



HDB Financial Services Limited
Q2 FY26 Earnings Conference Call Transcript

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

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Moderator: Ladies and gentlemen, good day and welcome to the Q2FY26 Earnings Conference Call hosted by HDB Financial Services. 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. Ladies and gentlemen, also note this conference call is only for analysts and investors and not for media.

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 you all to the Q2FY26 earnings call of HDB Financial Services Limited. We have with us Mr. G Ramesh – MD and CEO along with Mr. Jaykumar Shah – 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.

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

I will now request Mr. G Ramesh for his opening remarks, followed by Mr. Jaykumar Shah who will provide a brief on the financial results. We will open up thereafter for Q&A.

G Ramesh: Thank you, Vishal, and very good evening to all of you who have joined us today. Greetings of the season.

Briefly on the macros, India seems to be in a very unique situation in terms of domestic economic activity, showing resilience in spite of geopolitical uncertainties as indicated by GDP estimates and high frequency indicators.

The latest monetary policy review commentary on growth and inflation estimates bodes well for the economy. The robust monsoon season is expected to perk up rural consumption. Easing inflation, and the impetus provided by GST rationalization bodes well for the broader economy and financiers as we step into the festive season.

The regulator’s comments as a part of the latest monetary policy commentary on the draft circular for forms of business is meaningful and augurs well for us, while we wait for the final guidelines.

Coming to the **quarterly business updates**, as you would all recollect, we have our businesses which are bucketed into three distinct business lines.

The first business is what we call **Enterprise Lending**. This business has both secured and unsecured loans.

The secured lending products, which primarily consists of loan against property (LAP) and enterprise business loans, grew moderately in Q2. On gold loans, recent changes in regulations in the gold loans business has helped us gain good traction in Q2 along with increase in price of the metal and augurs well for this segment going forward.

We have held a conservative position on unsecured business loans. As asset quality pressures ease, we expect to return to a growth trajectory in the coming quarters.

The second business that we have is what we call **Asset Finance**.

In Asset Finance: We had faced challenges in the commercial vehicle financing segment (CV) on asset quality in Q1 and this continued through Q2 as well. Monsoon accentuated matters as high precipitation in specific geographies of the country, i.e. North and East, impeded vehicle deployment with consequent impact on customer cash flows. Based on our business insights, we believe that vehicle idling, which is a phenomenon that we normally notice in Q2 because of monsoon, was much higher this year than in the prior years. The second factor was that there was deferment of demand for vehicles because of announcement of GST rate rationalization.

However, with the extended monsoon season and a seasonally slow quarter behind us, we anticipate a positive momentum in book growth with the onset of the festive season and supported by key policy changes made by the Government through GST rate cuts, which have essentially reduced the cost of ownership of commercial vehicles.

On **Consumer Finance**, which is the third business line

In this segment, again, growth was moderate in Q2 due to demand deferment on expected GST reductions, which have actually now come through specifically in some product categories like two-wheelers, consumer durables and auto.

There should be a pickup in demand in auto, two-wheelers and consumer durables (CD) on the back of 1) Festive season, 2) Easing inflation, 3) Better kharif crop sowing and growing farm incomes, and that should be a positive for this segment going forward. We have already started seeing good movement in retail offtake in the first few days of October, which should reflect in the months ahead.

Thank you all for joining in and wishing everyone a very happy Diwali and a wonderful festive season. I will now hand over to our CFO, Mr. Jaykumar Shah for an update on the financials.

Jaykumar Shah:

Thank you, Ramesh. A very warm welcome to all. Moving on to the financial performance for the quarter.

- Customer franchise grew to 21.0 million with an increase of 4.2% sequentially and 19.6% Y-o-Y.
- The Gross Loan Book as of September 30, 2025 stood at ₹111,409 crores, growing 1.9% sequentially and 13% Y-o-Y. Secured loans comprise 73% of the Total Loan Book
- Disbursements for the quarter ended September 30, 2025 was ₹15,599 crores, up by 2.8% sequentially
- Branch count stood at 1,749, spread across 1,157 cities and towns
- Net interest income for the quarter was ₹2,192 crores, an increase of 4.8% Q-o-Q and 19.6% Y-o-Y
- Net Interest Margin (NIM) for Q2FY26 improved to 7.9% vs 7.7% in Q1FY26 and 7.5% in Q2FY25
- Cost-to-income ratio for our lending business declined to 40.7% in Q2FY26 as compared to 42.7% in Q1FY26 and 42.7% in Q2FY25. The ratio for the half year was 41.6% as compared to 43.0% compared last year H1FY25
- Cost-to-assets reduced from 3.8% to 3.7% Q-o-Q
- Pre-provisioning operating profit for the quarter was ₹1,502 crores as against ₹1,388 crores for the prior quarter
- Credit cost for the quarter was ₹748 crores as against ₹670 crores for the prior quarter.
- Profit after tax for the quarter ended September 30, 2025 was ₹581 crores as against ₹568 crores for the prior quarter
- Gross Stage 3 as at September 30, 2025 stood at 2.81% as against 2.56% as at June 30, 2025
- Provision coverage ratio on Stage 3 stood at 54.73% as at September 30, 2025
- RoA (annualized) for the quarter ended September 30, 2025 stood at 1.93% which includes opening assets of approximately ₹9,000 crores of OFS money on June 30, 2025. Adjusted for this, the RoA would be 2.02%
- RoA (annualized) for H1FY26 stood at 2.1%
- RoE (annualized) for quarter ended September 30, 2025 stood at 12.23%
- Earnings per share for the quarter was ₹7.0 and Book Value per share stood at ₹233.1
- Our borrowing mix remains well diversified with a positive cumulative mismatch across all buckets up to 5 years
- We remain well capitalized with total CRAR i.e. capital adequacy of 21.82% as at September 30, 2025

So, this was a summary from our end. Sagar, we can now open the floor for Q&A.

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

Abhijit Tibrewal: Good evening, sirs. Thank you for taking my question. So, a couple of things. In your opening commentary, you spoke about some stress that we saw in CV in 1Q and that continued in 2Q as well. You also spoke about some vehicle idling, which in 2Q was much higher than prior years.

Likewise, in the last quarter, you had shared something around MSME that we have seen. If you could just touch upon that. In addition to that, are there any other newer retail stress segments which have emerged within the quarter? That is my first question.

The second question was, now that we have practically seen through almost the festive season, maybe another five days to go, what is the view that is emerging? I remember you ended your opening remarks by saying that in the first few days of October, we are seeing a good retail uptick. So, if you could just, for the benefit of all of us, kind of dwell on that, how has the festive season been, both Navratri and what is Deepavali looking like?

And lastly, sir, given that you are among the first NBFCs to report in a new season, if you could just kind of speak about some of the trends that you would have seen in the last quarter, that would help all of us? Thank you, sir.

Jaykumar Shah: Thank you, Abhijit, for your questions. I will try and answer them. Jaykumar here.

So, in terms of the stress segment, Abhijit, I will just cover it as a whole, I think, so that it helps holistically. As you are aware, Enterprise Lending is approximately 38% of our book, Asset Finance approximately 38%, and the remaining is Consumer Finance.

We spoke about, and you specifically referred to MSME. We had quoted last time stating that we had seen stabilization in our MSME book, and that is continued into Q2 as well. So, we haven't seen any significant stress increase in MSME space within the Enterprise Lending segment that we had called out earlier. So, that's one.

Second, on the CV space in specific, we had stated at the end of Q1 that there were certain challenges. As Ramesh alluded to, on account of some of the monsoon challenges, i.e. flash floods that you have seen in the North and East of the country - there have been certain areas which have actually been closed for more than a week/10 days/or even 15 days. This has resulted in vehicles not really plying the roads, which has impacted our customer base, and, as a result of which, that there has been stress which has come through. As we have moved into towards latter part of September – we believe that that was an event that happened in August, or July and August, and we should be moving forward from here on.

In terms of the festive season view, we are, as you know, all of us have read in the newspapers, and as all of us are looking around in the market, there is a lot of positivity that we see all around us in the retail segment. We are very hopeful that with that positivity, we should be able to ride that, ride the market, and do well over the coming quarters.

- Abhijit Tibrewal:** Just a follow-up there, sir. So you spoke about this positivity in the festive season. We have seen that across both auto as well as consumer durables?
- Jaykumar Shah:** So in the consumer segment, we are surely seeing it. In the other segments, there is some amount of positivity, but I think we have to give it time. It is the first week, 10 days of October. As we go through the month of October and beyond, we will have to see that.
- Abhijit Tibrewal:** Got it, and so other than CV and MSME, there is no...
- Jaykumar Shah:** Can I request you to come back in so that others also get a chance, and then I am sure I can answer more. Thank you so much.
- Abhijit Tibrewal:** Thank you.
- Moderator:** Thank you. Our next question comes from the line of Viral Shah from IIFL Capital. Please go ahead.
- Viral Shah:** Yes, hi. Thanks for the opportunity. So, if you can just, say, double-click on the asset quality piece. So, you mentioned that MSME has not seen any deterioration on a sequential basis. And even in Asset Finance, it is only commercial vehicle. So this entire stress of, I would say, what we are seeing in net slippages is attributable only to the commercial vehicle segment on a sequential basis.
- And secondly, Jay, if you can also talk about the provisioning. So, if I see and look at the Stage 1 and 2 numbers also, I understand Stage 3, there could be some write-off impact. But why has the PCR come down for the Stage 1 and 2? That would be two questions for my end. Thank you.
- Jaykumar Shah:** Okay. So I will cover the first one first, which is on terms of slippages, etc. It is materially coming from the CV segment. There has been a little bit of construction equipment (CE) that gets affected, naturally. It is in a similar domain. But that is rather small. Largely, it has come through the CV segment. So when you look at 2.56% to 2.8%, that is what contributes to it in terms of slippages.
- As far as the provisioning is concerned, you would think about it – as the last time also we had spoken, ours is largely a formula-based piece. We have a very diverse portfolio ranging from LAP through to Consumer Finance. The book mix in terms of what sits in what book drives it a lot more. Plus, the PD-LGD of each book is very different. If you look at our Stage 3 provisions, again, as the secured book has gone into it, there is a slight bit of difference, but that's more because each product has a PD-LGD.
- On Stage 2, our provisions are largely similar. On Stage 1, as some of the book mix has moved, there is a slight bit of reduction. But on overall basis, fundamentally, there is no change in approach that we have towards provisioning.

- Viral Shah:** Got it. And just on your piece and commentary with regard to the CV segment, you mentioned that that is the major contributor. Within that, is it the new or the used piece? And has it anything to do with the correction in the CV prices, especially on the used piece?
- G Ramesh:** What happens in Q2, it is a seasonal thing and it happens both in construction equipment and in commercial vehicles, that there is some amount of idling that happens. For example, let's say a construction equipment is being used in a mine, and the mine gets flooded because of rains. So, there will be idling of the machine. Similarly, if there is very heavy rains, and if a vehicle typically covers, let's say 100 kilometers or 150 kilometers a day, that might come down by about 20%-30%. So, historically, if you look at Q2 as a season for commercial vehicles, there's about 20% idling that you can look at in this period, as compared to Q3 or Q4. Some of our insights suggest that this time in certain markets, that went as high as 30%-35%. So, it's not really a vehicle type, but really where the vehicle was and how the vehicle got impacted by unseasonal rains or inability to commute because of weather conditions.
- Viral Shah:** Yes, got it. Thank you so much, and all the very best.
- Moderator:** Thank you. Our next question comes from Shubhranshu Mishra from Philip Capital. Please go ahead.
- Shubhranshu Mishra:** Hi, thanks for the opportunity. So, quickly on the climatic change impacting our book. Climatic change today is a reality. So, are we providing additionally for this and because even the climate change can be predicted to a certain extent. So, and this should be a seasonal thing. So, anything more to eat into the asset quality and what should be a sustainable credit cost that we should punch into our models? Also, if you can spell out the PD and LGD assumptions for the CV piece. Thanks.
- Jaykumar Shah:** Thank you. So, Shubhranshu, I will cover the second part, first. So, in terms of PD, LGDs, how we look at, we have depending on the individual product between a 5-8 year bucket in terms of the data that is available. So, we go through the cycle in terms of what is the probability of default (PD) and the loss given default (LGD) for each asset type and that is what we factor in.
- In terms of specifically on seasonality, you are right, it does affect in certain times and India is a country where seasonality of course is there. That largely gets factored into PD, LGD and also in the asset movement. So, today, if you look at it where some of the book has moved to Stage 3 from Stage 2 between September and December, sorry, between June and September, you are actually seeing provisions increase. So, it naturally factors it in terms of the risk parameter, for us to look at it more closely and then work on corrections and recoveries.

- Shubhranshu Mishra:** What would be blended PD-LGD, if you could please call that out for the CV book?
- Jaykumar Shah:** We don't put it out because I think it's a complex model. But what I would suggest is you speak to our IR team, you speak to Vishal after the call and we will see how to best factor that in.
- Shubhranshu Mishra:** Can I just squeeze in one last question?
- Moderator:** Sorry to interrupt, Shubhranshu sir. May we request you return to the queue for any follow-up questions, please? Thank you. Our next question comes from the line of Shweta from Elara. Please go ahead.
- Shweta:** Thank you, sir, for the opportunity. So, I have two questions. The first on credit cost. So, barring the pandemic period, today the credit costs have actually reached historical highs. So, at 2.7%, knocking off the seasonal challenges pertaining to the first half of the year, what is the normalized credit cost going forward, say, for the next two years? That's the first question.
- Second, again, sorry to harp on asset finance, on the CV side. So, while you mentioned about certain distinct challenges of vehicle idling, also certain markets or regional challenges, will these challenges be able to – will these challenges negate the positives coming from GST rate rationalization?, and therefore, do we expect CV vehicle financing growth to remain subdued even for the remainder part of the year? Yes, those are my two questions.
- Jaykumar Shah:** Okay. So, in terms of credit cost, let me take on that one. Shweta, what we look at is, I would not say, we do not provide an immediate term forecast. But in the 3-5 year period, we look to operate within a 2.2% plus/minus in terms of overall credit cost, and that is where we believe the ideal range for our book is. Today, we are at 2.7%, which is on the elevated side, and we expect that to start coming down from the coming quarters. That's the first one.
- In terms of GST rate rationalization, I think we have got to watch that space closely. It is a very recent phenomenon, where things have just about panned out in the last two weeks, if I can put it that way. People are still getting to terms, in terms of how should some of the used segment play and some of the new segment play. We believe that with the country growing, there is enough opportunity. As we go through this coming quarter, I think it will be worth watching that space and then commenting on it.
- G Ramesh:** So, one more point, Shweta, that you asked about the credit cost. So, if you look at pre-pandemic, our product mix is very, very different compared to what it is today. For example, our consumer book was just about 10% six, seven years ago. So, really, you can't compare credit costs, let's say, five years ago with the credit cost today, because our product mix has changed substantially. Many of the products that were very small in our book five years ago are large contributors to our balance sheet. So, when we look at credit cost, it has been sort of a blended cost based on the product mix, and as I said, Jay has sort of given you a credit cost that we are comfortable with, given our current product mix.

- Shweta:** Right. So, just a follow-up question there on commercial vehicles...
- Moderator:** Shweta ma'am, may we request you to return to the queue for any follow-up questions, please? Thank you so much, ma'am. Our next question comes from the line of Avinash Singh from Emkay Global Financial Services Limited. Please go ahead.
- Avinash Singh:** Yes. Hi. Good evening. Two questions. The first one is that can you please help your mix of new and old in your CV? And the second question is, with all these kind of – some bit of challenges that were there and some bit of a demand revival across businesses and added consumption, this 13% kind of growth, of course, I would think are lower than normal. What kind of growth do you expect to pan out in H2 and probably in FY27? Thanks.
- Jaykumar Shah:** Thanks, Avinash. So, Avinash, let me answer both your questions. The first one was new and used. So, if you look at our slides, this is something which a lot of you had asked for. So, if you look at our slides on Slide 18, we have actually put it out. So, CV new is 16% and CV used is 9% of our book today. In terms of your other question was?
- Avinash Singh:** On growth outlook, because I mean, 13% growth...
- Jaykumar Shah:** Yes. So from a growth outlook point of view, the way – I think one of your colleagues asked the question earlier. The way we would look at it is Q3, again, as I mentioned, we see a lot of upbeat in terms of the entire expectation from the market, expectation from the customer and expectation on the street. Now, that needs to translate – the first week, 10 days, as Ramesh mentioned, have been positive on the consumer side. We are very hopeful that that translates into a much better growth momentum for the entire retail industry. That should augur well for our growth for the quarter and beyond.
- In terms of the medium term, if I were to look at a 3-5 year trajectory in terms of how we build our projections and we build our growth forecast, we look at 18% - 20% CAGR book growth over a period of time. Of course, as GDP moves forward and grows well, we would adjust and we have the absolute engine and the capability to do a lot more. So again, GDP numbers came in positive over Q1 and assuming that continues over Q3 and Q4, you should see good momentum pick up for us as well.
- Avinash Singh:** Okay. Thank you.
- Moderator:** Thank you. Our next question comes from the line of Shreya Shivani from Nomura. Please go ahead.
- Shreya Shivani:** Yes, hi. Thank you for the opportunity. I have a question on the LAP book. I can see your ticket sizes are on the higher side in this book. However, if you can help us understand, do we have under 10 lakh ticket size over here? What is the stress trend in this portion, if any?
- Now, second question is on the business loan and the gold loan. Broadly similar kind of a ticket size and assuming that the same kind of customer would come to you for either of the loans. Can

you help me understand, was the trend very divergent? Did you go slow on business loan and gold loans, do we have an idea which must have grown at a much faster pace? So those are my two questions. Thank you.

Jaykumar Shah:

So, thank you so much. Shreya, on terms of LAP book, we might have a few loans here and there in terms of less than 10 lakhs, but most of them are, in the average book that's mentioned. So it's, you know, 2.5 million plus, right? That's one.

In terms of business loans, as Ramesh mentioned, we have been slightly conservative in that space. It is an area we have specifically called out over the last, I would say almost 3 quarters, where we have had stress and we have watched that space closely. We have now achieved some level of base where we believe credit cost is moderated and expected to come down. We would hope and work on growth in that business in the coming quarters.

Last one being on the gold side, that is an area as was specifically mentioned at the beginning, we see it as a good opportunity with all the rules harmonizing. Our book has almost grown by 10% Q-o-Q and 40% Y-o-Y in the gold space.

Shreya Shivani:

Just on the LAP portion, any stress trends for your portfolio? I understand you do not have under 10 lakhs, but anything that you would like to highlight over there?

G Ramesh:

So, just at a level, the way LAP is underwritten is that – this is a customer who has got a property that he or she owns, and that's a collateral for a business loan that the customer takes, which means that the business has to have sound financials to generate enough cash for a monthly EMI. Now, if you are looking at a loan of, let's say, 5 million, you are looking at a EMI of upwards of ₹50,000 a month and what you expect the customer generate adequate cash flows to be able to service that kind of EMI. So I think the advantage of a collateral is that the company is able to give a slightly longer term loan, so which reduces the monthly outflow. But also because you are writing a longer tenure, you have to make sure that the business that the customer has is of a quality that can sustain for the next few years while the loan is being serviced.

Unsecured business loan, by contrast, is for smaller amounts, and if you can see our ticket size is about ₹300,000, but they are also underwritten for shorter tenures, which means that the EMI is in the region of ₹10,000 to ₹15,000. You are evaluating the customer for ability to service a smaller amount for a shorter tenure.

Gold loans, by contrast, are typically shorter tenure contracts, because this is a product where customers would like to pre-pay as soon as possible, because it is really a temporary business requirement that they are looking at to fulfill. So, I think your question is probably around micro LAP as a segment. We typically do not have exposure to that segment. We are underwriting customers with larger value properties and larger ticket sizes.

Shreya Shivani:

No, no, completely understood. This is very clear. Thank you so much.

G Ramesh: Thank you.

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

Rajiv Mehta: Yes. Hi. Good evening. My first question is on asset quality. So when I look at your loan stages and the movement to the quarter, so Stage 3 increasing is a very pretty much in line with the seasonal pattern. When we look at the overall Stage 3, including the right of amount.

But when we look at Stage 2, Stage 2 is stable and broadly by calculating the flows coming from Stage 1, the flow rate seems to be improving while I mean, Q1 Q2 improves, but even by and by the flow rate seems to be stable. Are there any early indications that from Stage 1, the collection efficiency is now getting better or the flow rates from Stage 1 going into Stage 2? Is it getting better in the recent months?

Jaykumar Shah: So Rajiv, let me give you a little longer answer and try and address your question. If you look at Stage 3, right, as we called out earlier, there has been certain flood like situations. Assam was closed for 5 days for certain reasons, the northern belt had certain challenges. So some of the expectations that we had in terms of bringing the book back in towards the second half of September actually faced challenges. We are working on obviously improving that and getting the book back in. In terms of a number of actions that we had taken through July and August, that did help us in curbing some of the flow forwards from August to September. Recoveries is something which we have to improve, coming into October, November that should really help us bring the Stage 3 back in.

These were very specific things on the ground, which happened due to which circumstances, did not help in reaching out to customers for a reason or the other. Obviously, there are reasons and we are very hopeful that we could bring that back in in the coming months.

G Ramesh: But your observation on Stage 2 assets being stable or improving is correct. There is obviously a higher focus on collection efficiencies, which we have started seeing across most products. We expect commercial vehicles to also improve as the economy and, you know, next few months that we are looking at.

Rajiv Mehta: Okay. Internally, what will make us push growth? I mean, I know Macro, GST, some demand will improve. But internally, what are the indicators? What thresholds will make us push growth on the ground?, and a related question is on competition, do you see the competitive space getting slightly more cleared now, some irrationality in competition going out in certain products?

Jaykumar Shah: So from a growth point of view, Rajiv, I think that is something we are equally focused on. Let's see how, the Diwali festive moves forward for across all segments of us, be it business loans, be it, the LAP side, as Ramesh mentioned, it's businesses that we are funding, and as confidence starts to come back, we should see a better offtake there.

Similarly, on the CV side, as you have seen, we are doing more of used, as prices also move around, that is still a portfolio, which we believe, there should be good growth coming in. Similarly, on the consumer side, as we mentioned, the first 10 days have seen some good traction on the field and we are very hopeful as we move from now through to 23rd, 24th of October, and to the end of the month, that traction actually pushes us into a zone where, not just October, but the entire quarter looks a lot more positive. So we are very well geared up within the company and within the team to push for a reasonable amount of growth.

Rajiv Mehta: Got it. Thank you.

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

Renish: Yes, hi. Sir just two questions. Sorry for coming back to the growth outlook. So given we have a very large bucket of products. So incrementally which product do you feel should drive the growth and which are the products where you will still go little cautious in near term?

Jaykumar Shah: So the way I would look at it Renish is growth across all, if I can put it that way genuinely, segment that we have been slightly cautious of and which is just about stabilizing is the business loan segment that we have. We believe in the coming quarters that should also start to see growth.

Some of the consumer side, clearly if you look at auto loans it has kicked up in terms of really well over the last two to three weeks, two wheelers have also started picking up and so have consumer durables. So over the course of Q3 and Q4, we believe there should be, given the economy as well as the customer sentiment, there should be enough amount of power behind each one of these products for us to grow. It is obviously going to depend on the overall economic and the geopolitics that plays out, but let's assume if everything stays equal, we should be able to move ahead on most fronts.

Renish: Okay, so should we assume CV might take a couple of more quarters before we start pushing growth or do you see that product segment as well contributing to growth incrementally?

Jaykumar Shah: So CV is a reasonable sized book for us. There are some segments within that which we will push more on, in terms of where we see long term focus, and there are certain segments like HCV, for example, where we may not push very hard in the short term.

Renish: Got it, and just a last question on the asset quality only.

Moderator: Sorry to interrupt. Renish sir, may we request you return to the queue for any follow up questions, please?

Renish: Okay.

Moderator: Thank you, sir. Our next question comes from the line of Shreepal Doshi from Equirus. Please go ahead.

- Shreepal Doshi:** Hi, sir. Thank you for giving me the opportunity. My question was particularly on the enterprise lending and within that, especially on LAP, Business Loans and Enterprise Loans. So how have we seen the bounce rates, let's say, for September versus what it was probably in Feb, March period? Have we seen signs of improvement there or is it still at the same -- or has it gone down? So just some color on that front?
- Jaykumar Shah:** So Shreepal the way I would like you to look at it is, our LAP book has been fairly stable – something which has very low credit costs and it has operated in a similar zone over the last six to nine months or maybe almost a year. So that is how I would want you to look at it rather than an increasing, decreasing trend. It is a stable portfolio, something we are very focused on, something we wish to grow and has reasonably good asset quality.
- Shreepal Doshi:** And so that is for LAP, for business loans and enterprise loans?
- Jaykumar Shah:** So for Business Loans, as I covered it earlier, there has been a stabilization in Q1. There has been further slight amount of improvement in Q2, and that is something we are very hopeful of as the book matures, we will see good amount of improvement in the coming months and we should see growth also coming back.
- Shreepal Doshi:** Got it. The second question was pertaining to rejection rates. So, I understand that all lenders have tightened their underwriting norms probably around 1Q period. So are we continuing with the similar strategy or have we moderated it given that some of the segments are showing signs of stabilization on bounce rate as well as improvement? So are we moderating our underwriting norms and are we seeing rejection rates coming off, some color on that front if you could give and particularly for Enterprise Lending?
- G Ramesh:** Yes, so when you look at approval rates, it is really a function of product, the asset risk. So in case of a mortgage you look at the asset, you would have a measure of asset risk. There is an element of customer risk in terms of the customers' own income and cash flows and previous financial behavior. Then you are looking at a forecast for that business. So when you when you really do an underwriting, you are looking at asset risk, you are looking at customer risk, you are looking at geography risk, you are looking at business risk, for example, which industry is the customer in. So, there would be a flavor of that in terms of the underwriting. There could be businesses that naturally lend themselves to better cash flows as compared in certain markets. I mean, if you look at India, there are pockets, for example, there will be a textile hub, there will be a manufacturing hub, there could be a retail hub, and what you are really trying to do is to marry these into your credit policy and underwrite the customer.
- So in Enterprise Lending, we really do bespoke underwriting. It is not really a scorecard. Scorecard might be initial filter, but you end up doing a bespoke underwriting because the ticket sizes are large, which means that a credit officer does a detailed evaluation. So we would fine tune these credit policies really to a micro market or to a customer segment or to a particular

category of customers based on our own internal experience of how things are progressing, how everything is moving. For example, what could be the impact of tariffs on certain industries. So we might decide to tighten the regulations, tighten the policy or moderate the policy. Broadly, I think our approval rates have not been very different in Enterprise Lending over the last one year.

About a year ago, we did make some changes to our underwriting policy on unsecured lending because we found that we had certain sets of customers who had higher propensity to borrow from others, because there's just a bunch of lenders who lined up and were essentially doing credit score based underwriting, and that was something that we were not comfortable with. For us, leverage is important, total exposure of the customer is important and that's the way we really look at underwriting.

Shreepal Doshi: Got it. Thanks for the detailed answer, sir. But just to sort of conclude, have you seen 70%, 80% of our underwriting for, let's say, be it geography, customer profile centric, have you seen some moderation or are we looking at moderating it in terms of the underwriting norms or we are sort of, you know, still broadly keeping it intact?

Jaykumar Shah: So Shreepal the way we look at it is the Chief Credit Officer today, along with the data that he has, he will look at each segment, each geography in a very detailed manner and will go through that and take decisions. It's not a one size cut formula that you would go in and say, let's slice it or dice it in a simple piece of paper.

Shreepal Doshi: Got it. Thank you. Thank you for the answer.

Moderator: Thank you. Our next follow-up question comes from Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yes. Thank you for allowing me to follow up. So just two follow-up questions that I had. First thing how should we think about margins now? The last call you had shared that 95% of our bank borrowing are EBLR linked, which will obviously reprice in line with your external or market benchmarks. Assuming they have already repriced, right?

How should we look at the cost of borrowing trajectory and the margin trajectory? Obviously, I mean, assuming status quo, while there are room for a few more research in the December and the February policy, but assuming status quo, how should the cost of borrowings and margins trend?

And lastly, on the CV side, we have discussed a lot in this call already, but I just wanted to pick your brains on one thing. When I look at CVs, there are predominantly two things which are driving CVs today, right? So, your consumption and the other thing is your construction and infrastructure activities. So while consumption might pick up given all the actions that the

Government has taken, what is it that you are seeing on the construction and the infrastructure activities? That's all from me. Thank you.

Jaykumar Shah: Thank you. So I will take both your questions. On the margins and cost of borrowing, the way we would like everybody to look at, Abhijit, is today, I think we have taken a lot of actions over the last few months, and that's exactly what we spoke about with the confidence in the Q1 call. That has allowed us to bring margins up and reduce our cost of capital, where NIMs stand at 7.9%

For somebody like us, the way we look at it, the sweet spot is between 7.9% - 8%. While pressures may come on every side, we will work towards trying to maintain in that region. That's how I would want to look at it. That's on the margins, and obviously, cost of borrowing yields both factor in that, right?

On the CV side in specific, as you rightly said, the consumption side is improving. On the construction and infra side, we are very hopeful that the initiatives that the Government is taking helps bring some of those, you know, activities back in, as we saw in previous years, and as that comes through, we should be able to see that segment also growing from here on.

Abhijit Tibrewal: Perfect. Okay. Very useful. Thank you for taking my questions, and I wish you all the best.

Jaykumar Shah: Thank you.

Moderator: Thank you. Our next follow-up question comes from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: Hi, thanks for allowing me to follow-up. Given the fact that our asset mix has changed considerably over the last 3 years, how do we look at the asset mix in the next 3 to 5 years? That's the first. Second one is, how do we also forecast the credit cost of each specific asset class when it is growing? Thanks.

Jaykumar Shah: Okay. So, in the asset mix, Shubhranshu, the way we look at it is the consumer business should grow faster, while the other two verticals will also continue to grow. So, what you see as 23% today should inch up a few percent over the next couple of years, right?, and the reason I say couple of percent, because the other businesses obviously would grow fast as well. Pace would differ in each one of them. So there is no set target that we have today. The most important focus for us as a company is to grow our entire diversified portfolio that we have, keep focused on every product that we believe is a long-term focus for us and continue to grow in each of our products and each of our markets. So that's a very important one that we should do and we will do.

Second piece around credit cost, at this point in time, the way we look at it is because it is a very diversified portfolio and we spoke about some of the products where, for example, LAP comes at a very minimal credit cost. There are other products, which come at a slightly higher credit cost like consumer durables, etcetera. The way we look at it is we need to balance it out as a

portfolio, as a whole, for the company and really focus on how are we going to manage a balanced return that we wish to give and work from there. So that's been our key focus and that's how we would even want the investor community to look at us, that the diversified portfolio helps us grow in a balanced fashion across cycles and also balance out the credit cost. While it has been a little high in the last quarter or two, we are very hopeful of bringing it to a moderate level in the coming quarters.

Shubhranshu Mishra: Thanks. Any new products you are planning to launch in the next three to four quarters to make our portfolio diversified?

Jaykumar Shah: Shubhranshu, I have been told as a listed company, as soon as I think of something and we get it approved, I have to publish it on the exchange. So, you will see it as soon as we are doing something.

Shubhranshu Mishra: Thank you so much.

Jaykumar Shah: Thank you.

Moderator: Thank you. Our next question comes from the line of Prithviraj Patil from Investec. Please go ahead.

Prithviraj Patil: Yes, thanks for the opportunity. Just one clarification that I wanted. In the product mix, you have mentioned something on the lines of relationship PL. So, I just want a clarification on what product that is, and the second is on adoption of technology. So, if we look at some of the other peers in the sector, they have adopted technology for underwriting or for sourcing. So, I just wanted to know what HDB is doing on that front?

Jaykumar Shah: Yes. Relationship PL for us is an absolute product that we have made only for our customers. It is what most people would call as cross-sell. This is a product that is available exclusively to HDB customers. It comes as a cross-sell to the product base that we would have in the consumer book, as well as some of the other books that we have.

So that customer, if performing over the first 6, 9, 12 months, depending on the customer profile, depending on the product they have come to us first with, we give them an opportunity to take the second loan and we work from there. It is a book we have been able to grow over the last 4 to 5 years really well with our customer base, and we are very happy with how we are functioning there and we will continue to grow well in that space. That's one.

On the technology front, there is a slide that we have put up on "HDB on-the-go," and Prithviraj, I am sure, you know, all of us today live in the financial services world, which is almost a technology company more than anything else. Technology is so akin to our blood system that if we do not have good technology, I do not think we would be able to progress very well.

So, in terms of slide number, I think it is 38 and 39, we talk about it. You can have a look and I think you can give, you know, our IR team a call and we can take you through in detail. But

fundamentally, I think we have made sure whether it is, you know, a loan within two minutes, whether it is making sure a customer is able to finish their journey online.

We are trying to make sure that every single one of those basics that a customer expects from a company like us, we have that in our works and we are able to execute it for the customer. The most important thing is that, you know, we are the right choice for our customer and we are able to progress from here in a manner that the customer chooses us because of, you know, the technology and the service and the right fit for him or herself.

Prithviraj Patil: Sure. Yes. Thank you. Thank you.

Moderator: Thank you. Our next question comes from the line of Gautam Jain from GCJ Financial. Please go ahead.

Gautam Jain: Good evening, sir. First, in last quarter, you said your NIM will expand and that perfectly expanded in Q2. Now, can we say that, the higher credit cost which started from Q3 of last year has peaked and we will come back to the normal credit cost itself from Q3?

Second, on the growth side, again, I mean, growth will pick up from Q3. Can we assume that? And second is your cost to income ratio has come to 40%. Historically, we had even lower than that. So what is our ideal cost to income ratio we want to achieve?

The third question would be, would you blame higher competition in the market? and because of that, the credit growth has been lower than some of the peers.

Jaykumar Shah: Thanks a lot, Gautam. So in terms of growth, as I covered it earlier, very hopeful that, we are able to grow well in the coming quarters, and there is a lot of underlying market, how do I say, sentiment which does show that Q3 should be a lot better than Q2 and Q1. If you look at the commentary also that has come from other banks or financiers, all of us are very positive on how we see Q3 going forward. So Q3 and Q4 should augur to good amount of growth. That's the way we look at it.

In terms of cost to income ratio, if you look at on an H1 basis, we are 41.6%, and we were 42.7% earlier. As we grow and as we push on a number of initiatives, we believe between a 41.5% to a 42%, that is something fairly ideal for us as we continue on our growth journey.

The more important metric there is in terms of cost to asset. It is there in one of our slides, I can give you the slide number in a minute. I will give you a slide number in a second. So, that's something we are very focused on. It is 3.7% today, it was 3.8% earlier. And our whole focus is (on slide number 26) where we clearly reflected 3.7%, and that's something, if we are able to manage between a 3.6% and a 3.7%, as we continue to invest and grow, I think it should augur well in terms of us reaching our RoA targets.

Gautam Jain: And on credit cost?

Jaykumar Shah: On credit cost, as I mentioned, the medium-to-long term, we should be able to operate within a 2.2%.

Gautam Jain: And it will start reflecting from Q3 onwards, right?

Jaykumar Shah: Gautam, I am sure it will start to improve. If it starts reflecting from Q3 onwards, I am sure I will be as happy as you are.

Gautam Jain: I have one more question. Can I ask?

Jaykumar Shah: Sure. Go ahead.

Gautam Jain: This time your BPO profit also went up sharply Q-on-Q and Y-o-Y. So can you comment on that?

Jaykumar Shah: So we had earlier mentioned the way to look at BPO and sometimes there is obviously, billing, which will be +/- a month or accruals which get deferred. If you look at a PAT of ₹15 crores per quarter, it more or less flat lines towards that a PAT of ₹60 crores per annum is where it largely moves around +/- a few. So there's been a little bit of billing which would have moved from one quarter to another, but nothing more than that.

Gautam Jain: Okay.

Jaykumar Shah: So margins are fairly stable there. There's nothing which changes fundamentally.

Gautam Jain: Okay.

Moderator: Our next question comes from the line of Rajiv Mehta from YES Securities.

Rajiv Mehta: Hi. Thank you and thank you for taking my follow up. This Relationship PL, which is 8% of your portfolio, and you said that it's offered to existing customers. So what is the existing product overlap? Can you name the product with which it overlaps with? And what is this portfolio growth has been on Q-on-Q and Y-on-Y basis with Relationship PL?

G Ramesh: So Relationship PL is a product that is offered to only existing customers of the company. So it's a business where we offer loans to our existing individual borrowers, and the customer could have originated to us through any of the other businesses, including consumer.

If you look at our company, we have today 21 million customers, but a large proportion of them would be to our consumer finance business, right? So, as the customer matures with us and the loan tenure is towards closure, we look at multiple ways of engaging with the customer, either to follow up products or -- the advantage of Relationship PL is because unsecured loan, it can be used for multiple use cases by the customer, right?

So the customer will have a pre-approved limit either for purchasing a consumer durable, if you take a consumer finance case, he could have a pre-approved limit for buying a consumer durable, he could have a pre-approved limit for buying a two wheeler or he could have a pre-approved limit for a unsecured personal, right?

So these will be different limits based on what product the customer looking to buy, because the tenures are different, the transaction sizes are different. We engage with the customers on a continuous basis either through our in-app notifications or through our outreach programs to the customers. That is how we engage and build this book. Any color in terms of growth that you want to give, Jay?

Jaykumar Shah: So it is a focus business for us, Rajiv, and something we will continue to grow over a period of time. If you look at the same product four years ago, I think, we would have almost grown up CAGR of 40% plus over a period of time. So we are very focused on the consumer segment as a whole, as I mentioned, and that's something which we will continue to grow.

Rajiv Mehta: And would it also have CV and CE customers as well here in the in the in the customer base of this, this RelPL product?

G Ramesh: Yes. There would be customers.

Jaykumar Shah: There would be. But if you would like to think about it in terms of the customer base, right?

Rajiv Mehta: Yes.

Jaykumar Shah: It would obviously be a slightly smaller customer base. So if you have a 1 million customers in consumer durables, you might have 10,000/20,000 customers in CV and CE. So the number of people to whom you would cross-sell obviously would be there as a percentage of that customer base, but absolute number of people would be lesser.

Rajiv Mehta: Okay. Okay. Now, second thing is on the cost levers and cost dynamics. Now that we are in a very moderate growth environment and we are also constantly checking on growth, right? What are the cost levers or dynamics available to us to manage the pre-provision operating profitability? Are there anything more that we can do on the cost efficiency side or productivity side which will help us control the people?

Jaykumar Shah: So at this point in time, Rajiv, the way I would look at it is on the cost front, we believe we are fine. I think this quarter, as there was slightly lower growth, we have made sure we managed to moderate some of the cost as well, and we would continue to do that. So, I do not see that as the biggest worry.

Our key focus is to our businesses, let's invest, let's focus on the long term in terms of how we build on this as a growth area, right? The most important focus, if you think about from a long-term point of view is, how well do you invest so that you achieve your medium-term growth targets and also achieve your RoA as a whole, yes. That's how we look at it.

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

Jaykumar Shah: Thank you very much, Sagar. So from everyone here at HDB, wishing you all a very, very happy Diwali, a prosperous new year, and a year full of good health and happiness. All the very best, and may your families do well as well. 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