



13th Annual General Meeting

HDB Financial Services Limited

June 30, 2020

CORPORATE PARTICIPANTS:

Venkatraman Srinivasan

Chairman of the Meeting

Smita Affinwalla

Independent Director

Adayapalam Viswanathan

Independent Director

G. Ramesh

Managing Director and CEO

Haren Parekh

Chief Financial Officer

Dipti Khandelwal

Company Secretary

SHAREHOLDERS:

Mohit Bhatia

Krunal Shah

Dipti Khandelwal

Welcome to the 13th Annual General Meeting of HDB Financial Services Limited which is being held through video conference. I am Dipti Khandelwal, Company Secretary of HDB Financial Services Limited. I would like to take you through certain points regarding the participation at this meeting. The facility of joining the AGM through video conference or other audio video means is being made available to the members. All members who have joined the meeting are by default placed on mute mode by the host to avoid any disturbance arising from the background noise and to ensure smooth and seamless conduct of the meeting. The name of shareholders who have registered as speaker shareholders will be announced one by one. The speaker shareholder thereafter will be unmuted by the host. To start speaking, the shareholder is requested to click on the video button. If the shareholder is not able to join the video for any reason, shareholder can speak through the audio mode. While speaking, we would request the speakers to use the earphones so that he is clearly audible, minimise any noise in the background and there is proper lighting to have a good video and audio experience. If there is connectivity problem at speakers end, we would ask the next speaker to speak at the meeting. Once the connectivity improves; the speaker shareholder would be called again to speak after the other shareholders who have registered and completed their turn. We request shareholders to kindly limit their speech to 3 minutes per speaker. During the AGM, if the member faces any technical issues, he may contact the helpline number mentioned in the notice of the AGM.

G. Ramesh

Thank you Dipti. 'Good afternoon to all the shareholders and on behalf of the Board of Directors, I, G Ramesh, Managing Director and Chief Executive Officer of HDB Financial Services Limited, welcome you all to the 13th Annual General Meeting of your Company.

With me here, I have Mr. Haren Parekh, CFO of the Company and to my right is Ms. Dipti Khandelwal, whom you just heard. Now I call all the directors attending the AGM on Video conference to introduce themselves.

Mr. Venkatraman Srinivasan

"Good Afternoon everyone, my name is Venkatraman Srinivasan, I am an Independent Director of the Company and Chairman of the Audit Committee joining the meeting from my residence in Mumbai. Thank you"

G. Ramesh

Thank you sir. May I now request Mr. Adayapalam Viswanathan to introduce himself.

Mr. Adayapalam Viswanathan

I am an Independent Director of the Company and Chairman of the Risk Management Committee joining the meeting from HDB's office in Mumbai. Thank you

G. Ramesh

May I now request Ms. Smita Affinwalla to introduce herself.

Ms. Smita Affinwalla

My name is Smita Affinwalla, I am an Independent Director of the Company and Chairperson of the Nomination and Remuneration Committee. I am joining this meeting from HDB's office in Mumbai. Thank you"

G. Ramesh

Thank you very much. A warm welcome all the Directors attending the Annual General Meeting. Apart from the members of our Board, we also have all the key executives of the Company, Mr. Haren Parekh, CFO and the Senior Management Team joining through Video Conference.

I thank all members for joining the meeting. I hope all of you are safe and in good health.

We take up the first item of the agenda today, which is appointment of Chairman. I propose the name of Mr. Venkatraman Srinivasan, Independent Director of the Company and Chairman to the Audit Committee, to be elected as Chairman of the meeting. Can I have somebody to second this please.

Smita Affinwalla

I Smita Affinwalla second the appointment of Chairman

G. Ramesh

I missed the point here, we also have statutory auditors who have joined the meeting by video conference. I welcome the audit team of BSR & Co. Thank you for joining the AGM. May I now handover the mic to Chairman please.

Venkatraman Srinivasan

Thank you very much Ramesh. The notice convening this Annual General Meeting has been with you for quite some time. With your permission, I take the notice as read. The notice convening this Annual General Meeting is taken as read. There are no qualifications, observations or comments in the Auditor's Report and Secretarial Audit Report for the financial year 2019-20. The Auditors Report is taken as read.

It is with great pleasure that I present the Annual report of HDB Financial Services Limited for the Financial Year 2019-20.

The Indian economy had already been undergoing a protracted slowdown as stress in financial and real sector fed into each other. The Novel Coronavirus (Covid-19) has cast a long shadow over a much-anticipated mild recovery in the Indian economy in fiscal 2021, with the World Health Organisation declaring it a pandemic in March 2020. Rating agencies, both global and domestic, are unanimous that the Covid-19 pandemic will be an economic tsunami for the world economy.

Defaults by a large NBFC and a Housing Finance Company in 2018 - 19 continued to cast its shadow on the NBFC sector through the year. The overall economic environment remained challenging through the financial year 2019-20 with the impact of the pandemic impacting operations in the month of March 2020.

Despite these challenges, the company has had a steady year. Total income for the year grew by 23.3% to Rs. 10,756.47 crore and net interest income at Rs. 4,152.04 crore was higher by 22.9% over the previous year. Net interest margin increased to 7.4% as against 7.1% in the previous year. The challenging economic environment resulted in increase in credit costs to Rs 1,441.57 Crore. As a result, the net profit for the Company was at Rs. 1,004.85 crore. The earnings per share was Rs. 12.78 and the book value per share grew to Rs. 101.80.

The Assets under management increased to Rs. 58,833 crore from Rs. 55,425 crore in the previous year. The loan disbursement during the year was Rs. 29,853 crore.

As at March 31, 2020, your Company had 1,468 branches in 1,070 cities across India. The employee head count increased to 1,09,167 employees. The outsourcing business (i.e. BPO operations), continues to deliver best in class services and contributed about Rs. 2,113.23 crore to the total income.

CSR initiatives and activities at the Company extend well beyond its core business objectives, and the organisation's commitment and concerns for the society are evident from the various initiatives it has taken to serve, uplift and empower communities that are at the bottom of the income pyramid; particularly those often lacking access to essential amenities such as affordable healthcare, clean and safe drinking water, employment opportunities and quality education. Apart from striving to improve the Human Development Index indicators in under-served pockets of urban slums, peri-urban and rural areas, your Company has also extended support to long-term, high-impact initiatives designed to restore our depleting water bodies and increase the green landscapes. I am also happy to inform the members that the employees of the company have been participating in community outreach programs. Some of the program details can be found in the annual report.

During the FY 2019-20, your Company has spent an amount of Rs. 24.80 crore on CSR activities as against prescribed CSR expenditure of Rs. 28.28 crore. Some transactions planned for March 2020 could not be completed in the financial year. The Company has provided for an unspent amount of Rs. 3.48 crore to ensure that the scheduled CSR expenses are processed in the next FY2020-2021.

I would like to compliment the management team under the able leadership of Mr. G Ramesh and all his colleagues in the management team for a great year and the agility with which they are transforming to face the future.

On behalf of the Board of Directors and the entire management team, I would like to take this opportunity to thank the Central and State Governments, the Reserve Bank of India and other Regulators. I would also like to thank all our shareholders, investors, bankers and customers for the support and faith that they have posed in us. Last but not least, all employees of HDB Financial

Services Limited whose hard work at every level of the business has allowed us to achieve growth in the business.

Our constant endeavour is to keep pushing for continuous growth and improvement, and creating value for all our stakeholders.

Thank you.

Dipti Khandelwal

Thank you Sir.

Pursuant to the provisions of Section 108 of Companies Act, 2013 read with rules made thereunder, your Company had provided e-voting facility to the members of the Company. The facility for voting during the meeting has also been provided to the members who had not cast their vote through remote e-voting. Members may please go the voting page of NSDL e-voting website and cast their vote while at the same time may watch the telecast of the meeting.

Mr. Mitesh Shah, Practising Company Secretary has been appointed as scrutiner to scrutinise the votes cast through e-voting. Since the AGM is held through VC /OAVM and the resolution mentioned in the notice convening this AGM have been already put to vote through remote e-voting, there will no proposing or seconding of the resolution.

Now, I would like to invite the speakers who have registered themselves as a speaker to ask questions. The replies shall be given after all questions have been asked.

May I request Mr. Mohit Bhatia to speak please.

Mohit Bhatia

Good Afternoon and I hope that during these unprecedented time the entire management is in good and safe health.

May I request please to provide clarification why Mr. Aditya Puri is not joining the meeting or have we gone on to provide leave of absence to him, my first part? And other part is we also haven't sought the confirmation on quorum, second part. Moving upon to the clarification that I sought may I please request considering the unprecedented times and dealing in the securities of our Company at unlisted platform, when are we planning to go public? Are we also looking to raise funds through another source not such as capital infusion because I also see an agenda pertaining to borrowing that has been brought up which says that we are increasing the borrowing power limit? This also reflects that we are not looking for the infusion part and we are more driven towards the debt raise part because that would also involve certain rate of interest to be provided to the investee. Following are my clarification may I please request to reply upon them considering the time constraint. Thank you.

Dipti Khandelwal

May I request the next speaker, Mr. Krunal Shah to speak please.

Krunal Shah

Good afternoon everyone, I have around 3 - 4 question regarding the business perspective of HDB. My first question is seeing the results for H1 and also for the FY20 of HDB, I see that the disbursement had already slow down in H1 and provisioning was also much higher and the same thing continued in H2, I just wanted to check if this was cross connection that you are doing or what was happening in the business front. My second question is regarding the Covid, what is the Asset quality expectation that you see, do you see deteriorating too much or what is the confidence level that we are having in the Asset? Third question is regarding if you are able to provide long-term growth guidance in the AUM and you are providing any guidance on that? My fourth question is regarding the gross and net NPA level. Can you share the exact number for the same? Fifth question is regarding fundraising, is there any plan to boost the Tier 1 capital, given that there would be inorganic opportunity right now as well as organic opportunity? That is it. Thank you so much.

Dipti Khandelwal

Thank you. We have received all the questions. Now may I request our Managing Director to please reply to the question one by one please.

G. Ramesh

First of all we have quorum for the meeting. The quorum required is 30 and we started the meeting after more than 50 members had logged in and I want to confirm that we have quorum and the information is available through the NSDL website for all the members who logged in. So we do have quorum.

I start with the question that came out from one of the shareholder by email on dividend. It said that there is no plan to pay dividend but however the accounts for the financial year 2019-20 carry a Rs. 140 crore expense on dividend and dividend tax thereon and there was explanation sought on why that was the case. Till March 2018, we were following IGAAP accounting system which allowed us to create provision for dividend which is proposed to be paid. However, in the last two years, we were moved to the Indian Accounting system. Under IND AS 10, a decision to pay a dividend is a post balance sheet date event, for example, last year while we closed the books on March 31st, 2019, we took a decision to pay dividend in our board meeting in April 2019, which was further approved by the shareholders in the meeting in June 2019. Since the decision to pay dividend or approval to pay dividend came after March 31, 2019, it become a post balance sheet event as far as Indian Accounting standard 10 are concerned. Accordingly, expenses were recognised after the shareholder gave their approval.

Mr. Puri is not able to join the meeting because of urgent professional exigencies. We also had one of the Independent Director who was not able to join because of the some connectivity issues, so apologies for that.

In terms of fundraising, Companies Act says that we have to get shareholders' approval for any fund raising beyond one time of our net worth and these are typically valid for a period of one year from the date of the shareholders' approval. So that is the reason why we had to complete the AGM before June 30, 2020, because we recollect last year our AGM was sometimes towards the end of June 2019. Once the shareholder approval has come through, we can raise money. We do take approval from the shareholder considering the full year because otherwise again we need to go through an EGM or a process to raise money. Typically, this is based on business plan plus certain margin that we want to keep raising money. At this point of time you know our capital adequacy is 19.63% compared to statutory requirement of 15%. So at this point of time we have no plan to raise money from the public markets or other sources, we are quite comfortable from a capital adequacy perspective. In terms of the questions around the business itself for last year, we heard our Chairman's speech, there was a protracted slowdown. If you look at, for example the vehicle sale fell 40% last year which meant that there was that much less opportunity for financing commercial vehicles and construction equipment. So we did kind of see an overall slowdown in economy and we thought it prudent to tighten our credit stream given what we have seen. We did see some typical challenge around new business so it was a conscious decision to tighten the credit team to ensure that we are able to sustain our business in long term. In terms of COVID, there is a very unique situation that we are in, I mean it's not typically something that all of us are learn about how to go about the business in the post COVID times. Starting mid march 2020, there was lockdown in various parts of country. While we have business continuity plan around our infrastructure processes but typically they are built around having multiple offices so that we are not dependent on a single office for completing our task. For example our own centralised operations, we have 3 across the country, one in Noida, one in Hyderabad and one in Chennai. So any activity can be completed out of any of the offices in real time by simply shifting the queue. However, this is the first time we have a situation where all the offices were shut in the month of April under lockdown I. Given that we are not a bank, quite a few of our office were shut till early May 2020. When lockdown 2.0 was announced, it allowed NBFC to open some offices. We had to take cognizance of one - health of our employee and two - to make sure we comply with all local guidelines to make sure that even if the local administrations allowed, we have limited staffing. One of the things that we successfully managed to achieve was to move lot of work to people houses, taking care of information security, so lot of critical activities that are required to run the organisation, we managed to move it very quickly to the people houses. We managed to put a VPN framework so that people continue using their office assets. There is not a single instance of employee doing any work on personal asset, it's all from company assets, so the employee login through a company AD ID and then logs into the company system and completes his work. So that was successfully accomplished. We also managed to move that position in digital channel wherever possible both from the legal perspective and to make sure that is done completely. So we managed sometime in early May to open some of the offices and we were able to build a lot of steam as we started from 1st June.

In terms of guidance, we don't give forward looking guidance. Having said that I think you would understand that at this point of time we are more focused on balance sheet management. We want to make sure that our balance sheet continues to be prudent we are able to raise money, which we have been quite successful. There was a story about a month ago in the newspapers that on that single day there was a plan to raise about 10,500 crore by about 6 or 7 companies that included 2,000 crore by HDB. On that day the total money raised by the market was 3,500 crore and HDB got its entire quota of Rs. 2,000 crore, I think we are the only one among the 6-7 companies who managed to raise full quota of fundraising. So we continue to have a great relationship with our investors and bankers. At this point of time our focus is on balance sheet management. We are completely tuned to what is happening in the market, we have presents across the countries in urban, peri urban and rural markets which means where ever there is an opportunity, we have both physical and digital presence. In the last three months, we have managed to move a lot of our processes to digital platform. So today probably, if you meet a HDB relationship officer he is going to take out his phone and enter some of the data rather than getting a physical form, so that's lot of information is typically collected and conveyed in a single meeting. Those are the kind of changes we have done to our processes. A lot of this is work in progress, the lockdown has allowed us time to complete the projects.

We have comfortable access to liquidity at this point of time and we believe that as and when opportunities come about. In fact there are green shoots in some areas, for example two wheeler sales have shot up. A lot of people who probably use public transport are now looking at having their own vehicle for safety and social distancing perspective. So we have presence in that market, let's see how that goes. We are cautiously optimistic. We do believe that sooner or later medical science will find solution to some of the challenges we are facing right now and if you look at compared to March, we have lot more clarity and visibility in terms of how to deal with the pandemic, how to kind of live with the new normal in that sense, so we kind of continue to look at what opportunities come through. We have a fairly large product range and we believe that we allocate capital based on the opportunities that are there for profitable return on our capital. So in terms of asset quality, as there was a deterioration in the Asset quality as compared to 1.78% gross NPA which we had as on March 2019, the comparable number is about 2.7% in terms of like to like comparison of 1.78, primarily driven by some amount of increasing credit cost, which we saw in our vehicle finance business. Like I said vehicle sales fell more than 40% that impacted and given the general slowdown in the economy that resulted in a lot of customers finding it stressful to pay. We do have a conservative balance, at this point of time we have a conservative ALM policy, we will make sure that at any point of time we are not carrying risk that are avoidable for available. For example, if you look at our liability profile, commercial paper is just about 3%. We do not try to borrow short and lend long. We make sure that we have a fair mix of fixed and floating rate rules to reflect the Asset mix as well. So we try to make sure that we are not carrying the interest rate risk or liquidity risk. We believe that some of these costs that we carry on an ongoing basis to make sure that we don't have challenges which help us to get through this very unusual situation. So again as of now there is no plan to raise Tier 1 capital, So our Tier 1 capital is about 13.96 as compared to 10 which is a statutory requirement, very fairly capital at

this point of time and if we do make some plan will have to come back to shareholders for approvals. So at this point of time we have no such plans and we will continue to grow and will continue to make sure that way we are able to give adequate value to our stakeholders. Thank you

Venkatraman Srinivasan

Thank you Ramesh. I thank all the shareholders for their presence. The e-voting facility will be enabled for next 15 minutes for those members who have not cast their vote. The results of the e-voting will be declared after the conclusion of the 13th Annual General Meeting. The results shall be published on the website of the Company. The proceedings of the AGM will be available on the website of the Company. I now declare the meeting as concluded.

Dipti Khandelwal

I thank the Chairman for sparing his precious time and gracing the Annual General Meeting and for his wonderful speech. I would also like to thank the Directors and the shareholders for attending the meeting. Thank you. Good Evening everyone. Stay safe and stay healthy.

G. Ramesh

Thank you very much, Good day.

(This document has been edited to improve readability)