565	10,86,633	12,51,249	14,32,822	16,53,473

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	793.1	795.8	829.6	829.6	829.6
EPS (INR)	31.0	27.3	30.0	38.5	45.3
EPS (YoY) (%)	25.3%	-11.9%	9.9%	28.2%	17.7%
P/E (x)	23.9	27.2	24.7	19.3	16.4
BV (INR)	173	199	249	284	326
BV (YoY) (%)	19.9%	14.7%	25.2%	14.2%	14.7%
P/BV (x)	4.29	3.74	2.99	2.61	2.28
DPS (INR)	0.0	0.0	2.0	3.1	3.6
Div. yield (%)	0.0%	0.0%	0.3%	0.4%	0.5%

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	35.5%	17.6%	7.1%	14.5%	15.6%
Advances	30.6%	19.2%	11.9%	13.1%	14.2%
Total Assets	32.1%	17.4%	15.1%	14.5%	15.4%
NII	16.2%	18.3%	19.4%	16.3%	14.0%
Non-interest Income	-13.3%	-18.2%	8.5%	10.4%	11.3%
Operating Expenses	0.0%	-1.3%	11.6%	13.4%	12.8%
Operating Profits	10.5%	15.3%	21.6%	16.2%	14.0%
Core Operating profit	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions	-19.8%	98.0%	32.9%	2.0%	8.4%
Reported PAT	25.6%	-11.6%	14.5%	28.2%	17.7%
Yields / Margins (%)					
Interest Spread	6.39%	6.11%	6.30%	6.50%	6.60%
NIM	7.85%	7.54%	7.83%	8.09%	8.11%
Profitability (%)					
ROA	3.03%	2.16%	2.13%	2.38%	2.44%
ROE	19.5%	14.7%	13.7%	14.5%	14.9%
Cost to Income	53.0%	49.1%	47.0%	46.4%	46.1%
Asset quality (%)					
Gross NPA	1.90%	2.26%	2.50%	2.42%	2.13%
LLP	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Adequacy (%)					
Tier I	14.12%	14.67%	-	-	-
CAR	19.25%	19.22%	-	-	-
Others (net)					

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	7.74%	7.40%	7.61%	7.70%	7.64%
Other Income / Assets	3.71%	2.45%	2.29%	2.20%	2.13%
Total Income / Assets	11.45%	9.85%	9.89%	9.90%	9.77%
Cost / Assets	6.07%	4.84%	4.65%	4.59%	4.50%
Operating Profit/ Assets	5.4%	5.0%	5.2%	5.3%	5.3%
Provision / Assets	1.3%	2.1%	2.4%	2.1%	2.0%
Profit / Assets	3.0%	2.2%	2.1%	2.4%	2.4%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
14-Aug-25	Hold	780	

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return $\geq$ 15% over the next twelve months.
ADD	Expected return $\geq$ 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return $\geq$ -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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