



16th Annual General Meeting
HDB Financial Services Limited
June 30, 2023

CORPORATE PARTICIPANTS:

Mr. Arijit Basu

Chairman

Mr. Venkatraman Srinivasan

Independent Director

Mr. Adayapalam Viswanathan

Independent Director

Ms. Smita Affinwalla

Independent Director

Dr. Amla Samanta

Independent Director

Ms. Arundhati Mech

Independent Director

Mr. Ramesh G.

Managing Director and Chief Executive Officer

Mr. Jaykumar Shah

Chief Financial Officer

Ms. Dipti Khandelwal

Company Secretary

SPEAKER SHAREHOLDERS:

Mr. Haren Parekh

Mr. Gopinath Chittoor

Mr. Neville Poncha

Ms. Dipti Khandelwal :

Good afternoon members. I am Dipti Khandelwal, Company Secretary of HDB Financial Services Limited, welcome you all to the 16th Annual General Meeting of HDB Financial Services Limited. Pursuant to the provisions of the Companies Act and MCA circulars, this meeting is being held through two-way video conferencing and other audio visual means. The proceedings of this meeting is available on the website of NSDL. The Register of Directors and Key Managerial Personnel and other documents referred in the notice of AGM are open for inspection electronically.

Members who wish to inspect such documents may send their request to me. While we have provided the e-voting facility to members, the same is also available to the members during the AGM. Members who have not yet cast their vote may cast the same during the AGM. The process for E voting has already provided in the notice of the AGM. Participation of members through video conferencing, other audio visual means is being reckoned for the purpose of quorum. We have requisite quorum for the meeting. Thank you very much. With this, now I hand over the proceedings to the Chairman Sir.

Mr. Arijit Basu :

Good afternoon to all the shareholders and on behalf of the Board of Directors, I Arijit Basu, Chairman of HDB Financial Services Limited welcome you all to the 16th Annual General Meeting of your Company. As confirmed by the Company Secretary, the quorum for the meeting is present, I therefore call this meeting to order. Before we start the main proceedings of the meeting, I request my colleagues on the board on the video conference today to please introduce themselves. Mr. Venkatraman.

Good afternoon everyone. My name is Venkatraman Srinivasan. I am an Independent Director of the Company and Chairman of the Audit Committee and Nomination and Remuneration Committee joining this Annual General Meeting from my residence in Mumbai. I hope you and your families are healthy and safe. Thank you.

Mr. Arijit Basu:

Dr. Amla Samanta please.

My name is Amla Samanta. I'm an Independent Member of the HDB Financial Services Limited. I also chair the Corporate Social Responsibility and Stakeholders Relationship Committee. I'm joining from my office in Mumbai. I hope all of you stay well, take care. Thank you.

Mr. Arijit Basu :

Mr. Adayapalam Viswanathan.

Hello, good afternoon everybody. This is Mr. Adayapalam Viswanathan, Independent Director on the HDB Board. I'm chair of the Risk Management Committee and the IT Strategy Committee, happy to be part of this AGM. I'm attending this meeting from my office.

Mr. Arijit Basu:

Ms. Smita Affinwalla please.

Good afternoon everybody. My name is Smita Affinwalla. I'm an Independent Director on the board of HDB Financial Services. It is a pleasure to be here with you this afternoon. I am attending this meeting from my residence in Poona. I hope your families are safe and well. Thank you.

Mr. Arijit Basu :

Ms. Arundhati Mech please.

Good afternoon. I'm Ms. Arundhati Mech joining this meeting from my residence in Chennai. I'm an Independent Director of the HDB Financial Services Company and thank you very much for supporting us and without the shareholders we are nobody today, so we are looking forward to a very good year after COVID and I hope all your families are safe and sound and I'm happy to be in this AGM today. Thank you.

Good afternoon everyone. My name is Ramesh Ganesan. I'm a Managing Director and Chief Executive Officer of the Company. I'm joining this meeting from HDBs office in Mumbai. Thank you all for joining this meeting and welcome to the AGM. Thank you.

Mr. Arijit Basu:

A warm welcome to all who are attending the Annual General Meeting today. Apart from the members of our board, we also have with us Mr. Jaykumar Shah, Chief Financial Officer of the Company. The representatives of Messrs. KKC & Associates LLP and Messrs. B K Khare & Company, Joint Statutory Auditors, Messrs. Mehta & Mehta, Company Secretaries, secretarial auditors, and the senior management team are also attending this AGM through video conference. I thank all members and shareholders for joining the meeting. I hope all of you are safe and in good health.

It's very nice that we are joining this year in 2023 away from all the difficulties that we had in the last two years and we look forward to a year of full of prosperity for all of you as well as for the Company. This Annual General Meeting is held through video conferencing in compliance with the directions of the Ministry of Company Affairs. This meeting is available in the NSDL website.

The Company has taken requisite steps to enable the members to participate and vote on the items that are being considered in this AGM. The notice convening this AGM 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 the secretarial audit report for the financial year 22-23. The auditor's report is taken as read. It gives immense pleasure to share with you the annual financial report for the financial year 22-23. The last fiscal for us was a year of calibrated growth through very disciplined execution and focus and strengthening our digital code enabling the company to be ready for the next phase of growth. You will be happy to note the improvement in management of stressed assets as also in business growth reflected in better Stage 3 NPA ratios and higher profits. As on March 31, 2023, the gross Stage 3 ratio of the company reduced to 2.73% from a much higher figure in the previous year. Profit after tax for the financial year 22-23 has increased by almost 94%. Earnings per share has increased from ₹12.81 as on the 31st March of the previous financial year 22 to ₹24.78 as on March 31st, this year. The capital adequacy as at March 31, 2023 stood at a very healthy 20.05%, which is well above the minimum regulatory norms.

Your Company performed well not just on quantitative, but also on qualitative parameters and remains committed to striving for continued improvement in delivering value to all stakeholders. Your

Company continues to benefit from the strong credit ratings that we have resulting in a diversified borrowing mix at very attractive rates. Our balance sheet continues to remain strong with sufficient liquidity in the form of liquid investments and undrawn lines, which give us great comfort that we will be able to meet all our near term and other obligations. For us, technology has been a key enabler of efficiencies across the Company largely enhancing our capabilities as a country as a whole, which we see in India, the same thing our company has focused upon over the last few years and many of these have borne fruition in the current year.

The increasing integration of technology into our lives has given rise to newer opportunities which add value in unimagined ways. In fiscal 23, your Company has also not been behind and we have emphasized on implementing a strong digital framework throughout the value chain across origination, management, and collection activities. Our digitally enabled physical acquisition model has enabled wider reach and very efficient customer engagement throughout the life cycle.

We have also empowered our customers by introducing intuitive and seamless digital self-service channels across platforms thus providing a frictionless experience to our valued customers. At HDBFS, we constantly strive to evolve with the dynamic business landscape and align our efforts with our vision of empowering everyone and I would like to add here that we are extremely focused on ensuring that whatever we do on the digital front is aimed at giving the best possible value and service to our customers who remain the key to our success. We cannot, but have succeeded in the way that your company has done unless our people have not risen to the occasion.

As a company we continue to invest in talent and in training our employees to deliver the highest service standards, which go beyond what even the customers may be expecting. Our training consists of mandatory knowledge training, work related skills and coaching to encourage our employees to stay ahead in a world that is constantly changing and very uncertain, we call it the VUCA World. Considering our large network across the country, we also invest in something which we consider very important in training values to ensure that our customers have a uniform experience when dealing with any employee anywhere in the firm. Our commitment to the community remains strong and encompasses addressing the key social and environmental concerns that India faces. Your Company's CSR programs have positively impacted lives of more than 1 lakh individuals and touched many more lives a wide range of development activities. We collaborate with leading sector NGO's to improve our infrastructure in healthcare, education, and environment and are very proud that apart from what we are achieving in financial success, we are contributing to the community and the nation at large.

On behalf of the Board of Directors and the management team, I would like to take this opportunity to thank the central and state governments, the Reserve Bank of India and all other regulators. I would also like to thank all of you, the shareholders, other investors, and of course are esteemed customers for your continued faith in the ability of the Company and the unwavering support that you have given us in all our endeavors. Last, but not the least, as I've said before all employees of HDB Financial Services Limited whose hard work at every level of the business has allowed us to deliver during the year, we are extremely grateful and thankful to them. Thank you very much.

Mr. Ramesh G. :

Thank you, Chairman Sir. Good afternoon dear shareholders. I'm pleased to share that the loan disbursements for the year 22-23 increased by 54% from ~₹29,000 crores to ~₹44,800 crores. The asset under management as of March 31, 2023, increased to ~₹70,000 crores as against Rs. 61,444 crores in the previous year. Consequently, the total revenue increased by 9.70% to 12,403 crores. The gross stage 3, which is also the gross NPA as we report reduced to 2.73% as on March 31, 2023

from 4.99% a year earlier. I think a lot of actions were taken to make sure that we remove the impact of COVID on our balance sheet.

As a result of these actions, your Company's profit after tax has increased by 93.77% to ₹1,959 crores from Rs. 1,011 crores in the earlier year. The earnings per share was Rs. 24.78, book value per share increased to Rs. 144.52. For the year ended March 31, 2023 the return on equity was 18.7% and return on assets was 3.1%. I take this opportunity to thank our customers who trusted us with their business, our shareholders who continue to have faith in us, our regulators for their ongoing guidance, and my fellow colleagues who gave their best to this organization every day. On behalf of the management and every employee of this company, I also take this opportunity to thank each and every board member for their unwavering support and guidance. Thank you.

Mr. Arijit Basu :

Thank you very much, Ramesh for the wonderful work that the management team has done throughout the year and the valuable contribution that you have made as part of the board. I would now request the Company Secretary to take this forward.

Ms. Dipti Khandelwal:

Thank you, Sir. Mr. Mitesh Shah, Practicing Company Secretary has been appointed as scrutinizer to scrutinize the votes cast through e-voting. Since the AGM is held through video conferencing and other audio-video means, and the resolutions mentioned in the notice convening this AGM have been already put to vote through remote e-voting, there will be no proposing and seconding of the resolution. The name of shareholders who have registered as speaker shareholders will be announced one by one. The speaker shareholders thereafter will be unmuted by the host. To start the discussion, the shareholder is requested to click on the video button. If the shareholder is not able to join the video for any reason, shareholders can speak through the audio mode. If there is connectivity problem at speaker's 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 shareholder 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 issue, he may contact the helpline number mentioned in the notice of the AGM. Now, I would like to invite the speakers who have registered themselves as speakers to ask questions. The replies shall be given after all questions have been asked.

Mr. Arijit Basu :

Mr. Haren Parekh please.

Moderator:

Haren Sir? Haren Sir, kindly unmute and speak.

Mr. Arijit Basu :

Mr. Parekh are you able to hear us?

Moderator:

We are facing some technical difficulty with Haren Sir. Can we move to the next speaker and then lastly we announce Haren's name.

Mr. Arijit Basu :

Okay. Yes.

Moderator:

Thank you, Sir.

Mr. Arijit Basu :

Sure-sure. So, may I now request the next shareholder who's registered, Mr. Gopinath Chittoor, to kindly ask his question. Mr. Gopinath Chittoor maybe unmuted, please.

Mr. Gopinath Seshadri Chittoor :

Are you able to hear me?

Mr. Arijit Basu:

Yes.

Mr. Gopinath Seshadri Chittoor :

Yeah. So, good morning to all of you. I'm not able to see that video button but I will be on audio mode. My name is Gopinath Seshadri Chittoor. I'm one of the shareholders of HDB Financial Services and I've gone through the financials and all and I want to congratulate the entire management team of HDB Financial Services for showing a wonderful result. From Rs. 1,025 crores to Rs. 1,970 crores is not a small achievement; it is a great achievement, a regard achievement. Congratulations to Ramesh and his entire team and the Board of Directors supporting Mr. Ramesh. And I also wanted to congratulate the CSR spend of Rs. 20 crores. You are bang on the target set by MCA and very few companies in this country can boast themselves of meeting the CSR target. You should have a large heart to, you know, touch 3 lakhs people in this country. Please keep doing like that and, I think, this year having got around Rs. 2,000 crores of Net Profit, you will do double that what you have done last year and it is commendable. The points that I would like to impress on the members is, see, right now HDFC and the HDFC Bank got merged and the parent company HDFC Bank is in need of a lot of priority sector advances. I don't know whether HDB can securitize and sell the PSL for HDFC Bank but the opportunities are great and I don't think gold loans we can securitize under the priority sector but other things where it is limitless, you will have a continuous flow of this one if HDFC could able to securitize Rs. 8,000 crores of loans every month then why not HDB Finance.

The second one that, you know, I'm doing on my retirement some amount of agriculture. I keep talking and even last time I spoke like that. There is a wind of change that is going on in the country on the National Solar Mission. So, with all freebies being given States Electricity Corporations definitely will not supply full power to the farmers and every State is now giving as much as 70% subsidy. If I want to power my farm, I need to pay only Rs. 1 lakh and why not that Rs. 1 lakh be given as a lending? And the second thing that I see on the website, only lending to tractor and instead of that I want that all range of products where HDFC Bank is not comfortable where you can do,

definitely you can take up like they don't do unsecured crop loans but you can definitely do, you can do lot many things which the bank is having their own credit reservations but still it is creditworthy.

You know, I would also like to consider those who have retired from the banks, the bankers who are Managers and Credit Officers between 60-65 you can at least recruit one, one person to each of your branch to support on all these types of lending. The Public Sector Bank has got more than a million retirees in that age group and this one if it is not out of place where I can suggest I'm just giving you this. And with this, you know, these are my suggestions. Please, take it wherever it is possible. Thank you so much to all of you and to the Board of Directors for giving me this opportunity. Thank you.

Mr. Arijit Basu:

Thank you very, very much, Mr. Chittoor. Very valuable suggestions. We will take all the questions after each of the speakers have asked it. But at the outset, I would like to thank you immensely for what you have stated and observed.

May I request the next speaker, Mr. Neville Poncha, to please ask his question or make his observation. He may be unmuted, please.

Mr. Neville Poncha :

Good afternoon, everybody.

Mr. Arijit Basu:

Good afternoon.

Mr. Neville Poncha :

I join everyone in congratulating the HBD management and employees on an excellent year. My question is related to interest rates. We have seen a lot of interest rate volatility and interest rate management is something which is key. We've seen how some banks in the U.S. have stumbled based on their wrong interest rate decisions. So, just wanted to know how HDB is managing the interest rate volatility both on the asset and liability side.

Mr. Arijit Basu:

Thank you very much. Very, very important and interesting question. We will certainly respond to it. Thank you very much, Mr. Poncha. Is Mr. Haren Parekh now able to log on and speak? Mr. Parekh, if you can... Yeah, we can hear you now.

Mr. Haren Parekh :

Okay. No, the only point on that dividend which I just wanted to add, I mean, as an afterthought is that I'm sure that the Company needs capital for the growth but the Company can always come out with the right issue when the capital is needed. In any case, currently the Capital Adequacy Ratio is more than 20% and with profits coming in I am sure the growth can be handled through the profits and therefore higher dividend payout should be possible and having growth is not an obstacle for higher dividend payout. That's all. Thank you very much.

Mr. Arijit Basu:

Thank you very much, Mr. Parekh, for your suggestion. So, we have all the three speakers who have given their very valuable suggestions here. Let me first try and address some of them and I will request our CEO and CFO to supplement.

So, firstly, Mr. Chittoor, we really value your appreciation of the fact that we are, you know, have been able to not just meet our CSR targets. The aim is not just to comply with regulations. I think, that is one thing which the Company, the Board as well as the management is extremely focused i.e. is in the process of complying with the regulations we would like to actually be of service and benefit to the nation and to the community and some of the things that the team came up with, you know, the collaboration that we were able to do last year and some of the very the key elements including support to an important hospital, the underprivileged important hospital in Bombay, which I personally had the opportunity along with some of the Board Directors to witness, is something which really is heart-warming and we would like to stay connected with the community because we think that it is a very important way of serving the customers. Our CSR Committee headed by my colleague Dr. Samanta is very focused on ensuring that this happens and the management team is very, very responsive. So, thank you very much for that. On some of the suggestions that you've made, I'd request Ramesh to further elaborate but I am fully with you when you say that the opportunities which are arising due to the changing dynamics in the country, you know, the opportunity on the National Solar Mission, on the fact that we can go just beyond financing, say tractors and things like that, and you know, yes, post the merger of HDFC and HDFC Bank we'll have to see how the scenario plays out and we are geared. As you know companies like HDB Financial Services in the non-banking financial space, we reach out to a very, very important segment of people who need credit and who may not necessarily be best served by not only our parent bank but any of the other commercial banks. So, we are very, very focused on that. That is something which I wanted to assure you on behalf of the Board but anything specific I will request Ramesh to mention.

There is a very good question on interest rate volatility with Ramesh and Jaykumar, our CFO, will address.

And, finally, on dividends. I'd just like to mention the philosophy of the Company. I fully agree that we have to very carefully balance out the need for ensuring there is enough capital for growth and if there is enough capital for growth we also need to sufficiently reward our shareholders. There is no doubt that that has to be done. I think over the years the Company has always maintained a very prudent dividend policy, prudent and yet something which will be of benefit to all stakeholders, and also ensure that the Company progresses.

So, that is it but I would like the CEO to further elaborate on the questions and address what has been asked. Ramesh.

Mr. Ramesh G. :

Thank you, Sir. Thank you, Mr. Chittoor for the questions and suggestions. So, you're right that loans given by NBFCs to PSL sectors in the form of gold loans do not qualify for PSL. Having said that, I think one of the challenges that comes about PSL specifically is when we do a securitization transaction under the Indian Accounting Standards that NBFCs follow, the securitized asset is not seen as a transfer of risk and so it comes back to the Balance Sheet. So, in fact, if you look at our consolidated results, we have consolidated back all the securitization that we have done historically which is active as on March 31, 2023 back into our Balance Sheet. So, to that extent securitization is a way of raising money rather than as a way of raising money at a lower cost. The minute there's securitization, there are credit enhancements and other tools which effectively increase the final cost

of borrowing. So, having said that, I think, if there's an opportunity we do look at selling down assets from time to time while our business model is fundamentally hold to maturity. So, we are not trying to maximize or trying to make sure we meet our returns by selling down assets. If there's an opportunity we take it, otherwise we are fine with holding assets for maturity.

We will look at your suggestions for, you know, working with Agri and the rural areas for expanding our product reach. We do offer unsecured loans to customers in rural areas. We also have started a pilot for offering loans in the form of joint liability groups like the micro lending program. We will look at your suggestions, Sir. Thank you very much.

Also your suggestion on hiring retired bankers to help us run the program is a very wonderful idea. I think we are always looking for talent and it doesn't matter what age it is. I think what we're looking for is a connection with the Company.

On interest rate risk, Mr. Poncha, thank you for that question. You're right, Repo rates have gone up about 250 basis points in the last 18 odd months. It's something that is a very important part of our business to manage our liabilities which we don't talk about much. We always talk about assets but, you know, managing liability is a very important part of the business. I'm going to have my CFO respond specifically as to how we manage it. I think he is best positioned to answer it.

Mr. Parekh, thank you for joining in today and acknowledge your requirement that, you know, we should pay high dividend. Just for record, I think, we've paid a dividend of Rs.1 last year. This year, the total dividend including interim dividend is about Rs.2. I think the challenge is always managing how much should we pay out dividends and how much should we retain for growth. Just one thought, that now that dividends are taxable in the hand of shareholders, so reinvestments might work more favorably for shareholders on a post-tax basis. So, we will try and ensure that we maximize returns for you as an investor and we will continue to ensure that we do a prudent mix of dividends and capital for growth so that the book value of the Company goes up, which will add value to you as a shareholder.

Jay, would like to cover the point on...

Mr. Jaykumar Shah :

Right. Thank you, Ramesh. Mr. Neville, as you rightly said interest rate volatility has become a key factor here, especially with Repo rates going up by almost 250 bps over the last 12-18 months. One important thing we've done is, we've stayed conservative on our borrowing side. So, we don't borrow very short term in the form of CPs, et cetera. Our CP borrowing as a 31st, March 23 was NIL and a large part of our focus has been to try and match our asset side with the liability. What do I mean by that? If we lend fixed rate, we try and borrow fixed rate which helps us make sure on a tenure wise we are matched funded on both the asset and the liability. That is one important factor.

Second, even on the floating rate, for example, when you have loan against property, et cetera we try and do the same thing. So, our borrowings largely mirror our asset side and that has allowed us over the last 12-18 months to even reprice on a timely manner. So, when the rates were going down we were able to pass on the benefit to our customers and as the Repo rate increased we were able to price it back into the market on a very timely basis. That has really helped us make sure that we are in line with the market at every point in time.

The other thing I just wanted to mention was, as some of the tailwinds come in from rate increases, the rate for us from a borrowing point of view will increase slightly as lower cost borrowings mature but we're very confident that at this point in time the impact on earnings should be fairly minimal.

Mr. Ramesh G. :

Thank you, Jay.

Mr. Arijit Basu :

Thank you very much. I think we have taken and addressed the questions which were asked by all those who had registered to ask questions. So, we now come towards the end of the meeting. I would like to once again thank all the shareholders for their presence.

We have 7 resolutions which have been put to vote. Some members have already voted but the E-voting facility will be enabled for the next 15 minutes for those members who have not cast their vote yet.

The results of the E-voting will be declared after the conclusion of the 16th Annual General Meeting and the results shall be published on the website of the Company.

With that and with your permission, I would like to declare the meeting as concluded. Thank you very much.

Moderator:

Thank you. I would like to thank the Chair. I would like to thank the Chairman Sir for spending his precious time and gracing the Annual General Meeting. Thank you all the members and the Board of Directors for attending the AGM. Thank you.

Mr. Ramesh G. :

Thank you.

(E-voting commences)

END OF TRANSCRIPT

(This document has been edited to improve readability)