HDB Financial Services | ADD

Cyclical recovery on track

HDB continues its cyclical recovery, reporting a robust quarter with a 4% PAT beat vs. JMFe, driven by lower-than-expected opex (-3% vs JMFe) and improved asset quality metrics. PAT rose +41%/+17% YoY/QoQ, propelling RoA/RoE to 2.5%/14.8%, marking the highest levels in the last six quarters. NII grew by 22%/5% YoY/QoQ, supported by a 15bps QoQ expansion in calc. NIMs. This, combined with lower opex and reduced provisions (-2% vs JMFe), contributed to the positive PAT surprise. Disbursement growth improved further, up 13% YoY (vs. 10% in 3Q), primarily driven by the consumer finance segment. However, AUM growth remained subdued at 11% YoY (vs. 12% in 3Q), influenced by higher repayments and a lag effect. Mgmt. provided medium-term guidance of NIMs ~8.0%+, AUM CAGR of nominal GDP growth plus ~6-7%, and credit costs in the range of +/- 2.3%. As noted in our upgrade report, we believe HDB is at an inflection point, with a notable improvement in asset quality and a pickup in disbursements. Consequently, we have revised our FY27-28E EPS estimates upwards by 3%, and value the company at 2.1x FY28E BVPS in return for ~15% AUM CAGR and ~15% RoE over FY26-28E. We maintain our ADD rating with a revised target price of INR 710 (vs. INR 650 earlier).

- **Disbursement growth strengthens**: Disbursement growth improved to +13%/+11% YoY/QoQ, driven by strong performances in the consumer finance segment (+25% YoY) and enterprise lending (+16% YoY). However, asset finance disbursements contracted by 1% YoY (compared to +4% in 3Q), despite mgmt. noting that the stress observed in segments like LAP are largely behind. AUM growth continued to moderate at +11%/+3% YoY/QoQ (vs. +12%/+3% YoY/QoQ in 3Q), reflecting a sequential rise in repayments. On a segmental basis, sequential AUM growth for asset finance, consumer finance, and enterprise lending stood at 3%/5%/3%, respectively. The share of CF in the overall portfolio has been steadily increasing; a trend mgmt. expects to continue as unsecured products scale. We project an AUM CAGR of ~15% over FY26-28E.

- **PAT beat driven by lower opex and provisions**: NII growth remained strong at +22%/+5% YoY/QoQ, supported by a 15bps QoQ expansion in calc. NIMs to 8.2%. This, combined with lower-than-expected opex (+7%/-2% YoY/QoQ, -3% JMFe), resulted in a ~2% beat on PPoP. Additionally, a decline in credit costs to 2.3% (from 2.5% in 3Q) led to a 4% PAT beat (+41%/+17% YoY/QoQ, +4% JMFe). RoA and RoE (calc.) continued to improve, reaching ~2.5%/14.8% in 3Q (vs. 2.2%/13.1% in 3Q). We project an EPS CAGR of 27% over FY26-28E.

- **Improved asset quality signals positive momentum**: GS3/NS3 improved to 2.4%/1.1%, down by 36bps/16bps QoQ, respectively. Mgmt. emphasized that the challenges faced in segments like LAP/MSME are fully behind, and there has been no visible impact from the West Asia conflict on asset quality. However, stress observed in the CV/CE space is showing a K-shaped recovery, with recent slippages showing better recovery signs. PCR moderated by 6bps QoQ to 55.5%, while overall ECL remained steady at 3.2%. Mgmt. targets credit costs to remain stable at current ~2.3% levels over the medium term. We expect credit costs to gradually decline and project an average credit cost of ~2.2% over FY27-28E.

- **Valuation and View**: As noted in our upgrade report, we believe HDB is at an inflection point, with a notable improvement in asset quality and a pickup in disbursements. Consequently, we have revised our FY27-28E EPS estimates upwards by 3%, and value the company at 2.1x FY28E BVPS in return for ~15% AUM CAGR and ~15% RoE over FY26-28E. We maintain our ADD rating with a revised target price of INR 710 (vs. INR 650 earlier).

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Recommendation and Price Target	
Current Reco.	ADD
Previous Reco.	ADD
Current Price Target (12M)	710
Upside/(Downside)	10.2%
Previous Price Target	650
Change	9.2%

Key Data – HDBFS IN	
Current Market Price	INR644
Market cap (bn)	INR535.0/US$5.7
Free Float (%)	25.5
Shares in issue (mn)	830.3
Diluted share (mn)	830.3
3-mon avg daily val (mn)	INR721.4/US$7.8
52-week range	INR892/555
Sensex/Nifty	78,111/24,231
INR/US$	93.4

Price Performance			
%	1M	6M	12M
Absolute	0.3	-13.3	0.0
Relative*	-3.1	-7.4	0.0

*To the NSE Nifty 50

Financial Summary					(INR mn)
Y/E Mar	FY24A	FY25A	FY26A	FY27E	FY28E
Net Profit	24,608	21,759	25,438	33,374	41,066
Net Profit (YoY) (%)	25.6	-11.6	16.9	31.2	23.0
NIM (%)	7.8	7.5	7.9	8.1	8.1
AUM (YoY) (%)	28.8	18.9	10.7	14.3	15.6
Gross NPA (%)	1.9	2.3	2.4	2.2	2.3
ROA (%)	3.0	2.2	2.2	2.5	2.8
ROE (%)	19.5	14.7	13.9	15.0	16.0
EPS	31.0	27.3	30.6	40.2	49.5
EPS (YoY) (%)	25.3	-11.9	12.1	31.2	23.0
P/E (x)	**20.8**	**23.6**	**21.0**	**16.0**	**13.0**
BV	173	199	249	286	331
BV (YoY) (%)	19.9	14.7	25.2	14.9	15.9
P/BV (x)	**3.7**	**3.2**	**2.6**	**2.3**	**1.9**

Source: Company data, JM Financial. Note: Valuations as of April 15, 2026

HDBFS – 4QFY26 Performance Highlights

Exhibit 1: HDB Financial 4QFY26 Results snapshot

Earnings Table (INR mn)	4Q25	3Q26	4Q26	YoY (%)	QoQ (%)	4Q26F	A/E (%)
Net Interest Income	19,728	22,850	23,988	21.6%	5.0%	23,738	1.1%
Total Non-Interest income	6,428	6,845	6,641	3.3%	-3.0%	7,073	-6.1%
Total Income	26,156	29,695	30,629	17.1%	3.1%	30,811	-0.6%
Employee Cost	9,309	10,253	9,705	4.3%	-5.3%		
Other expenses & Depreciation	3,466	3,717	3,966	14.4%	6.7%		
Total Operating Expenses	12,775	13,970	13,671	7.0%	-2.1%	14,142	-3.3%
Operating Profit (PPP)	13,381	15,725	16,958	26.7%	7.8%	16,669	1.7%
Total Provisions	6,338	7,122	6,846	8.0%	-3.9%	6,975	-1.9%
PBT	7,043	8,603	10,112	43.6%	17.5%	9,694	4.3%
Tax	1,733	2,164	2,606	50.4%	20.4%	2,474	5.3%
Reported Profit	5,310	6,439	7,506	41.4%	16.6%	7,220	4.0%
Balance Sheet Data (INR bn)							
AUM	1,073	1,149	1,187	10.7%	3.4%	1,198	-0.9%
Disbursements	176	179	199	12.9%	11.2%	194	2.7%
Ratios Analysis (%)							
Yield on loans (Calc.)	13.8%	14.1%	14.0%	16 bps	(11) bps	14.0%	(3) bps
Cost of Funds (Calc)	7.5%	7.4%	7.0%	(51) bps	(43) bps	7.3%	(34) bps
NIMs on AUM	7.5%	8.1%	8.2%	69 bps	15 bps	8.1%	12 bps
Cost to Income (%)	48.8%	47.0%	44.6%	(421) bps	(241) bps	45.9%	(126) bps
Credit costs (%)	2.4%	2.5%	2.3%	(7) bps	(17) bps	2.4%	(3) bps
Gross S3 (%)	2.26%	2.81%	2.44%	19 bps	(36) bps	2.51%	(7) bps
Net S3 (%)	0.83%	1.29%	1.12%	29 bps	(16) bps	1.15%	(3) bps
Coverage	56.0%	55.6%	55.5%	(43) bps	(6) bps	55.6%	(6) bps
Capital Adequacy (%)							
Tier I (%)	14.7%	17.3%	17.1%	239 bps	(22) bps		
CAR (%)	19.2%	21.8%	21.4%	218 bps	(41) bps		
Return ratios (%)							
ROA (%)	2.0%	2.2%	2.5%	48 bps	27 bps	2.3%	0.1%
ROE (%)	13.6%	13.1%	14.8%	117 bps	167 bps	14.2%	0.6%

Source: Company, JM Financial

4QFY26 Management Call Takeaways

Growth/AUM mix

- Disbursements for the quarter (~INR 199bn) stood at an all-time high.
- Focused approach within CV and CE segment, backed by extensive OEM partnerships and dealership networks, positions it for strong growth in the coming quarters.
- In consumer finance expect momentum to continue on the back of sustained demand for consumer durables, auto loans, and two-wheelers.
- On the enterprise lending segment, mgmt. had called out in Q1 regarding stress and had strategically or tactically looked at focusing on making sure the asset quality comes back, especially within the business loan side. By Q2, mgmt. was relatively confident in improvement. In Q3 onwards, company has really started pushing on the growth front.

Margins

- There has been a slight reduction on the yield side purely driven by the product mix change. However, as unsecured lending increases, the yields should inch up to earlier levels.
- In the borrowing mix, the concentration of CPs is very low, so there is more room to increase CPs which can help moderate CoFs. On an overall level, CoFs should hopefully sustain at current levels in the near future.

Asset Quality

- Overall Mar'26 quarter went well despite the West Asia conflict. Over the next 15-20 days as the situation develops it will continue to be monitored.
- Challenges seen earlier in the MSME, LAP segments etc. are completely behind as per management. And the whole focus now, on the ground across enterprise lending business, across CV and across consumer is growth.
- PCR refresh is done every quarter. The increase in the ECL levels for Stage-1 was purely done based on ECL refresh exercise and to some extent could be attributed to the ongoing global scenario.
- In the asset finance segment, the recovery has been more of a k-shaped recovery, i.e. the accounts that slipped in 1Q, the recovery has not been that great, whereas the accounts that slipped in the following quarters are recovering at a much better pace.

Guidance

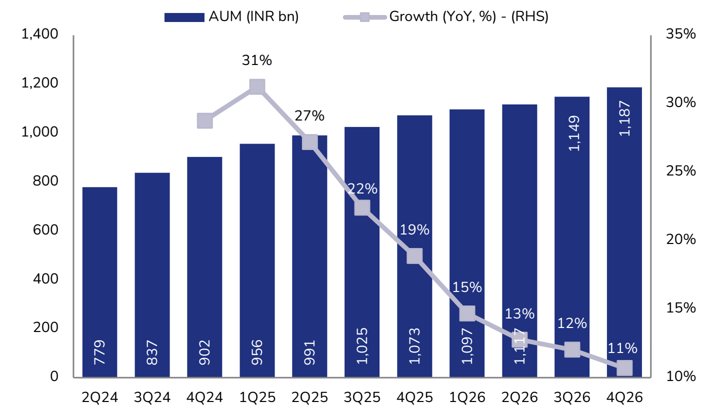
- The management reiterated its medium term growth target for AUM (3-5 year period) at ~18-20% CAGR (nominal GDP + ~6-7%).
- Mgmt. aspires for around ~18-20% disbursement growth target.
- Asset finance target of used: new mix would be around ~50:50 over a four year period. In order to achieve the same new segment growth would be at industry rate while in the used segment growth would be at a higher pace vs. industry rate.
- 38%:37%:25% would roughly be the mix of enterprise lending, asset finance and consumer finance over the medium-term.
- Credit costs should be ~2.3% +/- range and should be sustained in the medium-term.
- NIMs should be maintained at 8%+ levels in the medium-term.
- Secured mix currently stands at 74% currently, and mgmt. is comfortable to move that back to ~72% levels.
- Expansion in-terms of physical branch addition are not a priority at this point of time as the focus is more on digital expansion.

Other Highlights

- Implemented in-house SLM, powered auto-sorting and saw a 20% reduction in response time ensuring faster resolution of customer queries.
- Currently running 5 AI powered initiatives.

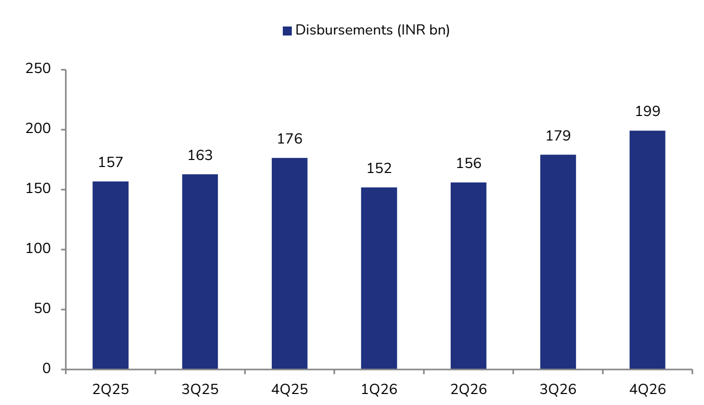
- Overall AI powered initiatives are expected to reduce turnaround time for credit disbursal, to improve overall credit quality and for improved cost efficiencies.
- Focus on digital sourcing through the DIY platform for e.g. has helped to scale disbursements to over 2.2x over FY25 levels.

Exhibit 2: AUM growth has moderated sequentially...



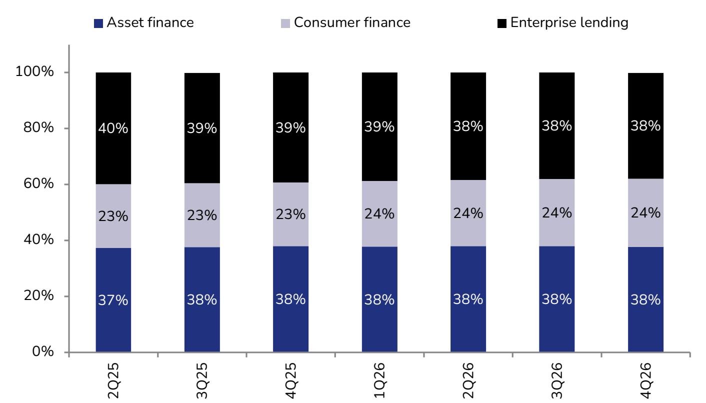
Source: Company, JM Financial

Exhibit 3: ...however disbursement growth has improved to 13% YoY



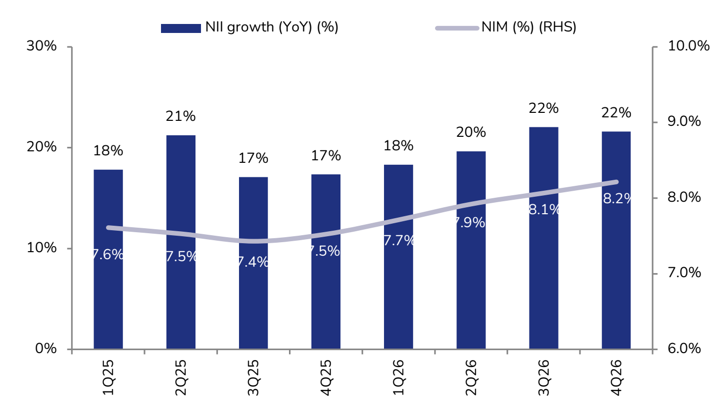
Source: Company, JM Financial

Exhibit 4: Enterprise lending in the overall mix has been moderating



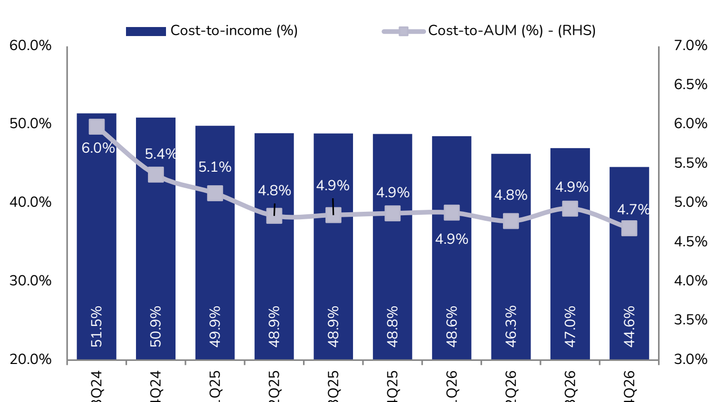
Source: Company, JM Financial

Exhibit 5: NIMs improve sequentially led by decline in yields



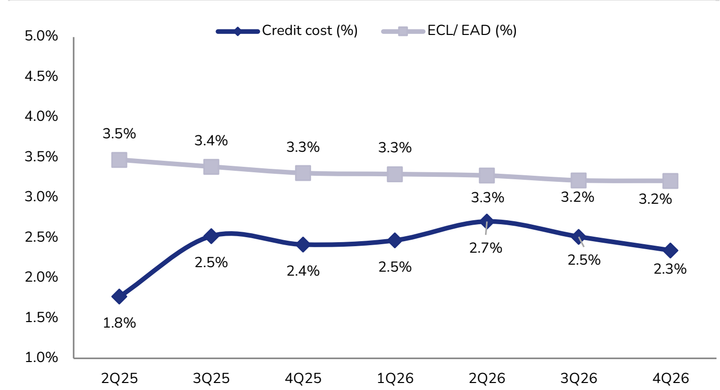
Source: Company, JM Financial

Exhibit 6: Cost ratios have declined sequentially



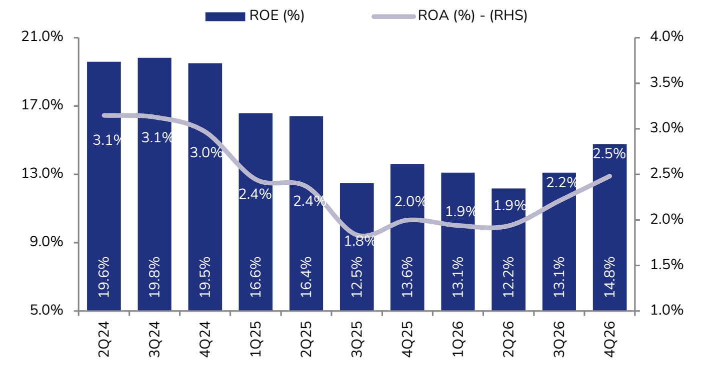
Source: Company, JM Financial

Exhibit 7: Credit costs declined as net slippages and write-offs decline; ECL/EAD levels fairly steady on a sequential basis



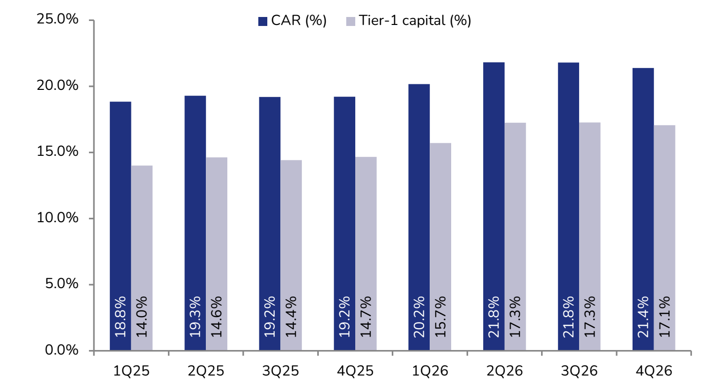
Source: Company, JM Financial

Exhibit 8: Returns profile continue to improve sequentially



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	
	FY27F	FY28F	FY27F	FY28F	FY27F	FY28F
Recommendation	**ADD**		**ADD**			
Target price (INR)	**710**		**650**		**9%**	
Assumptions						
AUM (INR bn)	1,358	1,570	1,360	1,560	0%	1%
YoY growth	*14%*	*16%*	*14%*	*15%*	*77bps*	*93bps*
Net interest margins (calculated) (%)	8.1%	8.1%	8.0%	8.1%	1bps	1bps
Opex as a % of AUM	4.5%	4.4%	4.7%	4.6%	-20bps	-23bps
Credit cost (%)	**2.3%**	**2.1%**	**2.3%**	**2.1%**	**3bps**	**2bps**
Output						
Net revenues (INR bn)	102.55	118.37	102.96	117.90	0%	0%
Operating profit (INR bn)	73.83	85.31	72.47	83.26	2%	2%
Profit after tax (INR bn)	33.37	41.07	32.48	39.77	3%	3%
Diluted EPS (INR)	**40.2**	**49.5**	**39.1**	**47.9**	**3%**	**3%**
Adjusted BVPS (INR)	286	331	285	329	0%	1%
RoA (%)	**2.5%**	**2.8%**	**2.4%**	**2.6%**	**15bps**	**21bps**
RoE (%)	**15.0%**	**16.0%**	**14.7%**	**15.6%**	**38bps**	**42bps**

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E Mar	FY24A	FY25A	FY26A	FY27E	FY28E
Interest Income	111,567	138,358	157,883	175,982	201,986
Interest Expense	48,643	63,902	68,202	73,428	83,618
Net Interest Income (NII)	62,924	74,456	89,681	102,554	118,368
Non Interest Income	30,144	24,645	26,414	28,227	30,966
Total Income	**93,068**	**99,101**	**116,095**	**130,782**	**149,334**
Operating Expenses	49,347	48,693	54,084	56,948	64,024
Pre-provisioning Profits	**43,721**	**50,408**	**62,011**	**73,834**	**85,309**
Loan-Loss Provisions	10,674	21,130	28,148	29,335	30,554
Others Provisions	-	-	-	-	-
Total Provisions	**10,674**	**21,130**	**28,148**	**29,335**	**30,554**
PBT	**33,047**	**29,278**	**33,863**	**44,499**	**54,755**
Tax	8,438	7,519	8,425	11,125	13,689
PAT (Pre-Extra ordinaries)	**24,608**	**21,759**	**25,438**	**33,374**	**41,066**
Extra ordinaries (Net of Tax)	-	-	-	-	-
Reported Profits	**24,608**	**21,759**	**25,438**	**33,374**	**41,066**
Dividend	-	-	-	-	-
Retained Profits	**24,608**	**21,759**	**25,438**	**33,374**	**41,066**

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E Mar	FY24A	FY25A	FY26A	FY27E	FY28E
Equity Capital	7,931	7,958	8,303	8,303	8,303
Reserves & Surplus	129,496	150,239	198,337	229,041	266,822
Networth	137,427	158,197	206,640	237,344	275,125
Borrowed Funds	743,307	896,822	992,301	1,099,659	1,255,789
Other Liabilities	44,831	31,614	37,574	45,089	51,852
Total - Liabilities	**925,565**	**1,086,633**	**1,236,515**	**1,382,091**	**1,582,766**
Net Advances	867,213	1,033,430	1,146,895	1,311,369	1,516,279
Investments	33,803	20,601	37,476	42,850	39,243
Cash & Bank Balances	7,025	9,843	16,736	20,364	23,546
Fixed Assets	1,625	2,431	2,301	2,531	2,658
Other Assets	15,899	20,328	33,107	4,977	1,041
Total - Assets	**925,565**	**1,086,633**	**1,236,515**	**1,382,091**	**1,582,766**

Source: Company, JM Financial

Key Ratios					
Y/E Mar	FY24A	FY25A	FY26A	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	35.5	20.7	10.6	10.8	14.2
Advances	30.6	19.2	11.0	14.3	15.6
Total Assets	32.1	17.4	13.8	11.8	14.5
NII	16.2	18.3	20.4	14.4	15.4
Non-interest Income	-13.3	-18.2	7.2	6.9	9.7
Operating Expenses	0.0	-1.3	11.1	5.3	12.4
Operating Profits	10.5	15.3	23.0	19.1	15.5
Core Operating profit	158.9	79.1	37.2	28.0	19.2
Provisions	-19.8	98.0	33.2	4.2	4.2
Reported PAT	25.6	-11.6	16.9	31.2	23.0
Yields / Margins (%)					
Interest Spread	21.56	21.83	21.16	20.68	20.78
NIM	7.85	7.54	7.94	8.06	8.09
Profitability (%)					
ROA	3.03	2.16	2.19	2.55	2.77
ROE	19.5	14.7	13.9	15.0	16.0
Cost to Income	53.0	49.1	46.6	43.5	42.9
Asset Quality (%)					
Gross NPA	1.90	2.25	2.44	2.22	2.32
Credit Cost (on AUM)	2.37	3.94	4.74	4.32	3.89
Capital Adequacy (%)					
Tier I	14.1	14.7	17.1	-	-
CAR	19.3	19.2	21.4	-	-

Source: Company, JM Financial

Dupont Analysis					
Y/E Mar	FY24A	FY25A	FY26A	FY27E	FY28E
NII / Assets	7.74	7.40	7.72	7.83	7.98
Other Income / Assets	3.71	2.45	2.27	2.16	2.09
Total Income / Assets	11.45	9.85	9.99	9.99	10.07
Cost / Assets	6.07	4.84	4.66	4.35	4.32
PPP / Assets	5.38	5.01	5.34	5.64	5.75
Provisions / Assets	1.31	2.10	2.42	2.24	2.06
PBT / Assets	4.06	2.91	2.92	3.40	3.69
Tax rate	25.5	25.7	24.9	25.0	25.0
ROA	3.03	2.16	2.19	2.55	2.77
Leverage	6.5	6.8	6.4	5.9	5.8
ROE	19.5	14.7	13.9	15.0	16.0

Source: Company, JM Financial

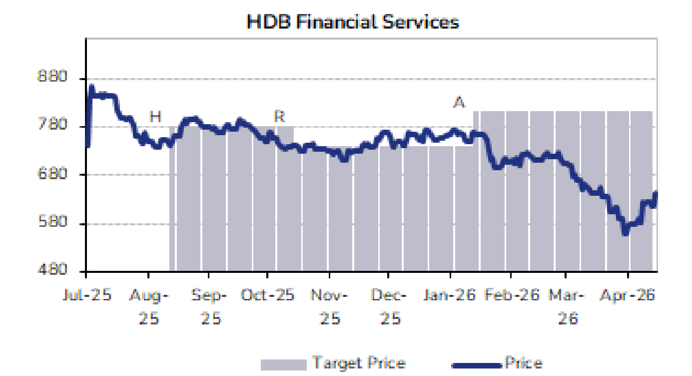
Valuations					
Y/E Mar	FY24A	FY25A	FY26A	FY27E	FY28E
Shares in Issue	793.1	795.8	830.3	830.3	830.3
EPS (INR)	31.0	27.3	30.6	40.2	49.5
EPS (YoY) (%)	25.3	-11.9	12.1	31.2	23.0
P/E (x)	20.8	23.6	21.0	16.0	13.0
BV (INR)	173.3	198.8	248.9	285.9	331.4
BV (YoY) (%)	19.9	14.7	25.2	14.9	15.9
P/BV (x)	3.72	3.24	2.59	2.25	1.94
DPS (INR)	-	-	-	-	-
Div. yield (%)	-	-	-	-	-

Source: Company, JM Financial

Recommendation History Table

Date	Recommendation	Target Price	% Chg.
15-Jan-26	Add	810	9.5
16-Oct-25	Reduce	740	-5.1
14-Aug-25	Hold	780	

Recommendation History Chart



APPENDIX I

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No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -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)

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