

Retail Research	IPO Note
Sector: BFSI (Housing Finance)	Price Band (Rs): 66 - 70
05th September 2024	

Bajaj Housing Finance Ltd.

Company Overview:

Bajaj Housing Finance Ltd (BHFL) is the second largest housing finance company (HFC) in India with an AUM of Rs 97,071 cr as of 1QFY25. The company was registered as a non-deposit taking HFC with the National Housing Bank (NHB) since 24th Sep, 2015 and is engaged in mortgage lending since FY18. BHFL offers financial solutions to individuals and corporate entities for the purchase & renovation of homes and commercial spaces. The company's mortgage product suite comprises of i) home loans, ii) loans against property, iii) lease rental discounting and iv) developer financing. The primary emphasis of the business is on individual retail housing loans which are complemented by a diversified collection of lease rental discounting and developer loans. BHFL operates through a network of 215 branches spread across 174 locations in 20 states and 3 union territories as of 1QFY25.

Key Highlights:

- Widespread recognition of the 'Bajaj' brand:** The company is a wholly-owned subsidiary of Bajaj Finance Ltd (one of the largest NBFCs in India), which is a financial services subsidiary of Bajaj Finserv Ltd. BHFL carries out its operations under 'Bajaj Finserv' brand leveraging the strong brand recognition and heritage of the 'Bajaj' brand to grow its business.
- Diversified portfolio driving growth:** The company is the second largest HFC in India with an Asset under Management (AUM) of Rs 97,071 cr as of 1QFY25. The company is also the fourth fastest-growing HFC/NBFC in India as of FY24. The company's strength lies in strategic diversification by offering an extensive array of financial solutions catering to the needs of both retail and commercial clients. As of 1QFY25, Home Loans/Loan against Property/Lease Rental Discounting/Developer Financing/Others stood at 57.5%/10.0%/19.5%/11.2%/1.8% of AUM respectively. BHFL's diversified portfolio has allowed the company to deepen its customer base and benefit from the growth in the overall industry.
- Well-defined credit evaluation and risk management practices has led to lowest GNPA among peers:** The company has a well-defined credit evaluation framework and underwriting processes to ensure risk performance across all products is well within the defined thresholds. The company maintains a comprehensive risk management framework supported by digitized processes tailored to each product offering, ensuring early warning systems that track key indicators, such as bounce rates and overdue positions. BHFL also has well-established processes and a strong in-house four-tier collections infrastructure comprising touch-free collection (tele-calling), field collection, legal recovery and settlement to help with loan collections. Through the credit and risk management framework, the company maintains the lowest GNPA and NNPA among its peers.
- Proactive Liability management:** BHFL prioritizes longer-tenor floating rate borrowings and actively rebalances its borrowings towards money market borrowings to optimize its risk exposure and enhance financial agility. The company's approach to managing costs of funds and strong credit ratings enables it to borrow funds at competitive rates from varied sources.

Valuation: The company is valued at 1QFY25 annualised P/BV multiple of 3.2x based on the upper price band on the post-issue capital. It is the second largest HFC in India having an AUM of Rs 97,071 cr with lowest GNPA ratio of 0.28% and NNPA ratio of 0.11% among large HFCs. The company has witnessed an AUM growth of 30.9% and profit growth of 56.2% over FY22-24 period. The company's association with the brand 'Bajaj' helps it to enjoy a strong brand equity. Going forward, we expect the housing finance industry to grow in the range of 13-15% for the next 3 years and Bajaj Housing Finance Ltd is well placed to capitalize the growth in the housing finance sector.

Issue Details	
Date of Opening	09 th September 2024
Date of Closing	11 th September 2024
Price Band (Rs)	66 - 70
Offer for sale (Rs cr)	3,000
Fresh Issue (Rs cr)	3,560
Issue Size (Rs cr)	6,560
No. of shares	99,39,39,394 – 93,71,42,857
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	58,297.0
Employee Reservation (Rs cr)	200.0
Shareholders Reservation (Rs cr)	500.0
BRLMs	Kotak Mahindra Capital Co, BofA Securities India, Axis Capital, Goldman Sachs (India) Securities, SBI Capital Markets, JM Financial, IIFL Securities
Registrar	KFin Technologies Ltd
Bid Lot	214 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Augmenting capital base to meet future business requirements towards onward lending	3,560.0
Total proceeds from fresh issue	3,560.0

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	7,81,95,75,273	100.0
Public & Others	-	-
Total	7,81,95,75,273	100.0

Post Issue @Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	7,36,50,29,818	88.1
Public & Others	99,39,39,394	11.9
Total	8,35,89,69,212	100.0

Post Issue @Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	7,39,10,03,844	88.7
Public & Others	93,71,42,857	11.3
Total	8,32,81,46,702	100.0

Source: RHP, SSL Research

Key Financials

Particulars (Rs cr)	FY22	FY23	FY24	1QFY25
Interest Income	3,481.7	5,269.2	7,202.4	2,063.5
Total Income	285.2	396.1	415.2	145.0
PAT	709.5	1,257.9	1,731.2	482.6
EPS (Rs)	1.5	1.9	2.6	2.5*
PE (x)	48.2	37.4	27.1	28.4
P/BV (x)	5.1	4.5	3.8	3.7
RoA (%)	1.5	2.2	2.4	2.3*
RoE (%)	10.5	14.6	15.2	14.3*

* Annualized

Source: RHP, SSL Research

Risk Factors

- Mortgage risk:** The company derives majority of its revenue from mortgages and as a result, a substantial portion of its portfolio is exposed to the real estate sector. The company's offerings are dependent on real estate prices, disposable income levels of customers and monetary policy rates by RBI. Any significant decline in property prices or shift in the monetary policy by the RBI can adversely affect the company's ability to realize the full value of loan collateral.
- Provisioning risk:** The company is required to make provisions for Expected Credit Loss (ECL) on all its loans outstanding on the reporting date. The computation of ECL provisioning is based on historical trends, macroeconomic factors and any error in computing historical loss & recovery trends could adversely affect the carrying values of loans, impairment on financial instruments which in turn could have a consequential impact on profitability.
- Regulatory requirement risk:** The company is subject to regulations relating to the capital adequacy of HFCs, liquidity coverage and principal business criteria ratios as stipulated by the RBI. While the company has complied with applicable regulatory ratio requirements including CRAR, LCR and PBC in the past, there can be no assurance that the company will be able to maintain CRAR or other regulatory ratios within the regulatory requirements and a failure to do so could have a material adverse effect on business, results of operations, cash flows and financial condition.
- Concentration risk:** The company's AUM is concentrated in Maharashtra, Karnataka, Telangana, Gujarat and New Delhi. As of 1QFY25, the company's AUM in Maharashtra/Karnataka/Telangana/Gujarat/New Delhi stood at 32.0%/22.7%/14.8%/8.1%/7.6% respectively of the total AUM. Any significant social, political or economic disruption natural calamities or civil disruptions in these regions, or changes in the policies of the state or local governments of these regions or the Government of India, could disrupt business operations, requiring the company to incur significant expenditure and change business strategies. The occurrence of or inability to effectively respond to any such event could have an adverse effect on business, results of operations, cash flows and financial condition.

Growth Strategy

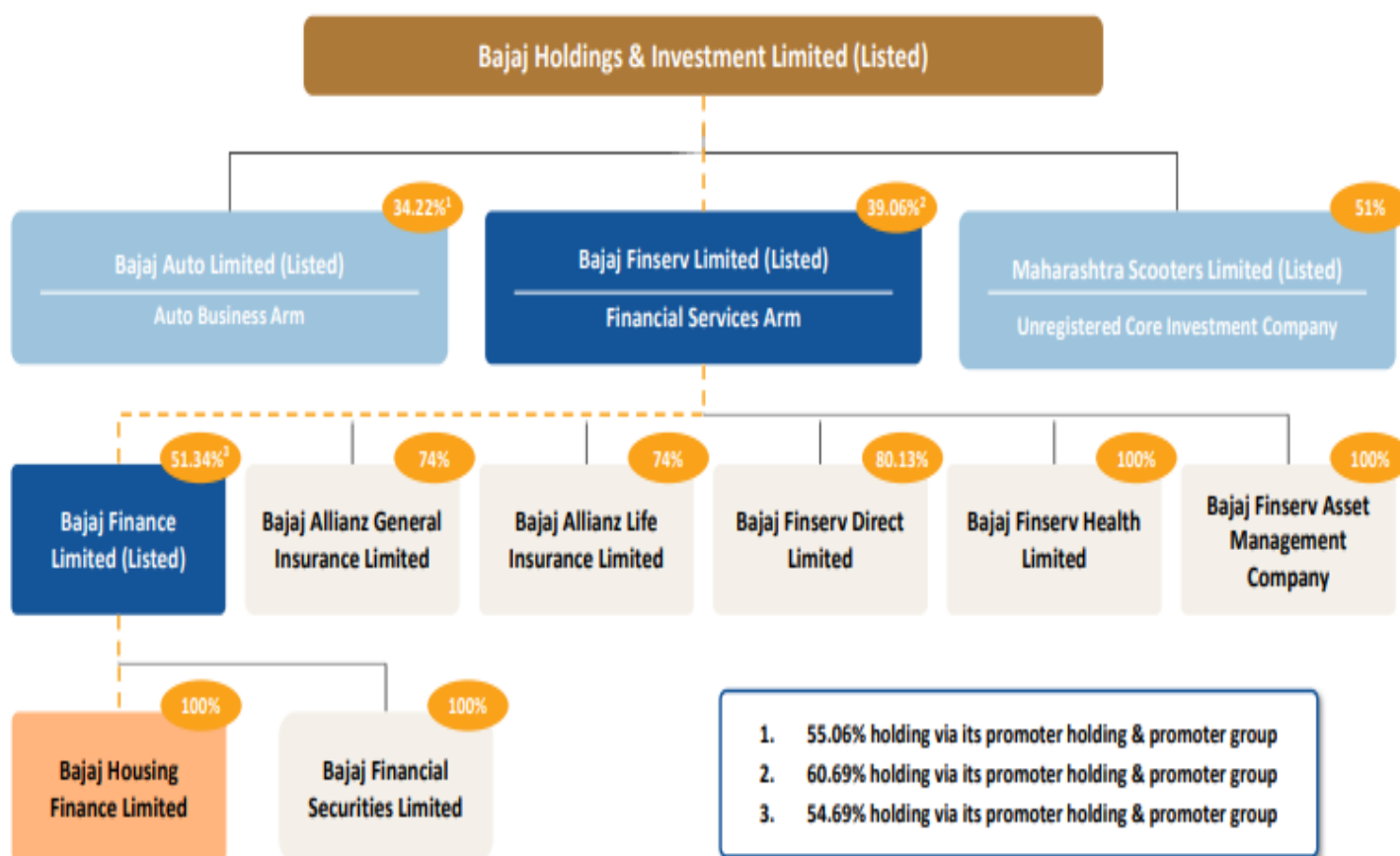
- Continue to leverage technology and analytics to enhance productivity, reduce expenses, improve customer experience and manage risks.
- Diversifying & strengthening market presence with strategic customer focus and comprehensive risk management.
- Continue to diversify borrowing profile to optimize borrowing costs.

Shareholders & Employee Reservation

Eligibility	Employee	Shareholders	Retail
Individual	Yes	Yes	Yes
Maximum bid application	Up to 5,00,000	Up to 2,00,000	Up to 2,00,000
Possible allotment	Yes	Yes	Yes

Source: RHP, SSL Research

Bajaj Group - Holding Structure



Source: RHP, SSL Research

Assets Under Management (AUM)

AUM	FY22		FY23		FY24		1QFY25	
	Rs cr	% of AUM	Rs cr	% of AUM	Rs cr	% of AUM	Rs cr	% of AUM
Home Loans	34,544.9	64.8	42,706.9	61.7	52,819.6	57.8	55,810.8	57.5
Loan against Property (LAP)	7,405.3	13.9	7,816.9	11.3	9,567.9	10.5	9,681.8	10.0
Lease Rental Discounting	6,869.4	12.9	11,259.5	16.3	17,636.8	19.3	18,969.8	19.5
Developer Financing	2,898.7	5.4	5,669.3	8.2	9,599.3	10.5	10,846.0	11.2
Others	1,603.5	3.0	1,775.4	2.6	1,746.7	1.9	1,762.9	1.8
Total	53,321.7	100.0	69,227.9	100.0	91,370.4	100.0	97,071.3	100.0

Source: RHP, SSL Research

GNPA & NNPA

Particulars	FY22		FY23		FY24		1QFY25	
	GNPA (%)	NNPA (%)	GNPA (%)	NNPA (%)	GNPA (%)	NNPA (%)	GNPA (%)	NNPA (%)
Home Loans	0.3	0.1	0.2	0.1	0.3	0.1	0.3	0.1
Loan against Property	0.8	0.4	0.8	0.3	0.7	0.3	0.7	0.3
Lease Rental Discounting	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Developer Financing	0.0	0.0	0.0	0.0	0.2	0.0	0.1	0.0
Others	0.4	0.1	0.5	0.2	0.9	0.2	0.9	0.2
Total	0.3	0.1	0.2	0.1	0.3	0.1	0.3	0.1

Source: RHP, SSL Research

Sources of Borrowings

Sources of Borrowing (%)	FY22	FY23	FY24	1QFY25
Bank Borrowings	59.0	59.0	51.0	47.0
Non-Convertible Debentures	30.0	36.0	35.0	38.0
Commercial Papers	10.0	1.0	4.0	3.0
National Housing Bank Refinance	1.0	4.0	10.0	12.0
Total	100.0	100.0	100.0	100.0

Source: RHP, SSL Research

Cost of Borrowings

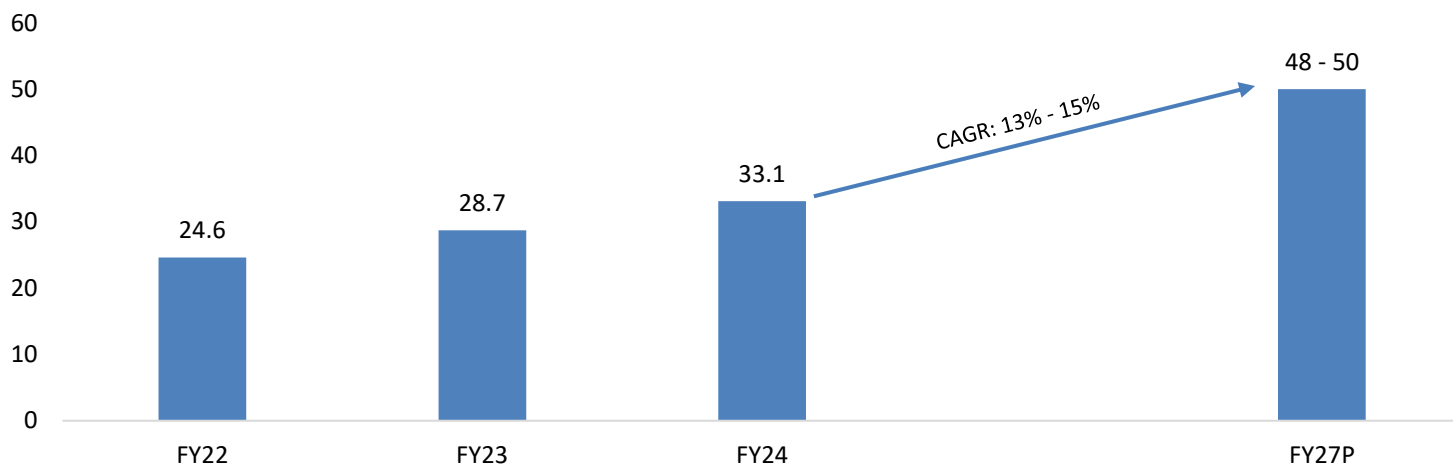
Cost of Borrowings (%)	FY22	FY23	FY24	1QFY25
Average Cost of Borrowings	5.9	6.7	7.6	7.9

Source: RHP, SSL Research

Industry Overview

The **Indian Housing Finance Market** was valued at Rs 33.1 trillion in FY24 growing at a CAGR of 13.3% between FY19-FY24 driven by rise in disposable incomes, healthy demand, and greater number of players entering the segment. Over the past few fiscal years, housing finance segment has seen favorable affordability on account of stable property rates and improved annual income of individual borrowers. In FY24, the overall housing market grew 15.2%, led by the aspirations of a growing young population with rising disposable income migrating to metro cities and elevated demand in Tier 2 and 3 cities as well. The Government of India has also been pursuing various social welfare schemes & initiatives to enhance the flow of credit to the housing sector and increase home ownership in India. The Indian Housing Finance Market is further expected to grow at a CAGR of 13%-15% between FY24-FY27E.

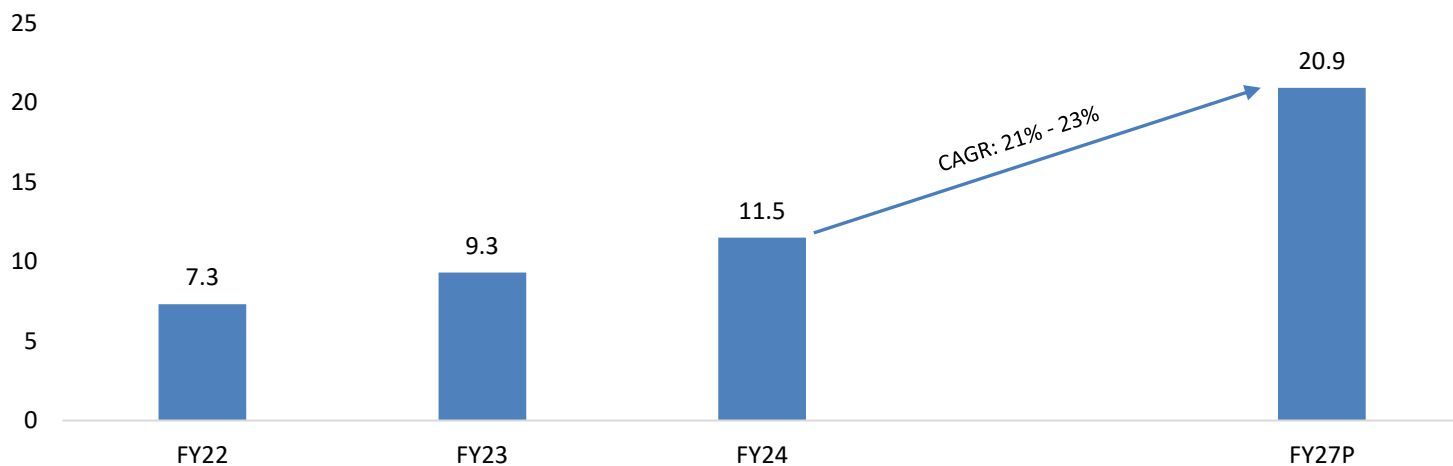
Indian Housing Finance Market (Rs trillion)



Source: RHP, SSL Research

The **Prime Housing Finance Market in India** which is defined by loans above Rs 50 lakhs in ticket size grew at a CAGR of 20.1% between FY19-FY24 and was valued at Rs 11.5 trillion in FY24. Growth in the prime housing finance segment has outperformed the overall housing market of India between FY19-FY24. Maharashtra leads the prime housing market with a market share of 27.1%, followed by Karnataka (14.8% market share), Telangana (10.4% market share) and Delhi (7.4% market share). The market is further expected to be valued at Rs 20.9 trillion, clocking in CAGR growth of 21%-23% between FY24-FY27E driven by rapid urbanization, rising real estate prices and growing connectivity.

Prime Housing Finance Market in India (Rs trillion)



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT				
(Rs cr)	FY22	FY23	FY24	1QFY25
Interest Income	3,481.7	5,269.2	7,202.4	2,063.5
Interest Expense	2,155.3	3,211.3	4,692.6	1,398.8
Net Interest Income	1,326.4	2,057.9	2,509.8	664.8
Other Income	285	396.1	415.2	145.0
Total Income	1,611.6	2,454.0	2,925.0	809.8
Operating Expenditures	470.9	630.4	702.9	169.9
Employee Expense	348.9	435.1	465.6	113.4
Other Expense	122.0	195.3	237.3	56.5
Operation Profit before Provision	1,140.8	1,823.6	2,222.1	639.9
Provisions	181.1	123.5	60.8	10.0
Operating Profit After Provision	959.7	1,700.1	2,161.3	629.8
Exceptional Items	-	-	-	-
Profit Before Tax	959.7	1,700.1	2,161.3	629.8
Provision for Tax	250.2	442.2	430.1	147.2
Profit After Tax	709.5	1,257.9	1,731.2	482.6

BALANCE SHEET				
(Rs cr)	FY22	FY23	FY24	1QFY25
Shareholders Fund	6,741.3	10,503.1	12,233.1	14,719.8
Share capital	4,883.3	6,712.1	6,712.1	7,819.5
Reserves and Surplus	1,858.0	3,791.0	5,521.0	6,900.3
Non-Current Liabilities	41,785.7	54,151.0	69,593.5	73,819.0
Debt Securities	16,489.2	19,914.9	26,645.3	29,434.6
Borrowings	24,493.2	33,654.7	42,299.7	43,716.3
Deposits	510.0	175.7	184.2	196.1
Other Liability and Provision	293.4	405.7	464.3	472.0
Total Equity and Liabilities	48,527.0	64,654.1	81,826.6	88,538.8
Assets				
Non-Current Assets				
Cash and Balances	407.0	93.8	63.8	56.7
Balances with Banks	0.1	15.0	0.2	0.2
Investments	1,248.2	2,000.9	1,938.5	2,656.1
Advances	46,482.0	62,113.9	79,300.8	85,283.2
Fixed Assets	78.1	84.9	87.5	84.3
Other Assets	311.6	345.6	435.9	458.4
Total Assets	48,527.0	64,654.1	81,826.6	88,538.8

RATIOS				
Particulars	FY22	FY23	FY24	1QFY25
Yield on Assets (%)	7.3	9.4	9.9	9.4
Cost of fund (%)	5.2	6.7	7.6	7.9
Spread (%)	2.1	2.7	2.3	1.5
NIM (%)	2.8	3.7	3.5	3.0
Cost to Income Ratio (%)	29.2	25.7	24.0	21.0
Credit Cost (%)	0.4	0.2	0.1	0.0
Tax (%)	26.1	26.0	19.9	23.4
GNPA (%)	0.3	0.2	0.3	0.3
NNPA (%)	0.1	0.1	0.1	0.1
PCR (%)	54.3	63.6	63.7	59.4
BVPS (Rs)	13.8	15.6	18.2	21.9
PE(x)	48.2	37.4	27.1	30.2
P/BV (x)	5.1	4.5	3.8	3.2
ROA (%)	1.5	2.2	2.4	2.3
RoE (%)	10.5	14.6	15.2	14.3

Source: RHP, SSL Research

Peer Comparison

Particulars	Bajaj Housing Finance Ltd	LIC Housing Finance Ltd	PNB Housing Finance Ltd	Can Fin Homes Ltd
CMP (Rs)	70.0	691.0	1,053.0	883.0
NII (Rs cr)	664.8	1,989.1	651.0	320.0
PAT (Rs cr)	482.6	1,323.7	432.8	20.0
M.Cap (Rs cr)	58,297.0	38,026.0	27,350.0	11,752.0
AUM (Rs cr)	97,071.3	2,88,665.0	72,540.0	35,557.0
NIM (%)	3.0	2.8	3.7	3.6
ROA (%)	2.3	1.8	2.4	2.2
ROE (%)	14.3	16.0	11.4	17.6
GNPA (%)	0.3	3.3	1.4	0.9
NNPA (%)	0.1	1.9	0.9	0.5
PCR (%)	59.4	42.9	31.9	57.3
P/BV (x)	3.2	1.2	1.8	2.7
P/E (x)*	30.2	7.3	15.8	14.7

The data is based on 1QFY25 financial data.

*Annualized

For Bajaj Housing Finance Limited the Market cap, P/BV (x), and P/E (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 04th September, 2024.

Source: RHP, SSL Research

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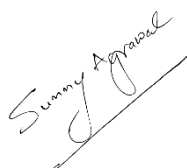
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