BAJAJ HOUSING FINANCE LIMITED

September 04, 2024

SMC Ranking

★★★☆☆ (3/5)

Issue Highlights

Industry	**NBFC**
Offer for sale (Shares)	428,571,429
Fresh Issue (Shares)	508,571,429
Net Offer to the Public	**937,142,858**
Issue Size (Rs. Cr.)	6,185-6,560
Price Band (Rs.)	66-70
Offer Date	September 9, 2024
Close Date	September 11, 2024
Face Value	10
Lot Size	214

Issue Composition

	In shares
Total Issue for Sale	937,142,858
QIB	468,571,429
NIB	140,571,429
Retail	328,000,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	88.75%
QIB	0.00%	5.63%
NIB	0.00%	1.69%
Retail	0.00%	3.94%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

Augmenting the capital base to meet future business requirements of the Company towards onward lending.

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- BofA Securities India Limited
- Axis Capital Limited
- Goldman Sachs (India) Securities Private Limited
- SBI Capital Markets Limited
- JM Financial Limited
- IIFL Securities Limited

Name of the registrar

- KFin Technologies Limited

About the company

Founded in 2008, Bajaj Housing Finance is a non-deposit-taking Housing Finance Company (HFC) registered with the National Housing Bank (NHB) since 2015 and has been offering mortgage loans since the financial year 2018. The company is part of the Bajaj Group, a diversified group of companies with interests in various sectors. Bajaj Housing Finance provides customized financial solutions to individuals and corporates for the purchase and renovation of homes and commercial spaces. The company's mortgage product range is comprehensive and includes (i) home loans, (ii) loan against property (LAP), (iii) rent concessions, and (iv) developer finance. As of March 31, 2024, the company had 308,693 active customers, of which 81.7% were home loan customers. The Company has a network of 215 branches in 174 locations across 20 states and three union territories, overseen by six centralized retail loan review centers and seven centralized loan processing centers.

Strength

Distinguished heritage of the "Bajaj" brand: The Company is a wholly-owned subsidiary of Bajaj Finance Limited, which is among India's largest NBFCs, based on AUM, as at March 31, 2024. The "Bajaj" group of businesses are retail-focused enterprises that have gained recognition among Indian consumers through the two and three-wheelers of Bajaj Auto Limited, financing products of Bajaj Finance Limited including the company, insurance products of Bajaj Allianz Life Insurance Company Limited and Bajaj Allianz General Insurance Company Limited, mutual fund products of Bajaj Finserv Asset Management Limited and broking services of Bajaj Financial Securities Limited. The "Bajaj" brand has consequently evolved into a recognized retail brand, which has contributed to the recognition and growth of its business. Furthermore, its market position is reflected in its strong credit ratings, underscoring its financial stability and investor confidence. The financial services businesses of the Bajaj group are primarily carried out through subsidiaries of Bajaj Finserv Limited, one of which is Bajaj Finance Limited, its parent company. The company, along with other subsidiaries of Bajaj Finance Limited, conducts its operations under the "Bajaj Finserv" brand. To further leverage and strengthen the brand among its customer base, it has created its website and application under the "Bajaj Finserv" brand, to ensure that customers remain engaged with the brand across multiple touch points. As a wholly-owned subsidiary of Bajaj Finance Limited, it is positioned to tap into their extensive experience in scaling financial services. Bajaj Finance Limited's proven track record in effectively growing its lending business serves as a strong foundation for the company to expand its mortgage lending operations. On April 7, 2022 and April 3, 2024, it successfully secured an additional capital infusion of Rs. 25.0 billion and Rs. 20.0 billion, respectively via a rights issue to Bajaj Finance Limited. This infusion reflects its parent company's support and commitment and also provides it with a dependable credit line from them, ensuring ready access to funds.

Second largest HFC in India (in terms of AUM) with a track record of strong growth: The company has demonstrated a consistent growth trajectory over its seven-year operational history, even amid challenging events such as the NBFC crisis, the downturn of key industry players and the unprecedented impacts of COVID-19. Consequently, accordingly to the CRISIL MI&A Report (page 209 herein), it has grown to be the second largest HFC and were the eighth largest NBFC-UL in India (in terms of AUM) as at March 31, 2024. It achieved this within a short period of time since the commencement of its operations in Fiscal 2018. Its AUM has grown at a CAGR of 30.9% from Fiscal 2022 to Fiscal 2024 and it was at Rs. 97071.33 Crore as at June 30, 2024. According to the CRISIL MI&A Report (page 211), as at March 31, 2024, it is the fourth fastest growing HFC/NBFC

as compared to other "Upper Layer" NBFCs in India for which data is available. The table below sets forth its AUM growth across product segments as at the periods indicated:

Metrics	AUM (In Crore)				
	As at June 30, 2024	As at June 30, 2023	As at March 31,2024	As at March 31, 2023	As at March 31,2022
Home loans	55810.82	44687.08	52819.60	42706.86	34544.85
Loans against property	9681.84	8020.08	9567.93	7816.89	7405.28
Lease rental discounting	18969.82	13453.03	17636.80	11259.48	6869.42
Developer financing	10845.96	6191.80	9599.33	5669.32	2898.70
Others*	1762.89	1772.27	1746.74	1775.35	1603.47
Total	97071.33	74124.26	91370.40	69227.90	53321.72

Strategic presence with omni-channel sourcing strategy, driven by customer-focused digitization initiatives and technology: The Company has a strategic presence across mortgage-centric markets with the following key components: branches, centralized hubs and active channel partners. As at June 30, 2024, Maharashtra also accounted for 32.0% of its total AUM and 35.8% of its total disbursements, the highest among the states where it operates. As at June 30, 2024, its distribution network included 215 branches, six centralized hubs for retail underwriting and seven centralized processing hubs for loan processing) and 1,780 active channel partners, that is, partners with whom it has conducted at least one transaction in the last 12 months. It diversified reach helps the company to meet the specific needs of its target customers across geographies, in urban as well as upcountry locations. It has adopted an omni-channel sourcing strategy of having physical presence with an option of accessing digital onboarding functionality to maximize reach, cater to different customer preferences and streamlines the loan application process, thus enhancing customer experience and strengthening its market share. It follows a two pronged sourcing strategy across retail products i.e., direct channel and intermediaries sourcing verticals separately for both home loans as well as LAP, ensuring expertise in respective sourcing channel. The overall sourcing strategy can be broadly categorized into the following:

Micro-market focus for home loans: It concentrate on specific, smaller geographic regions within the cities it operates or "micro-markets", which helps develop a deep understanding of the local real estate market, customer demographics and behaviour. This localized approach allows it to tailor its products and services to meet the specific needs of the community, which lead to better customer service and higher conversion rates.

D2C strategy: It directly engage with its customers through its front facing sales team based out of its branches which allows it to engage with potential borrowers without intermediaries, fostering a direct relationship with customers, which leads to increased customer loyalty and retention, as it can provide personalized service and tailor its offerings to individual customer needs for home loans and LAP.

Expanding distribution network of intermediaries: The company is continuously expanding its network of intermediaries, such as channel partners, aggregators, direct sales agents, financial advisors and other third party agents. For example, its active channel partners increased from 1,514 as at March 31, 2022 to 1,591 as at March 31, 2023 and further to 1,784 as at March 31, 2024 and was 1,780 as at June 30, 2024, which enhanced its reach and market penetration. This expansion allows it to access a wider customer base, as intermediaries often have established relationships and trust with potential borrowers.

Well defined credit evaluation and risk management practices resulting in lowest GNPA and NNPA among its Peers in Fiscal 2024: The company has a well-defined credit evaluation framework and underwriting processes to ensure that risk performance across all products remain well within the defined thresholds. In particular, for the retail loan portfolio, its centralized underwriting process coupled with adoption of straight-through processing for salaried customers and Approved Project Finance ("APF") projects, ensures quicker and more accurate loan evaluations. As at June 30, 2024, it has 6,349 APF projects. This approach is further enhanced by its digitized credit processes and the strategic use of account aggregator integration (i.e., digital access to financial data of customers from various financial institutions

Post customers' consent), allowing for efficient retail underwriting. Its lease rental discounting services cater to prime developers, HNI customers and global private equity players, with a portfolio heavily weighted towards Grade A commercial properties. It conducts comprehensive evaluations of lessors, collateral and lessees, taking into account factors such as financial robustness, rent collection patterns and occupancy trends. The commercial properties in its portfolio are leased to prominent Indian corporations and multinational companies. It also broadens offerings by providing lease rental discounting for warehousing and industrial properties. Furthermore, for its commercial products, a specialized team is responsible for detailed portfolio oversight.

Access to diversified and cost-effective borrowing sources facilitated by the highest possible credit ratings from rating agencies: The Company prioritizes longer tenor floating rate borrowings and is actively rebalancing its borrowings towards a mix to increase proportion of borrowings from the money market, thereby optimizing its risk exposure and enhancing its financial agility. As at June 30, 2024, it has established relationships with 23 banks ensuring a diversified borrowing portfolio and reliable access to varied funding sources. Further, it has also received approval from the NHB under the NHB's refinance scheme. The NHB refinance sanction, in addition to diversifying its business portfolio also helps support a more cost-effective and longer tenor source of funds in the future.

Strategy

Continue to leverage technology and analytics to enhance productivity, reduce expenses, improve customer experience and manage risks: The company will continue to leverage its technology and analytics capabilities for the purposes of improving its productivity, increasing process automation and reducing Operating Expenses. Further, it has constantly invested in enhancing its digital capabilities to improve its information technology infrastructure. As part of its strategic initiative to enhance customer experience and streamline operations, it has embraced various digital initiatives designed to modernize the home loan journey from start to finish. It introduced EAgreements, enabling customers to execute loan agreements swiftly through a secured National E-Governance Services Limited ("NeSL") platform driven AADHAR-based OTP authentication, which significantly reduces the need for multiple signatures on physical documents. Its recently implemented DIY Home Loan platform provides an online portal where customers, partners, and its salesforce can apply for home loans, upload documents, verify bank details, and check eligibility with ease. It has also launched a dedicated customer portal and mobile application, empowering its clients with the ability to access loan details, download statements, utilize self-service options, and make online payments at their convenience without the requirement to visit the branch.

Diversifying and strengthening market presence with strategic customer focus and comprehensive risk Management: As at June 30, 2024, home loans contributed 57.5% of the overall portfolio of which 90.8% pertained to low risk salaried and self-employed professional customers. Its home loan business strategy is predicated on a micro-market approach, aimed at deepening market penetration by capitalizing on its developer finance-funded projects and nurturing existing developer finance relationships. By aligning with these projects, it aims to increase its retail home loan presence directly at developer counters and expand its reach by onboarding new APF partners outside the developer finance ecosystem. To further broaden its market reach, it has launched a specialized Strategic Business Unit ("SBU") aimed at the near-prime and affordable housing customer segment offering customized financial products to individuals who carry marginally higher credit risk than traditional prime borrowers. Consequently, it has recently launched Sambhav Home Loans, a new near prime and affordable home loan option for first-time buyers from lower income segment. Through this strategic expansion, it is aiming to secure a wider customer base, effectively manage credit risk, and sustain its profitability in this distinct segment of the financial market. Furthermore, to complete its mortgage offering to all customers it is also expanding its customer profile to cover self-employed non-professional customers. Its lease rental discounting strategy is designed to cultivate stronger bonds with existing customers by providing an all-encompassing product suite tailored to the entire commercial real estate cycle. It is broadening its geographic footprint, venturing into new territories to build a more extensive client network and seize opportunities in presently unexplored markets. Its developer financing strategy is to widen its customer base, deepen existing relationships and geographical expansion with an approach to onboard micro-market, regional as well as national developers. It aims to onboard new customers from varied locations to broaden its customer base. At the same time, it continues to concentrate on

deepening its engagement with existing customers, striving to increase its wallet share by offering tailored financing solutions that align with the growth trajectories and project demands of the customers. This dual approach ensures a balanced portfolio, fostering long-term partnerships and financial growth.

Continue to diversify its borrowing profile to optimize borrowings costs: Its liability management strategy is centered on the continued expansion of its borrowing base and the deliberate diversification of its liability mix. To achieve this, it aims to increase its proportion of long-term borrowings, which provides it with a more secure and predictable funding stream. This strategic shift toward longer maturities is designed to align its financial inflows with the long-term nature of its assets, thereby enhancing financial stability and predictability. Additionally, it has and will continue to diversify its borrowing mix. Its focus remains on maintaining a low cost of borrowings, even as it extends the duration of its borrowings. It also plans to strategically increase its activity in the money markets, capitalizing on its strong operational and financial track record supported by highest possible credit ratings. This expansion will enable it to tap into diverse funding sources, optimize cost of funds and reduce operating expenses.

Continue to attract, train and retain talented employees: One of the drivers of its continued success will be its ability to maintain a healthy mix of experienced and young professionals. It has been successful in building a team of talented professionals with relevant experience, including experts in the aspects of credit evaluation, risk management, retail consumer and commercial products, treasury, finance, technology and marketing. Recruitment is a key management activity and it intends to attract graduates from business schools as well as employees with relevant experience from the financial services industry. It has a structured training program tailored for new hires, first-time managers and ongoing upskilling opportunities for existing staff. It has an employee engagement framework that actively involves senior management and is designed to foster a supportive workplace culture, with a clear focus on measurable progress. Furthermore, it also recognizes the critical importance of diversity and inclusion and aim to enhance the representation of female employees within its workforce.

Risk factor

Collateral Recovery Risk: If the company is unable to recover the full value of collateral or the amounts owed from defaulted loans, it could face financial losses. This inability could strain the company's business operations, cash flow, and overall financial condition.

Geographic Concentration Risk: The company's assets are mainly concentrated in four states and New Delhi. If adverse developments occur in these regions, such as economic downturns, regulatory changes, or natural disasters, it could significantly impact the company's business and financial health.

Debt Covenant Compliance Risk: The Company has financing arrangements that include certain financial and operational covenants. Failure to comply with these covenants could lead to penalties, increased costs, or even default on the debt, negatively affecting the company's operations and financial stability.

Real Estate Exposure Risk: A significant portion of the company's portfolio is tied to the real estate sector. If the real estate market experiences a downturn, the company could see an increase in impairment losses, which would adversely affect its operations, cash flows, and financial condition.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
LIC Housing Finance Limited	27317.79	4748.84	86.33	7.82	1.18	572.24	2	675.45	37154.01
PNB Housing Finance Limited	7181.45	1593.50	61.34	15.89	1.69	576.47	10	974.80	25321.49
Can Fin Homes Limited	3631.74	766.88	57.59	15.28	2.70	326.23	2	879.90	11716.23
Aadhar Housing Finance	2706.71	803.47	18.70	20.86	3.09	126.38	10	390.10	16764.10
Aavas Financiers	2096.24	506.96	61.97	27.56	3.58	476.78	10	1708.05	13517.78
Aptus Value Housing Finance	1504.90	641.39	12.85	25.06	4.28	75.31	2	322.05	16074.41
Home First Finance	1238.07	324.37	36.42	31.34	4.79	238.21	2	1141.35	10165.24
Bajaj Housing Finance Limited**	8063.06	1752.03	2.10	33.27	3.19	21.95	10	70.00	58297.03

***Peer companies financials are TTM based**
****Bajaj Housing Finance Limited are based on TTM**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.70 the stock is priced at pre issue P/E of 31.24x on TTM EPS of Rs.2.24. Post issue, the stock is priced at a P/E of 33.27x on its EPS of Rs. 2.10. Looking at the P/B ratio at Rs. 70, pre issue, book value of Rs. 18.82 of P/Bvx 3.72x. Post issue, book value of Rs. 21.95 of P/Bvx 3.19x.

Considering the P/E valuation, on the lower end of the price band of Rs. 66, the stock is priced at pre issue P/E of 29.46x on TTM EPS of Rs. 2.24. Post issue, the stock is priced at a P/E of 31.37x on its EPS of Rs. 2.10. Looking at the P/B ratio at Rs. 66, pre issue, book value of Rs. 18.82 of P/Bvx 3.51x. Post issue, book value of Rs. 21.95 of P/Bvx 3.01x.

Industry Outlook

India has very low penetration in terms of housing finance as compared to other economies which shows a high potential for expansion of Indian housing finance companies. The Indian housing finance market clocked a healthy CAGR of approximately 13.1% (growth in credit outstanding) during Fiscals 2019 to 2023, on account of rise in disposable incomes, healthy demand, and greater number of players entering the segment. Going forward, CRISIL MI&A expects overall housing segment to grow at a CAGR of 13-15% from Fiscal 2024 to Fiscal 2027.

Outlook

BHFL is the largest non-deposit-taking housing finance company (HFC) in India by assets under management (AUM), and it has shown significant growth since its establishment in 2015. It has the lowest Gross Non-Performing Assets (GNPA) ratio among large HFCs, which is a strong indicator of its financial health. It has demonstrated robust financials with a high loan disbursement figure and strong revenue and profit growth. Its association with well-known promoters like Bajaj Finance and Bajaj Finserv adds to its credibility. Given BHFL's strong market position, low NPA levels, and backing by prominent promoters, the IPO could be a good investment opportunity.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	09-September-24
BID/ISSUE CLOSES ON	11-September-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	12-September-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	13-September-24
Credit of Equity Shares to Demat Accounts of Allottees	13-September-24
Commencement of trading of the Equity Shares on the Stock Exchanges	16-September-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-24 (3 Months)	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)
Interest earned	2063.54	7202.36	5269.24
Interest expended	1398.76	4692.61	3211.32
Net Interest Income	**664.78**	**2509.75**	**2057.92**
Other Operating Income	145.11	414.95	395.49
Operating Profit	**809.89**	**2924.70**	**2453.41**
Other Income	0.08	0.40	0.71
Total Net Income	**809.97**	**2925.10**	**2454.12**
Other Expenses	180.09	763.78	754.06
PBT	**629.88**	**2161.32**	**1700.06**
Tax	147.27	430.10	442.26
PAT	**482.61**	**1731.22**	**1257.80**

Key Performance Indicators

Rs. in Cr.

Particulars	As at and for the three months period ended June 30, 2024	As at and for the three months period ended June 30, 2023	As at and for the financial year ended March 31, 2024	As at and for the financial year ended March 31, 2023	As at and for the financial year ended March 31, 2022
Assets under Management (AUM)	97,071.33	74,124.26	91,370.40	69,227.90	53,321.72
AUM Y-o-Y Growth	31.0%	29.1%	32.00%	29.80%	37.20%
Disbursement	12003.51	10382.52	44656.24	34333.63	26175.24
Disbursement Y-o-Y Growth	15.6%	12.2%	30.10%	31.20%	73.50%
Net Worth	14,719.91	10,964.99	12,233.50	10,503.19	6,741.36
NIM (%)	3.90%	4.40%	4.10%	4.50%	4.00%
Return on Average Assets (RoAA) (%)	2.30%	2.90%	2.40%	2.30%	1.80%
Return on Average Equity (RoAE) (%)	14.30%	17.20%	15.20%	14.60%	11.10%
Capital Adequacy (CRAR) (%)	23.82%	22.52%	21.28%	22.97%	19.71%
Gross Non-Performing Assets (%)	0.28%	0.23%	0.27%	0.22%	0.31%
Net non-performing assets (%)	0.11%	0.08%	0.10%	0.08%	0.14%
Provision Coverage Ratio (%)	59.40%	65.90%	63.70%	63.60%	54.30%

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-24	As on 31-Mar-24	As on 31-Mar-23
Assets			
Financial assets			
Cash and balances with Reserve Bank of India	56.72	63.86	93.88
Bank balance other than cash and cash equivalents	0.15	0.15	14.99
Derivative financial instruments	8.33	11.66	1.37
Receivables	0.00	0.00	0.00
Trade receivables	23.97	13.36	1.59
Other receivables	0.00	0.00	0.36
Loans	85283.20	79300.75	62113.89
Investments	2656.05	1938.57	2000.91
Other financial assets	284.51	284.07	301.94
Total financial assets	**88312.93**	**81612.42**	**64528.93**
Non-financial assets			
Current tax assets (net)	32.01	31.09	3.97
Deferred tax assets (net)	52.15	50.94	0.00
Property, plant and equipment	84.32	87.50	84.92
Intangible assets under development	0.66	0.87	0.31
Other intangible assets	33.47	35.36	28.07
Other non-financial assets	23.29	8.91	7.94
Total financial assets	**225.90**	**214.67**	**125.21**
Total assets	**88538.83**	**81827.09**	**64654.14**
Liabilities and Equity			
Financial liabilities			
Derivative financial instruments	3.72	0.83	0.00
Payables			
Total outstanding dues to MESE			
Total outstanding dues to creditors other than MESE	128.67	140.36	118.97
Debt securities	29434.61	26645.33	19914.92
Borrowings (other than debt securities)	43716.30	42299.73	33654.70
Deposits	196.15	184.26	175.77
Other liabilities and provisions	221.05	234.14	211.62
Total financial liabilities	**73700.50**	**69504.65**	**54075.98**
Non-financial liabilities			
Current tax liabilities (net)	52.17	25.93	16.17
Provisions	43.28	35.64	15.63
Deferred tax liabilities (net)	0.00	0.00	28.27
Other non-financial liabilities	22.97	27.37	14.90
Total non-financial liabilities	**118.42**	**88.94**	**74.97**
Total Liabilties	**73818.92**	**69593.59**	**54150.95**
Net worth represented by:			
Equity Share Capital	7819.58	6712.16	6712.16
Other equity	6900.33	5521.34	3791.03
Net Worth	**14719.91**	**12233.50**	**10503.19**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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