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HDB/SLC/2025/1362

July 21, 2025

To,
Listing Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No C/1, Block G,
Bandra-Kurla Complex, Bandra (East),
Mumbai - 400051

Scrip Code: HDBFS

To,
Listing Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400001

Scrip Code: 544429

Sub.: Transcript of Earnings Call for the quarter ended June 30, 2025

Dear Sir / Madam,

In continuation to our letter dated July 15, 2025, we wish to inform you that pursuant to Regulation 30 and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Earnings Call with analysts and investors held on July 15, 2025, in relation to the Unaudited Standalone Financial Results of the Company for the quarter ended June 30, 2025, has been made available on the website of the Company at the link:

https://www.hdbfs.com/investor/dur62-financial-results

A copy of the transcript is annexed herewith.

This is for your information and appropriate dissemination.

Thanking you,

For HDB Financial Services Limited

DIPTI
KHANDELWAL

Digitally signed by DIPTI KHANDELWAL
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Dipti Jayesh Khandelwal
Company Secretary and Compliance Officer
Membership No. F11340

Encl.: As above

HDB Financial Services Limited
Q1 FY26 Earnings Conference Call Transcript

For the Earnings Call held on July 15, 2025, 18:30hrs IST

MANAGEMENT: MR. G RAMESH – MD & CEO
MR. JAYKUMAR SHAH – CFO
MR. VISHAL PATEL – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Q1FY26 Earnings Conference Call hosted by HDB Financial Services. Please note this conference call is for analysts and investors only. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Patel from HDB Financial Services. Thank you and over to you, Mr. Vishal.

Vishal Patel: Thank you, Sagar. I welcome all of you to the first earnings call of HDB Financial Services Limited for Q1FY26. We have with us Mr. G Ramesh – MD and CEO along with Mr. Jaykumar Shah, the CFO and the senior management of the company.

I believe all of you would have had a chance to peruse our financial results, investor presentation and press release which have been filed with the stock exchanges earlier today and is also available on our website, www.hdbfs.com.

We will start with the management remarks and then open up the call for Q&A. The audio recording of this call will be available on our website shortly after the call ends.

I would now like to welcome Mr. G Ramesh for his opening remarks. That will be followed by Mr. Jaykumar Shah who will provide a brief on the financial results followed by Q&A.

G Ramesh: Thank you, Vishal and a very good evening to all of you joining in. Let me begin by expressing my gratitude to the investor community, our customers, our stakeholders including our regulators and our parent HDFC Bank as we engaged with them on our IPO journey. Thank you all.

Being the first earnings call, I will take a few minutes to give a **quick overview of the company and its operations** before getting into the quarterly business update.

Started in 2007, we are one of India's largest diversified and retail-focused NBFCs with presence in more than 1,770 branches in more than 1,100 cities across India. As of June 30, 2025, we had Total Gross Loans of over ₹ 1.09 Lakh Crores, a customer base of 20.1M customers with an average ticket size of 164,000 – which emphasizes our truly granular and retail nature.

We offer lending products to our **three business verticals**, Enterprise Lending, Asset Finance and Consumer Finance.

1) **Enterprise Lending** is the first business vertical started in 2008. It currently constitutes 39% of our Gross Loan Book and is focused on lending a variety of secured and unsecured loans to business customers, both individuals and businesses as well as certain types of salaried individuals. These loans are primarily delivered to our branch network, and these loans are aimed at providing finance for the growth and working capital requirements of our customers.
2) **Asset Finance** vertical, which we started in 2010, constitutes 38% of our Book and is aimed at offering financing options to customers for acquiring new and used commercial vehicles, construction equipment and tractors. These are income generating assets. We have a strong OEM partnership and dealer network spread across the country as well as a dedicated in-house sales team that spearheads our efforts in this vertical.
3) **Consumer finance** vertical started in 2016. Today, it constitutes 23% of our Book. Through this vertical, we aim at providing credit to individuals looking to finance their two-wheelers, consumer durables, digital products and cars or other lifestyle choices. Our large network of partnership with OEMs and dealers across the country, aided by a sales team present at the point of sale, backed by digitally assisted journeys, forms the fulcrum of sourcing this vertical.

The **secured book**, which is loan secured by a collateral, accounts for 73% of our Loan Book, while unsecured book is 27%. Broadly, our secured book consists of Loan against Property, Gold Loans in the Enterprise Lending vertical, entire Asset Finance vertical and Auto and Two-wheeler loans in the Consumer Finance vertical.

Sourcing and Distribution

We have a diversified and well-established channel tailor-made for each of the products in our suite, including pan-India branch network, tele-calling teams, OEM channels and dealer network, DSAs and digital sourcing. I elaborated on our branch network, channel partners and primary sourcing channels for each vertical earlier.

In addition to that, over 80% of our branches are located beyond 20 larger cities of India – in line with our focus on providing credit to *'aspirational India'*. Our 38,000+ strong feet-on-street/field sales staff help us understand the Indian micro-market and design tailor-made product offerings to fulfil customer-needs.

While our physical network ensures a high *touch-and-feel* factor, our processes are tuned to digital or assisted digital journeys, ensuring quick turnaround time and a seamless customer experience. Our mobile app, which is called HDB OnTheGo has crossed 10M downloads.

This makes us a truly *"phygital"* company.

Coming on to our **Credit and Collections**,

We have a 360-degree **credit** assessment methodology, and the credit vertical is headed by Chief Credit Officer, which is independent of the business origination verticals.

Our hybrid credit underwriting model includes **(1)** a centralized automated system with scorecards and rule-based decision making for smaller ticket/low tenure loans and **(2)** an independent assessment by the branch-based credit managers, including physical evaluations of larger ticket loans. These are aided by product and geography-specific scorecards.

Our proprietary underwriting and credit scoring engine is seasoned across credit cycles and is updated periodically basis our understanding of micro-markets. This enables faster credit decisions.

Coming to **collections**, this function has been part of our operating model since our inception. We have an in-house team of 12,500+ employees in our collections vertical consisting of tele-callers and feet-on-street, present at the branch, regional and national levels, ensuring sensitivity to local languages and customs. The collections team uses multiple scorecards to monitor collections across buckets. Each customer in the bucket is assigned a risk score band and has a pre-determined collection strategy based on which further action is taken by the collections team.

Over 95% of our collections happens through the banking channels. Our collection process is monitored and tracked through our collections application developed in-house with geo-tagging and e-receipt capabilities.

We have a Center of Excellence with a dedicated central collections team, which is responsible for training and quality checks of collections personnel, tracking and monitoring the quality of our collections process and undertake centralized billing and auction off for asset disposals.

In terms of our **Financing** (our liabilities)

We have an independent treasury department that is responsible fundraising and liquidity management. We have diversified funding from various sources, including public, private sector and foreign banks, mutual funds, insurance companies, pension funds and financial institutions. We raise funds through NCDs, Term Loans, Commercial Papers, External Commercial Borrowings, Subordinate Debt and Perpetual Debt. Our treasury operations are monitored by the Asset Liability Committee (ALCO), which oversees our liquidity, interest and currency risks.

To briefly touch upon our Risk Management, we have a robust risk management framework and a comprehensive risk management policy. Our risk management team is led by our Chief Risk Officer with oversight by the Risk Management Committee of our Board of Directors.

With that, I'd like to extend my heartfelt thanks to our 80,000 plus employees, many of whom have been with us for over 18 years.

Coming to the **quarterly business updates**,

With an expected stable monsoon season – higher farm incomes and consequent rural demand can provide a stimulus to rural consumption while helping moderate headline and food inflation. The recent rate reduction by the regulator augurs well for growth, as economic momentum can be expected by private consumption and traction in fixed capital formation.

Within consumer finance – Q1, which coincides with summer months, is typically a strong quarter for product segments like ACs and Refrigerators, or compressor products as we call them, wherein traction this year was seen to be relatively lower.

Mortgage demand is expected to hold, especially with reduction in benchmark rates.

Q1 generally tends to be a seasonally weak quarter for vehicle finance. Early indicators and volumes probably indicate a relatively muted quarter this year compared to a year ago, with corresponding stress on asset quality.

On that note, I will now hand over to Jaykumar, the CFO of the company, for an update on the financials.

Jaykumar Shah: Thank you, Ramesh and thank you very much everybody for dialing in.

Moving on to the financial performance for the quarter.

- Our customer franchise grew to 20.1 million, an increase of 5% during the quarter and 20.4% Y-o-Y.
- The Total Gross Loans as at June 30, 2025, stood at ₹109,342 crores, growing 2.3% sequentially and 14.3% Y-o-Y. Secured loans, as Ramesh mentioned, comprise 73% of the total loan book.
- Disbursements for the quarter ended at June 30, 2025, was ₹15,171 crores, down 14.0% sequentially and 8.1% Y-o-Y.
- Our branch count, as Ramesh mentioned, stood at 1,771 branches, spread across 1,166 cities and towns.
- Net interest income for the quarter was ₹2,092 crores, an increase of 6.0% Q-o-Q and 18.3% Y-o-Y.
- Net Interest Margin (NIM) for Q1FY26 expanded to 7.7% versus 7.6% in Q4FY25 and 7.6% in Q1FY25.
- Our Cost-to-income ratio for the lending business was 42.7% in Q1FY26 as compared to 42.9% in Q4FY25 and 43.2% in Q1FY25.
- Credit cost for the quarter was ₹670 crores as compared to ₹634 crores in the prior quarter.
- In Q1FY26, BPO services contributed to ₹14 crores or 1.9% of our Total PBT.
- Profit after tax for the quarter ended June 30, 2025, stood at ₹568 crores as against ₹531 crores for the prior quarter.
- Gross Stage 3, which in our case, is the same as gross NPA under IRAC norms, stood at 2.56% as at June 30, 2025, as against 2.26% as at March 31, 2025.

- Provision coverage on Stage 3 stood at 56.7%.
- The return metrics are after accounting for primary IPO proceeds of ₹2,500 crores as at June 30, 2025.
- ROA (annualized), as at the quarter end, stood at 1.94%, which includes assets of approximately ₹9,000 crores of OFS as at the quarter end. Adjusted for this, ROA would be 2.02%.
- ROE (annualized) for the quarter ended June 30, 2025, stood at 13.16%.
- Earnings per share for the quarter was ₹7.1 with a Book Value of ₹225.4/share
- Our borrowing mix remains well diversified with 39% of our borrowings coming from NCDs, 39% from bank loans, and rest as a mix of CPs, ECBs, Perp & Sub-debts, as is visible from the earnings presentation that we have put up.
- We remain well capitalized with a total CRAR of 20.18% as at June 30, 2025.

With that, thank you once again to all our employees, the investor community, and all stakeholders and shareholders, including the regulators, who have assisted us on our journey. I'll hand it back to the operator to help us open it up for Q&A.

Moderator: Thank you very much. We will now begin the Q&A session. Our first question comes from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yes. So, I don't know if you heard me. I was trying to say, first of all, congratulations on your first earnings call. I just had two questions. First is, you put out your disbursement mix in the quarter. So, I was seeing that Asset Finance disbursements were down almost 15% Y-o-Y. So, I was just trying to understand, if I look at the industry numbers, industry volumes, the volumes are not down to that extent. So, what is it that is leading to some weakness in terms of disbursement and growth in our Asset Finance vertical?

And second, in terms of asset quality, our 30+ DPD is up almost 90 basis points Q-o-Q. So, some weakness that we are seeing in asset quality. So, if you could just help us understand, this is more in the nature of the seasonality that we see in the first quarter, or is this more looking like some weakness in macro, which is contributing to it? And also, if you could help us understand, this weakness is more pronounced in vehicle financing or some other customer cohorts in Consumer Finance. So, just these two questions. Thank you so much.

G Ramesh: So, thank you for that question, Abhijit. And so, specifically, if you look at, you know, relative to the book growth of about 15%, our net interest income grew by about 18.3% Y-o-Y. And our Net Interest Margin also expanded to 7.7% from 7.6% primarily on the back of higher yield, right, the impact of some of the rate reductions that are there in the system really did not show up in Q1. We expect them to start showing up in the subsequent quarters as we replace our debt and as we replace our, you know, as our book grows, and as we take on newer debt to replace the older debt, which might be at a higher rate.

So specifically in Commercial Vehicles, what we've seen is anyway it's a seasonally weak quarter. One of the things that we have done is really re-orient our strategy around the product mix, which started reflecting in some of our NIM numbers in terms of the mix between the various asset classes within the Commercial Vehicle business, right? So, this recalibration is something that we started about a year ago, something that has started showing results in terms of net interest margins that we are starting to see inching up in our book. And so that's something that will play out over the next few months. So, that's largely where the Asset Finance space is there. And again, because it's a seasonally weak quarter, primarily some of our increase in the early stage delinquencies are in our secure loans, which is primarily in Commercial Vehicles. We expect that to calibrate over the next, you know, few months in terms of just the seasonality and the way the business works.

Abhijit Tibrewal: Got it. Just one last thing as a follow up. In terms of provisioning cover, if I am seeing this correctly, our provisioning covers on Stage 1 and Stage 2 have declined sequentially. So, just trying to understand, is this more a function of the ECL model? Because, I mean, all I'm trying to understand is if the macros are still weak, what is kind of going into the ECL model for it to churn out lower provision covers on your Stage 1 and Stage 2 loans?

Jaykumar Shah: So, Abhijit, in terms of how we do our modeling overall ECL, we have very granular book in terms of overall loans. So, we work on a base model. Our overall provision, as you would see, is 3.3%, which is the same as last quarter. Our PCR is a constant. Some of the interplays that work is purely on account of book mix at every stage, you know, that works its way through. And some of the weakness that we've seen as Ramesh highlighted has been on the CV side, which is a secured product.

Moderator: Our next question comes from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Again, just coming back to the disbursement de-growth in the CV financing portfolio, it seems -- and I think from the ticket size, average ticket size, it seems that we predominantly do used-vehicle financing in that product. So now this de-growth and disbursement in business on a Y-o-Y basis would have been driven by, you know, seeing genuine slowdown in demand of used vehicles on the ground or was it because of factors like unsustainable competition or maybe pricing not being in line with your expectations?

Jaykumar Shah: So, two things, Rajiv. One is, you're right, there has been some weakness in the CV segment as a whole and that's coming through. Secondly, we don't really finance large vehicles. So, on the HCV space, etc., we're small. So, I mean, that's largely in terms of how the economy has fared and how the business is. There hasn't been any other specifics that we would highlight.

Rajiv Mehta: Okay. And in the Enterprise Lending segment, also the disbursements are down on Y-o-Y basis. So, is it driven by LAP or the unsecured business loans or in both segments have we seen the business being lower versus last year?

Jaykumar Shah: So, two things there. On the overall Enterprise Lending side, on the unsecured business loan is where we had consciously slowed down a couple of quarters ago. We're making sure, as the economy turns around, we watch it closely. And as things turn around, we will move forward on that. So that space – we're very well entrenched into. So, we're keeping a close eye on that one. On the LAP front, I think there has been reasonable growth in line with how the overall markets moved is the way I would put it.

Rajiv Mehta: Okay. And can you share the 1 to 30 DPD bucket, at the company level in absolute terms or percentage terms, how that has moved between June and March? Has it also significantly gone up sequentially, which is generally the case from a seasonality point of view, but is that bucket also still heavy as we get into the second quarter?

Jaykumar Shah: So, what I'll do is, I mean, there is a slide which very clearly states the stage one. Let me just look through that, and I'll come back to you. Probably we'll try and see if we can come back by the end of the call or we'll then address it. Yes.

Rajiv Mehta: Sure, sir. Thank you. Thanks so much.

Moderator: Thank you. Our next question comes from the line of Renish from ICICI. Please go ahead.

Renish: Yes. Hi Sir. Congrats on a good set of members. There's two questions. One on the asset yield side, which expanded 30 basis points sequentially. So just wanted to understand following this cycle, what is driving this effective expansion of sequential business? Is it driven by the asset mix change or we have increased the lending business…

Jaykumar Shah: Renish, my apologies. Can you go a little slow? We are struggling to hear you.

Renish: Yes, yes. Is it better now, sir?

Management: Yes, it's better now.

Renish: Yes. So, first question on the asset yield side, which expanded almost 30 basis point sequentially. So, just wanted to understand in the falling rate cycle, what is driving the asset yield expansion? I mean, is it driven by the asset mix change or we have increased lending rates in some of the segments?

G Ramesh: So, Renish, there are two factors which are driving the yield expansion. One is that within each product that we do, there's a pretty large range of pricing that we have depending on the borrower profile and the asset profile, right? For example, a simplistic example, commercial vehicles, a heavy commercial vehicle to a fleet versus a used commercial vehicle which is 5 years old to a first-time borrower. There's a fairly large range of pricing that you have.

So, some of the products that we have, we have tweaked the product mix in terms of yield expansion at the product level. And that's what's really driving the yield expansion. Pricing is really a function of what we finally deliver as the product mix in each product. And that's what's really driving the yield expansion.

Renish: Okay. So, is it fair to assume that maybe 10-20 basis point here and there, but broadly, I think it will remain at around 15%, I mean, in near term?

Jaykumar Shah: So, Renish, Jay here. Our yields are approximately 14.1, 14.2, which is what we hold on to. Not sure where you got 15% from, but that's the yield, right? And the NIMs is what we really have been very focused on. That's 7.7%, which is what we've been very focused on as a whole.

Renish: Okay. And secondly, on the credit cost front, so this quarter, our credit cost remains strictly at 2.5%, which is understandable given typical Q1 seasonality. But when we look at even on annual basis, the same is higher by 70 on basis point. We just wanted to understand which product is sort of giving the stress and where do we stand in terms of asset quality cycle in the products which are under stress currently? And when can we expect the normalization of credit cost in some of the segments?

Jaykumar Shah: So, in terms of credit cost, I would say it's largely in line with our expectations in terms of where we ended the quarter. So, I think that is the first important statement there. In terms of products, we had, even during previous interactions with the broader community, stated that there has been past stress in unsecured business loans and a little bit on the CV, which we expect to stabilize, as Ramesh said, over the coming months. So, we'll watch that space closely and move from there.

Renish: Okay. So, apart from unsecured business loan and CV, there is no other segment which is sort of showing any sign of stress. I mean, is that fair to assume?

Jaykumar Shah: So, we haven't seen any, unwarranted spikes anywhere, is the way I would put it.

Renish: And just to follow up on that, so in CV...

Jaykumar Shah: Renish, we'll take one question and the rest later...

Renish: Sure. I'll come back in the queue.

Moderator: Thank you. Our next question comes from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah: Yes. Hi. First of all, thank you and congratulations on the first quarter. I had two questions. One is, you mentioned that you expect that in the, especially the consumer piece of the business and some bit in the CV, the current stress, which is there, it should kind of say or is close to peaking out and it should start improving in the next few months.

When I look at the Consumer Finance disbursements, which is almost now flattish on a Y-o-Y basis and a sequential basis, we have seen a growth. Are we already starting to say, push the pedal of, say, growth or slightly loosening the filters over there?

G Ramesh: So, just to clarify, Viral, the Consumer Finance business is doing quite well. I think where we had a lower ticket size compared to what we would have anticipated is primarily because certain products that sell quite in a large volume during the quarter, we had lower traction on those products, primarily the compressor products, which account for larger ticket size. But otherwise, if you see, I think customer engagement has been quite strong during the quarter. As we mentioned, we are now 20.1 million customers, up 0.9 million customers in the quarter. So, in terms of customer traction, it's been quite healthy. I think where we have, I think there are two product categories where we said our credit cost has had an elevation in the last couple of quarters is one, Commercial Vehicles, and second is unsecured business loans. The Consumer

Finance categories, you know, otherwise, both from a growth and quality perspective is doing quite well.

Viral Shah: Okay, got it. And you mentioned about the unsecured business loans. Over there also, you expect, say, a similar kind of recovery in the second half? Or is that something that may take some more time?

Jaykumar Shah: So, Viral, we'll watch it closely. As I mentioned, I think it has obviously the macros also playing out in it. So, it's a space we'll watch closely. It is currently stabilizing in a decent form. And let's look through the coming months.

Viral Shah: Got it. And my second question, with regards to basically our opex, and this is more, I would say, when I look at us and compare it with some of our peers, somehow the productivity levels seem to be a bit weaker on a relative basis when I look at, say, either per branch or per employee. And I'm looking at just the lending business, not the overall business.

So, over here, do we see a pathway of structurally, say, the operating leverage now from here on playing out as we kind of keep growing? And what is that extent of operating leverage that we can see over the next 2, 3 years?

Jaykumar Shah: So, Viral, I'll give you our side of it. The most important thing you need to look at us as HDB is we're a very focused retail-only entity, right, with an average loan size of around 160,000 - 165,000, right? And individual 20 large customers, if you take, it's only 0.32%. Now, that level of granularity, when you operate through the network, it is going to be at a slightly different cost base in terms of how others might operate. And I'm no expert to comment on anybody else, but we believe at this level of how we're operating, obviously, every management would look to improvising on things and getting better efficiency. But at this stage, if you look specifically in the current quarter, our Cost-to-income ratio has improved by almost 20 bps compared to the prior quarter.

So, we're very seized of the fact that costs play an important role in the overall ROA metric. And at this point in time, I think we're working through the branch network, the retail network that we have, and our focus, always remains on delivering the overall ROA.

Viral Shah: Okay, just a bit, like, the guidance in terms of the opex specifically over the medium term?

Jaykumar Shah: So, I think we'll take it at a future point in time. I think there is lots of interplay in the overall macro-economy. I don't think it's fair to provide a guidance in specific.

Viral Shah: Got it. Thank you, and all the very best. Thank you so much.

Moderator: Thank you. Our next question comes from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: So just a little bit on what you think will be the eventual sustainable credit cost, because we are already at 2.5% for this quarter. And the fourth quarter was, I mean, sorry, last year, full year was 2.1% because we're already operating at a high level. And your numbers are much higher than peers. And also, the ROA level at 1.9%, again, it is much, much lower than peers. So, is the business model inherently having higher credit costs and therefore lower ROA? Because we have touched 3% ROA also in the past. So, we want to know where the reality is and where things would eventually settle, because you are currently operating at 1.9% ROA. That's one point. And yes, so that's the first question. Maybe then I'll go for the second one. Yes.

Jaykumar Shah: Suresh, I'll try and answer your questions. So, on the credit cost level, as I said, Q1 has been weaker and almost in line with expectations. We expect things to move in the right direction from here on and stabilize through Q2 and then improve going forward. That's our current working assumption and the piece that we're working on. That's one.

On the ROA front, as I mentioned, the way to look at 1.9% is really 2.02% because of the ₹9,000 crores sitting there. And as credit costs start to improve, you'll automatically see an improvement in ROA.

Another important thing, Suresh, is that, on the rate reduction, as Ramesh mentioned, the benefits of that haven't really come through at this point in time for us. And something that you will see in terms of NIM expansion over the coming quarters.

Suresh Ganapathy: Okay. And this is my last question. It's just a qualitative understanding since you guys, of course, run the business. What is explaining this CV slowdown? Is the government not spending? Is the rural incomes weaker? Because we see rural incomes being very buoyant. Last year, monsoon was fantastic. Still, we have had this kind of an outcome in the CV space. Is it over-leveraging? Any kind of qualitative assessment that you can give on what has gone wrong here?

G Ramesh: So, it's very difficult for us to give a color on how and what drives certain volumes. Like, for example, one of the things that we think happened, for example, in the compressor space was that there were unseasonal rains. It wasn't too hot and, that led to certain lower traction that we saw on compressor product financing. So, that's relatively easier to sort of guess. Very difficult to guess what's driving vehicle sales at any point of time. I guess, there are many factors, including availability and revenues that are coming.

I think one of the things that's happened in the last few years is that vehicle prices have gone up quite sharply, also led by many technological changes. For example, one of the things is that I think newer vehicles require an air-conditioned cabin. It's a production requirement, and that will automatically increase prices, which means that vehicles are being deployed for longer than they used to be in the past. Also, maybe because vehicles are much more sturdy in terms of quality and capability as compared to maybe a couple of decades back. So, something that we are watching and monitoring.

One of the things that we have done internally is actually really focused on aligning our segment-wise strategy in Asset Finance, and which I explained also has contributed to our NIM expansion on the yield side. As I said, our NIM has expanded because our yields have improved, not because of benefit of cost of funds, which will start coming from Q2 onwards.

Suresh Ganapathy: But, Ramesh, that can increase credit costs also, right, because you're moving up the risk curve.

G Ramesh: We really look at it from a risk-adjusted return. I think we are okay with increasing credit costs as long as the risk-adjusted return is favorable.

Suresh Ganapathy: Sure. That's clear. Thank you.

Moderator: Thank you. Our next question comes from Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: Hi. Good evening. I have two or three questions. The first one is, we are still in a startup phase, right? If I look at the product portfolio, only LAP and Enterprise Business Loans are the ones that are really stable, rest of them are anywhere between two to four years. So, are we going to see closure of any businesses or addition of any new business lines going forward? That's the first question.

The second is around the customer segment. Out of the 20 million customers that we have, how many do we bank on a monthly basis, which is NACH hitting their bank accounts? And what is the percentage of repeat customers in those 20 million?

The third question is around the PCR, which is about 56%. Despite a large proportion of our business being secured, 56% in ECL methodology would basically allude to the LGD. So, are we carrying excess provision or are LGDs at around 50%?

Jaykumar Shah: Sorry, Shubhranshu. I think we caught some of your questions. Some of them was not very clear. I'll just repeat the question so that we're on the same page. Any closure or new businesses that you're planning to start? That was your first question. Second question we caught out was current customers, and then I think we lost some of it.

Shubhranshu Mishra: Right, right. From the current customer set, of a customer of 20 million, how many are we banking on a monthly basis? And what is the percentage of repeat customers here? The third question was around the PCR. We are at 56% PCR, despite a higher proportion of secured business. So, PCR would mean basically LGD. So are LGD at 50%+ or are we carrying excess provision?

Jaykumar Shah: So, on PCR today, Shubhranshu, what we've done is we've calibrated it based on what we believe are the right levels to carry. Of course, there's a model that shows up a number, and then we look at it in terms of the overall market and individual product-wise, and we carry provisions accordingly. So, that's on the PCR.

Shubhranshu Mishra: So, there's no excess provisions there?

Jaykumar Shah: As I mentioned, I think there will be some amount of product-wise, specific book-wise that we look at on a quarterly basis, and we maintain provisions to make sure the risks are well covered.

G Ramesh: So, in terms of product mix, Shubhranshu, we do evaluate new credit products all the time. You know, as and when we have a new product out, we'll put it out to the market. At this point of time, there's no product that we're considering for closure. That's not in the plan right now. We're broadly comfortable with the product mix that we have and working towards making sure that we are not dependent on any one product or any one category to an extent that it impacts our balance sheet.

In terms of repeat customers, that really depends on some of the products. For example, within our Consumer Finance segment, and if you've seen our business presentation, we have a deck on all the products, right? And so, in consumer finance, there's a product…

Jaykumar Shah: Slide 17.

G Ramesh: Slide 17, which talks about our products. So, Relationship PL, which is a product which accounts about 7% of our AUM, is only for existing customers of the company. So, that business is 100% existing customer-only product.

But otherwise, from a - just a market opportunity perspective, about more than 60% of our customers will be new to HDB customers at any point of time, all right? And we don't lend money to customers who don't have a bank account. So, the first option for collections is through a bank account, and only if the customer is unable to pay or has missed the payment to the bank account, do we pursue other collection modes.

Shubhranshu Mishra: How many customers do we bank on a monthly basis?

G Ramesh: That would be in excess of 10 million.

Shubhranshu Mishra: Right.

G Ramesh: ….we bank all our customers if that's the question.

Shubhranshu Mishra: So, we are banking 20 million customers on a monthly basis, 20 million EMI?

Jaykumar Shah: Sorry, sorry.

Moderator: Shubhranshu sir, your line was not quite audible. Could you please repeat the question once again?

Shubhranshu Mishra: How many bank accounts do we present in NACH?

G Ramesh: We bank all of them. All of our customers. All of them. We collect NACH mandate from every customer that we work with.

Shubhranshu Mishra: So, 20 million NACH mandates every month is what I'm asking.

Jaykumar Shah: So, 20 million is the life-to-date customers that we have, right? That is the overall customers.

Shubhranshu Mishra: How many do we bank on a monthly basis? How many NACH presentations on a monthly basis out of the 20 million?

Jaykumar Shah: So, I think, let me come back to you on that one, right? As I said, overall, from a banking point of view, we bank all our customers. In specific, in terms of the breakup, I think we'll look into it and come back.

Shubhranshu Mishra: Thank you.

Moderator: Thank you. Our next question comes from the line of Pranuj from JP Morgan. Please go ahead.

Pranuj: Hello. Thank you for taking my question. So, coming back to the CV bit of it, I think you commented on what is driving the volume slowdown. But if I come back to the asset quality in terms of operator profitability, can you give us some sense of how do you expect it to move? Because you did allude to the point that the cost of ownership has materially gone up over the last few years, while freight rates may not have kept up pace with that. They move more in line with the diesel moment. So, like any outlook on operator profitability and vehicle utilization levels, and what gives you the confidence that this could improve in the coming quarters? Thank you.

G Ramesh: So, the bulk of our customers are relatively small transporters, right? I mean, typically a vehicle or two. I think their business model is fairly independent of how fleets and large operators work. So, these are essentially jobbers or people picking up loads locally. They have tie-ups locally with people and they're working through moving the goods from one place to another, either within a district or within a state. Our exposure to large fleets is quite small. So, in these businesses, it's not really a cost per kilometer, but it's more availability. It's typically a per trip or per project kind of pricing that these businesses work on, and not really a cost per kilometer kind of model. So, to that extent, it's a fairly different model that -- of customer that we work with. I mean, our exposure to fleets and those kind of customers who work on large contracts is quite small. I mean, that's really how we think about it.

Pranuj: But are you observing any impact on -- are you observing that operator profitability is getting adversely impacted in for these small road transport operators because the cost of vehicles have moved up? And also on the -- you also said it depends on the availability of trips. So, on the vehicle utilization front, on a Y-o-Y basis, are you noticing any improvements happening?

Jaykumar Shah: So, Pranuj, as Ramesh mentioned, our book is very granular. It's slightly different to the segment I believe you may be looking at in terms of, large operators. I think what we can do is we can connect offline to maybe understand better, and you can connect with our IR team, and then we can take it forward. Okay?

Pranuj: Sure. Thank you.

Jaykumar Shah: Thank you so much.

Moderator: Thank you. Our next question comes from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Yes. Hi. Good evening. Thanks for the opportunity. A couple of questions. The first one is again coming to that, your asset quality or credit cost. I mean, of course, you alluded partly to the seasonality of Q1, but I mean, if we were to look numbers since March 2024, quarter-by-quarter, I mean, the gross NPAs have gone up, and credit cost also inched up.

So, overall, I mean, where do you see, I mean, given that your customer mix, your business segments, at what time, I mean, or like at what levels do you think it's going to peak out? Because the question is that, okay, now, I mean, of course, March'24, a pretty low level of credit cost. Now, we are nearing 2.5%. So at what point, I mean, given the macro scenario or particular to your business strategy, where do you see these peaking out? Because this is not typical seasonality, because even if you look at quarter-on-quarter, it has been just inching up over the last five-odd quarters. So, at what level, I mean, do you start to see sort of that, okay, that has peaked out and it should improve? That's one.

Second, if I, of course, you partly, I guess, touched upon this question, if you look at your profitability matrix at the end of the day, I mean, right now, it's a bit subpar. Now, what would be the kind of your realistic goal in terms of ROAs and improvement from here? I mean, if you can just break it down into what kind of improvement you expect from NIM and what kind of expectation, I mean, improvement expectation is from credit cost, because, I mean, given your kind of a business model, Opex will not likely see much improvement. So, how -- what kind of improvement do you see in terms of NIM and credit cost? And what is sort of your target ROA, if one can say? Thanks.

Jaykumar Shah: Thanks a lot, Avinash. So, Avinash, a couple of things. NPAs, in terms of where we are, if you see our last couple of quarters, it's been -- in terms of credit cost, it's stabilized. Overall, the question around peaking, etc., it's a lot more of how the overall economy functions and how economic activity moves, right? And I wouldn't want to double guess something, but most people that I talk to seem to be more optimistic in terms of how the next couple of quarters will play out and move forward. So, let's hope and let's work from there in terms of the overall economic activity in the country and things moving from there. So, that's one.

In terms of profitability and moving forward, a couple of things we mentioned to a question which came earlier from one of your colleagues was that on the NIM side, the benefits of our rate reduction, which has happened on the repo side, hasn't really come through. So, that we see coming through from Q2 onwards.

And the other important thing. So, a couple of things you look at in that mix, 77%, almost 75%-76% of our book is largely secured and is also fixed rate, right? Very important. Whereas today we've taken some benefit and if you look at last quarter versus this quarter, our bank borrowings, which are completely EBLR linked, have increased. So, we've taken some benefits there and that should help us in terms of the overall profitability.

Second component, as I mentioned, on the asset quality side, as things start to improve, the credit cost moderates. Both those are key parameters in terms of the NIM and credit cost and that should play itself out in terms of ROA improvement.

Avinash Singh: Okay, thank you.

Jaykumar Shah: Thank you so much.

Moderator: Thank you. Our next question comes from the line of Shweta from Elara Securities. Please go ahead.

Shweta: Thank you, sir, for the opportunity and congratulations on the first quarterly earnings. Three questions from my side.

Sir, while you alluded to the fact that not all woes are behind an unsecured loan, what is your assessment of the new book behavior formation? And I'm also coming from the fact that considering stage two, stage three, year-on-year basis have seen stark spike. Of course, you have attributed this to persistent CV weakness, but then any particular portfolio dominating the stage two spike? Second, just a related question, any legacy/pandemic-led challenges, assets lingering in Stage 2 or Stage 3?

And third question, what is your AUM growth guidance and what are the levers considering there has been, again stark change in disbursement mix for this particular quarter sequential basis? Thank you.

Jaykumar Shah: So Shweta, a couple of things. In terms of the new book behavior on unsecured, as I mentioned, things have stabilized over the last few months and we're watching it closely to make sure it's sustainable and take it forward from there.

In terms of the spike in the delinquencies of Stage two as such, has come through on the CV side, as Ramesh alluded to earlier as well, and we're very hopeful that things move through in the right direction, which is what is expected. In terms of legacy, we don't have any legacy issues as such.

In terms of guidance, we have basically a policy of not providing guidance as such, so I'll keep it at that. And we look at the overall economic growth as the primary indicator in terms of how things move forward.

Shweta: Thank you. That's very helpful.

Moderator: Thank you. Our next question comes from the line of Piran from CLSA. Please go ahead.

Piran: Just a couple of questions on your liability side…

Moderator: Sorry to interrupt sir. Your line is not clear.

Piran: Yes. Hi. So just congratulations, firstly. Secondly, some questions on your liability side. So when it comes to bank borrowings, what's the mix between MCLR and repo-linked or T-bill-linked borrowings?

Jaykumar Shah: So, 90%+ or 95% of our entire borrowings is EBLR-linked.

Piran: Okay. And, when your bank lines are coming up for renewal, are banks now, taking an additional spread? Let's say repo's down 100 bps, they can't afford it. Are they increasing the spread by, say, 25 bps or whatever? Or is it the same spread over repo?

Jaykumar Shah: This is something we work through with each of our banking partners. And we have very long-term relationships with all our banks whom we work through.

Piran: Okay. Let me ask you another way. Is it fair to say that the EBLR book sustainably re-prices downwards by 100 bps? Are you confident of that?

Jaykumar Shah: The EBLR book surely re-prices in line with the markets. Okay.

Piran: Okay. Fair enough. Yes. Thank you so much.

Moderator: Thank you. Our next question comes from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: No, I think my question is partially answered. But just one thing in terms of, in the current environment when the asset quality trends are not very supportive, in CV – what will be our growth approach? Are we cutting back or I mean, are we not taking our earlier share of volumes at the dealerships? Or is there any change in our approach of business in CV or any other product? Or have we changed, maybe our filters or policies, which will kind of slightly moderate our growth further in the coming few quarters? And as a response to the asset quality, what is happening here?

Jaykumar Shah: So, Rajiv, again, it's something that we look through very holistically, obviously, at the ground, there'll be granular strategies on various products, sub-segments, etc. The main focus on the CV business as a whole, one thing that Ramesh, did mention that we're also looking at, doing more of used as, you know, a strategic piece. And we'll work from there.

Rajiv Mehta: Sure, sir. Thank you.

Jaykumar Shah: Thank you.

Moderator: Thank you. Our next question comes from the line of Bhuvnesh Garg from Magma Ventures. Please go ahead.

Bhuvnesh Garg: Just a couple of questions. Firstly, on your provisioning coverage. So if I look at on Y-o-Y basis, Stage 1 coverage has gone down from say 2% to 1.5%. And similarly, Stage 2 coverage has gone down, Stage 3 has gone down. So just want to understand, is there any policy change or is it or what is what is driving this changing provisioning level?

Jaykumar Shah: Thanks a lot, Bhuvnesh. So if you look at our overall provisions, the way I'd like you to look at it is on the book, we had a 3.3% provision. Today, also, we had a 3.3% from March to June. PCRs have remained a constant or actually, slightly inched up. Our book is very granular, Bhuvnesh, and a lot depends on the book mix in terms of which product moves in which fashion. We follow a consistent model. And, things could move a little bit in terms of different stages as well. So we don't have any large assets, as I mentioned, our top 20 borrowers is 0.32%. That's how I would want to look at it.

Bhuvnesh Garg: Yes, I understand that on Q-o-Q basis, there is not much change, but on Y-o-Y basis, for example, June'24, versus June'25. So that shift is quite significant across the buckets. So just want to know if there is any policy change on yearly basis?

Jaykumar Shah: So I think, as I mentioned, overall, the way I would want you to look at it is more Q-o-Q because, we have moved in the overall economy over the last 12 months. And what would be best in terms of, a credit comparison, our overall PD, LGD that etc., would be a March to June would be a better comparison.

Bhuvnesh Garg: Okay, understood. And just a second question on your asset quality. So if I look at your segmental asset quality from your annual report disclosure, it seems that we have seen sharper deterioration in GNPA, Vehicle Finance NPA compared to peers. And even for last 3, 4 years, our asset quality performance in Vehicle Finance seems to be lagging the peers. So what is the reason for this? And is it a product specific? Is it geography specific? Or what and what changes are you making to improve this performance?

Jaykumar Shah: So I think we alluded to earlier in the call that there has been weakness in the CV segment. Right? And, I mean, in terms of the higher, stress in the book, we're very seized of that opportunity in terms of work in progress that we're working on.

Bhuvnesh Garg: Oh, fine. That's it from my side. Thank you.

Jaykumar Shah: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we are at the end of the allotted time. I now hand the conference over to Mr. Jaykumar Shah for closing comments.

Jaykumar Shah: Thank you very much. Really appreciate all of you taking the time today to hear us out. And thank you. Thank you so much.

Moderator: Thank you. On behalf of HDB Financial Services, that concludes this conference. Thank you for joining us, you may now disconnect your lines.

Note: This transcript has been lightly edited for clarity and accuracy