HDB Financial Services

Operator: Ladies and gentlemen, good day and welcome to the Q4 FY26 earnings conference call hosted by HDB Financial Services. Please note this conference call is only for analysts and investors and not for media. As a reminder, all participant lines will be in 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 star then zero on your touchtone phone. I now hand the conference over to Mr. Ramesh Ganesan, Managing Director and CEO of HDB Financial Services. Thank you and over to you, sir.

Ramesh Ganesan: Thank you, Rutuja. A very good evening to all of you who have joined us today. As we exit fiscal 2026, I will begin by highlighting a few key aspects of our performance that underscore our operational resilience and long-term trajectory. These represent our commitment to execute our mission of serving aspirational India and sets the stage for continued growth in the coming years.

First, our customer franchise expanded to 22.9 million, about 2.5 times since 2022. Second, our expansive distribution network now covers 1,161 towns and cities of India with 1.6 lakh+ retail and dealer touchpoints. This is the physical distribution; we also have an extensive digital presence. Third, disbursements for Q4 FY26 were the highest quarterly disbursements by HDB, growing 11% as compared to Q3 FY26. Fourth, book growth came in at 3.4% in the current quarter along with a marked improvement in asset quality, which sets a trajectory for our growth plan. We maintain the granularity of our 100% retail loan book with average exposure per customer of about 1.66 lakhs.

Robust operational execution led to our pre-provisioning operating profit growing by 7.8% and PAT growing by 15.6% sequentially. On an annual basis, our pre-provisioning operating profit grew by about 27%. On the credit and collections front, we saw a significant improvement in asset quality across all products. Gross NPA, which we also report as Gross Stage 3, reduced to 2.44% as of March 31, 2026, versus 2.81% as of December 31, 2025.

Coming to the macros, robust rural demand, sustained momentum in domestic economic activity, and supportive policy measures augur well for the economy. Regulators kept the policy rate unchanged and maintained a neutral stance. Real GDP growth showed resilience and inflation stayed benign. While GDP growth projections remain largely steady, the West Asia conflict and probable weather disruption from El Nino may have an impact on growth and inflation. Quick restoration of supply chains and timely conclusion of the conflict remain key monitorables. We continue to track the rapidly evolving global situation and its potential impact on our business.

Regarding vertical-wise commentary, we run our business along three major business lines. On enterprise lending, Q4 disbursements for this segment grew by about 28% sequentially and 15.4% year-over-year. Our LAP+SME book, which is our mortgage business, grew by 3.8% sequentially on the back of 26% disbursement growth. Our gold loan book doubled in FY26 with 57.8% growth in disbursements quarter-on-quarter. We expect positive momentum on our unsecured business going forward, where we have seen significant improvement in asset quality. Collections and portfolio quality for this vertical continue to improve.

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In asset finance, the commercial vehicle and construction equipment book showed moderate growth in Q4. We saw continued improvement in asset quality in our commercial vehicles business with both early buckets and Stage 3 improving. Our focused approach within CV and CE segments, backed by our extensive OEM partnerships and dealership network, positions us for strong growth in the coming quarters.

On consumer finance, the book for this segment grew by 5.3% quarter-on-quarter and 19.4% year-over-year. This was led by consumer durables followed by auto loans. We expect momentum to continue in this segment on the back of sustained demand for consumer durables, auto loans, and two-wheelers. Overall, our customized suite of products enables us to provide credit to aspirational India. Our distribution touchpoints and digital sourcing channels ensure our reach across the country.

Focus on digital sourcing channels through our DIY (Do It Yourself) platform helped us multiply our disbursements by about 2.2 times in FY26, and we expect this momentum to continue. We have made significant investments in our technology capabilities including AI, which has started yielding positive results for our customers across our marketing, customer, sales, and collections functions. One of our initial implementations is in collections through a scalable bot-based intervention for engaging customers who are in the early buckets. In Q4, over 50% of our customers who needed a nudge were assigned a bot, which resulted in improved collection efficiency of about 25 basis points in the early buckets. As I said, this is still an early stage and we have seen a lot of improvement going forward.

On the customer service front, we implemented an in-house SLM-powered auto-sorting system and saw a 20% reduction in response time, ensuring faster resolution of customer queries. We are currently running five large AI-powered business initiatives across the organization. We will continue to invest in technology to drive efficiencies. With that, looking forward to a healthy FY27 and a strong growth trajectory, I will now hand over to Jaykumar for an update on the financials.

Jaykumar Shah: Thank you, Ramesh. Moving on to the financial performance for the quarter, the customer franchise grew to 22.9 million, an increase of 4.3% sequentially and 19.7% year-over-year. The gross loan book as of March 31, 2026, stood at 1,18,493 crores, growing 3.4% sequentially and 10.9% year-over-year. Secured loans comprise 74% of the gross loan book. Disbursements for the quarter ended March 31, 2026, were 19,922 crores, up 11.2% sequentially—an all-time high for HDB. The branch count stood at 1,730, spread across 1,161 cities and towns.

Net interest income for the quarter was 2,399 crores, an increase of 5% quarter-on-quarter and 21.6% year-over-year. Net interest income for the year ended March 31, 2026, was 8,968 crores, an increase of 20.4% year-over-year. Net interest margin for Q4 FY26 was 8.23% versus 8.09% in Q3 FY26 and 7.55% in Q4 FY25. Net interest margin for the year ended March 31, 2026, was 7.96% versus 7.56% for the year ended March 31, 2025.

The cost-to-income ratio for our lending business was 39.5% in Q4 FY26 as compared to 41.6% in Q3 FY26 and 42.9% in Q4 FY25. The ratio for the year ended March 31, 2026, was at 41.1% versus 42.8% in the prior year. Cost-to-assets for the year were at 3.8%. Pre-provisioning operating profit (PPOP) for the quarter was at 1,675 crores as against 1,555 crores for the prior quarter, a growth of 7.8%. Credit cost for the quarter stood at 2.35% as against 2.52% for the prior quarter.

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Profit after tax for the quarter ended March 31, 2026, was 751 crores as against 644 crores for the prior quarter, a growth of 15.6%. Gross Stage 3 as of March 31, 2026, was 2.44% as against 2.81% as of March 31, 2025. Provision coverage on Stage 3 stood at 55.53%. ROA on an annualized basis for the quarter ended March 31, 2026, stood at 2.48% as compared to 2.19% earlier. ROE on an annualized basis for the quarter ended March 31, 2026, stood at 14.83%, while the ROE for the full fiscal year 2026 was 13.94%. Earnings per share for the quarter was 9 rupees and the book value stood at 248.9 rupees.

Our borrowing remained well-diversified with a positive cumulative mismatch across all buckets up to 5 years. We remain well-capitalized with the total capital adequacy at 21.4% as of March 31, 2026. We can now open the floor for Q&A and Rutuja, I will hand it over to you. Thank you.

Operator: Thank you very much. We now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone phone. Participants are requested to please limit your questions to two per participant and to use handsets while asking your question. We will wait for a moment while the question queue assembles. The first question is from the line of Abhijit Pedwal from Motilal Oswal. Please go ahead.

Abhijit Pedwal – Motilal Oswal: Good evening, sir. Thank you for taking my question and congratulations on a good quarter. We know that we did not see a major impact from the war in the month of March. But could you help us understand what you started seeing in the last few days of March and the first 15 days of April? Are we seeing supply chain disruptions or any impact on CV operators specifically?

Management: Thanks, Abhijit. Let me cover this holistically. CV is a portion of our business. Overall, March went well for us and that is reflected in our results. There has clearly been a concern, and we called it out in our opening address, that the West Asia conflict remains a key monitorable. I believe the government is doing a reasonable amount of work to keep things as normal as possible despite the pressures. At this point, it remains a key monitorable. There are certain challenges, but we remain focused on our growth. As the situation develops over the next 15-20 days, we will keep monitoring it closely.

Abhijit Pedwal – Motilal Oswal: Got it. Regarding the SME ecosystem, we keep hearing they could be vulnerable to supply chain disruptions if the conflict impacts them. Are you seeing anything in early April and is there any deliberation around building contingency or backup provisions?

Management: Abhijit, the best way to look at it is that the results are as of March, and we continuously discuss this because our business is pure retail. At this point, we haven't seen any specific Level 2 or Level 3 impact. The situation remains a key monitorable. As things develop, we will do the needful. Across our LAP and MSME business, we had challenges previously, but we are completely over them as of last quarter. The whole focus now on the ground across enterprise lending, CV, and consumer segments is growth. If things change globally and there is a Level 2 or Level 3 impact, we are well-positioned to deal with it.

Abhijit Pedwal – Motilal Oswal: Understood. Regarding growth, you reported around 11% year-over-year growth in the loan book with momentum in the second half. Keeping the conflict aside, how are you approaching growth in FY27?

Management: We have always stated that in the medium term, we look at a nominal plus 6-7% growth. We are very focused on making sure we deliver on that.

Operator: The next question is from the line of Renish from ICICI Securities. Please go ahead.

Renish - ICICI Securities: Hi, sir. Congratulations on a good set of numbers. On the growth front, if we look at FY26 as a whole, it is still on the lower side at 10%. Now that you mentioned the pressure in CV and unsecured is over, how confident are we in achieving those aspirational growth numbers in FY27 and FY28?

Management: To put numbers into perspective, our Q2 disbursements were 15,999 crores, Q3 was 17,917 crores, and we exited Q4 at 19,922 crores. The clear aspiration and plan from here on is to start delivering on this base. We have plans in place and started April with the same level of vigor and conviction to deliver on the growth agenda. The first step is disbursements. As that starts reflecting in the book, you will automatically see the movement towards what we want to deliver.

Renish - ICICI Securities: So should we assume the improved trajectory witnessed in the second half of FY26 will continue?

Management: Yes, though Q1 is generally slower. I would compare Q1 to Q1 rather than Q1 to Q4, but there will be a good amount of positivity.

Renish - ICICI Securities: Secondly, the repayment rate in Enterprise Lending has come to 11% compared to a 9% quarterly average. Is that due to higher balance transfers out (BT-out) or a product mix change?

Management: It is more of a product mix thing. We haven't seen anything unusual in March for LAP than what we generally see. We remain focused on the risk-adjusted portfolio. The Enterprise Lending business grew at 20%+, and Q4 disbursements grew 27.9% sequentially. That is a very powerful statement regarding our ability to move forward.

Operator: The next question is from the line of Hirdan Shah from IIFL Capital. Please go ahead.

Hirdan Shah - IIFL Capital: Hi, Jay. Congratulations on a good set of numbers. Regarding cost of funds and margins, you mentioned in January that there was no meaningful room for cost reduction, yet we saw a 35 basis points improvement sequentially. What resulted in this, and how should we look at it going forward given Bond yields and economic impacts?

Jaykumar Shah: One of the biggest things we pride ourselves on is holding our rates over the last three quarters. That continued this quarter; across every single product, we have made sure we held our rates to ensure good risk-adjusted returns. There was a slight reduction of 7-8 basis points on the yield side purely due to product mix since the unsecured book hasn't grown as much. Once that growth returns, the yield should return to the 14%+ range.

On the borrowing side, we used strategies that helped reduce costs while working with partners to keep costs at a bare minimum. We no longer have low-cost borrowings to reset, as that finished around October or November 2025. This allowed us to tighten our ability to ensure the funds coming in are at the best rates. It is not one particular strategy but a combination of pieces falling

into place. While borrowing costs have gone up in the market over the last month, we still have very low Commercial Paper (CP) levels as dry powder and a healthy mix of bank loans below 50%. We are making sure this is sustainable.

Hirdan Shah – IIFL Capital: So you expect these cost of funds to broadly sustain?

Jaykumar Shah: For the current quarter, we are good. Beyond that, nobody knows, but all else remaining equal, we should be able to sustain it in the near future.

Hirdan Shah – IIFL Capital: On a year-over-year basis, disbursement growth is 13%. Do you see this picking up to the 18-20% range? The share of asset finance is reducing while enterprise and consumer finance is driving growth. For AUM growth to show up materially, we would need disbursement growth at 18-20%.

Management: In enterprise lending, we have LAP, which is a longer-tenor product. In consumer, we have auto loans which are also longer-tenor. We are very focused on growing our used business in asset finance. We have done a lot of homework there and are confident. I am very hopeful that on a year-on-year basis, we will work toward the numbers you mentioned.

Hirdan Shah – IIFL Capital: Asset quality showed a marked improvement in Q4, but there was a sharp 30 basis points increase in Stage 1 PCR. Is this an annual refresh or something else?

Management: As a retail lender with a granular book, our provisioning is driven largely by product mix. It is refreshed every quarter. We identify homogeneous asset pools for ECL calculation driven by PD/LGD (Probability of Default/Loss Given Default). Our methodology takes into account historical credit loss experience, current economic conditions, and forward-looking information. There is nothing specific to highlight; we are well-positioned for the medium-term credit cost cycle.

Operator: The next question is from the line of Shivani from Nomura. Please go ahead.

Shivani – Nomura: I have a question regarding the verticals in your asset quality. In asset finance, Gross Stage 3 moved from 3.1% in Q4 FY25 to 4.3% last quarter and is now back at 3.8%. What is driving this rapid recovery? Regarding enterprise lending, the PCR used to be around 57-58%, but it has been brought down. Wouldn't cleaning up this book require more provisioning?

Management: Enterprise lending moved from 1.82% to 1.58%. As mentioned, a lot of our calculation is based on PD/LGD and the underlying book mix. We have fully automated ECL this quarter, so it is a purely systemic outcome. We have put in a lot of work to ensure we are comfortable with the enterprise lending book to grow with good quality.

On asset finance, as mentioned in Q2 and Q3, there was a challenge, and the recovery has been K-shaped. Accounts challenged at the end of Q1 didn't recover as well, so we pushed hard on those recoveries to reduce Stage 3. Simultaneously, we worked to reduce the flow-forward of new accounts, which gives us confidence in the quality of what we are onboarding now. In consumer finance, we saw good improvement from Q3. We have strategies to potentially pull that number down or stabilize it.

Operator: The next question is from the line of Sonal from Asian Market Securities. Please go ahead.

Sonal - Asian Market Securities: In enterprise lending, disbursements have fluctuated. What changed between the two quarters to cause the increase? On asset finance, there was a 3% decline in disbursements. Was this a conscious call to focus on credit quality?

Management: In enterprise lending, we tactically focused on asset quality in Q1, specifically within business loans. By Q2, we were confident, and from Q3 onwards, we pushed for growth in the secured business. On the unsecured side, our credit engine and criteria are now in order, and the focus is on growth with the right risk-adjusted pricing.

In asset finance, we are aiming for a 50/50 mix between new and used over a 4-year period. We want to grow our used business significantly, as we are much smaller than established players. The dealer network is a key deliverable for us. Regarding the AUM mix, it is currently 38% enterprise, 38% consumer, and 24% asset finance. Every business is a focus area, and we are making conscious decisions for a risk-adjusted portfolio as we double in size over the coming years.

Operator: The next question is from the line of Analyst from Phillip Capital. Please go ahead.

Analyst - Phillip Capital: Good evening. Could you reiterate the growth expectations for FY27 and provide the total write-offs for FY26 and this quarter?

Management: We don't provide guidance on specific numbers, but in the medium term, we look for growth at nominal GDP plus 6-7%. On the credit cost side, we expect it to moderate in the range of 2.3% plus or minus. For margins, we aim to maintain 8%+; it is currently 8.23%. We will ensure we are consistent in that range. Regarding write-offs, the figures are available in the financials.

Analyst - Phillip Capital: How much Opex growth are we expecting in FY27?

Management: Opex is currently around 3.7-3.8%. I think we will range around 3.7%. We will continue to invest in the business through AI initiatives for growth and to help our collection teams reach customers better.

Operator: The next question is from the line of Sri Pal Doshi from Equitas. Please go ahead.

Sri Pal Doshi - Equitas: You are aiming for yield increases and the share of consumer loans is rising. If you maintain cost of funds, is it possible to reach sustained 8.3% margins?

Management: I am hopeful we can deliver that. While there is volatility in borrowing costs, maintaining 8%+ is non-negotiable for our internal 3-5 year plans. We will maximize our assets through risk-adjusted returns. If all remains well, we hope to reach the numbers you mentioned in the medium term.

Sri Pal Doshi - Equitas: Regarding the branch network, the number has come down slightly. Are you rationalizing or consolidating?

Management: We haven't reduced a single square foot of usage. When we setup a branch, it may be 600-800 square feet. As they grow, we might combine two nearby branches into a larger 4,000-square-foot location. This improves efficiency and employee well-being. The focus is on

delivering better to the customer. DIY growth requires technology, not necessarily more physical branches, and we will continue to invest there.

Operator: The next question is from the line of Saket Patel from ISE Securities. Please go ahead.

Saket Patel – ISE Securities: How do you see HDB Financial Services expanding its lending and customer financing in terms of reaching new customers and using digital platforms?

Ramesh Ganesan: Our customer franchise grew from 5 million in 2020 to 22.9 million in 2026. This aspirational India segment is expected to grow as the economy expands. We are present in 1,161 towns, providing uniform service standards. In consumer finance, we deliver credit decisions in seconds or minutes. Our distribution means we can cover the entire country for our manufacturer partners.

On the digital front, we have 1.14 crore app downloads and over 4.76 lakh daily users. This allows us to engage with customers throughout their life cycle, whether for a consumer loan, a vehicle loan, or LAP. We use technology to reduce delivery time, reduce costs, and improve quality. With a million customers a month, high-quality service and automated dealer payments are essential.

Saket Patel – ISE Securities: How do you plan to manage risk such as credit defaults or compliance changes while keeping profit steady?

Management: We are an HDFC Bank subsidiary. As bank-like regulations are introduced, we are already operating within those frameworks. We have a moat in how we deliver to customers and partner with them. We are very focused on the risk-adjusted portfolio, as evidenced by us holding our topline this past quarter.

Operator: The next question is from the line of Manish Oswal from Nirmal Bang Securities. Please go ahead.

Manish Oswal – Nirmal Bang Securities: Which product categories or customer segments have seen major market share gains compared to competitors this year?

Management: Manish, your voice is breaking. If you can't rephrase, please get in touch with our team offline. At a high level, the whole focus is on enterprise lending, CV, and consumer segments to drive market share.

Operator: The next question is from the line of Ramesh from ICICI Securities. Please go ahead.

Ramesh – ICICI Securities: Regarding distribution, town and city additions or physical branch additions have been flat or declining over the last year. How do you achieve growth targets with this network?

Management: The digitalization of processes has changed everything. Sales officers no longer carry files to branches; credit is delivered at the point of sale. We don't need a physical office in immediate proximity to the salesperson anymore. We have set up more distribution points through "feet on street" and digital channels than we could have previously. Some smaller locations no longer require a physical office because they can be serviced remotely. DIY has grown 2.2 times in

one year, and many existing customers complete their journey digitally on our app. We use every available method to expand our distribution beyond just physical brick-and-mortar offices.

Operator: The next question is from the line of Jay Didal from Nirmal Bang Institutional Equities. Please go ahead.

Jay Didal – Nirmal Bang Institutional Equities: How have repayments been in the SME classes? Also, regarding AI initiatives, are they for reducing bad debt or reducing expenses?

Management: We haven't seen major disruption; March was fine for us. It is too early to call out further impacts from global conflicts, but based on what we see on the ground, we are focused on growth and solid collections. Technology initiatives cover all three outcomes: reducing time, improving quality, and reducing cost. We use AI extensively in cybersecurity and for real-time monitoring of our branches. Depending on the use case, it could be a combination of all three goals.

Operator: Thank you. I now hand the conference over to Mr. Jaykumar Shah for closing comments.

Jaykumar Shah: Thank you, Rutuja. Thank you everyone for your time. We are excited for the quarters ahead. Q4 has laid the right foundation for growth and profitability to be achieved over our medium-term goals. Thank you very much and have a great evening.