Bajaj Housing Finance (BAJAJHFL IN)

I have not even begun to fight

INDIA | FINANCIAL | Initiating Coverage

16 September 2024

BUY

CMP RS 165

TARGET RS 210 (+27%)

COMPANY DATA

O/S SHARES (MN) :	8,328
MARKET CAP (RSBN) :	1,374
MARKET CAP (USDBN) :	16.4
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Dec 23
PROMOTERS :	88.75
OTHERS :	11.25

KEY FINANCIALS

Rs bn	FY25E	FY26E	FY27E
Pre-prov Profit	29.2	37.9	48.8
% growth	31.6	29.5	28.8
Net Profit	21.3	27.5	35.4
% growth	22.8	29.2	28.8
EPS (Rs)	2.4	3.1	4.0
ABVPS (Rs)	27.3	30.4	34.5
ROA (%)	1.8	1.8	1.9
ROE (%)	11.8	10.9	12.4

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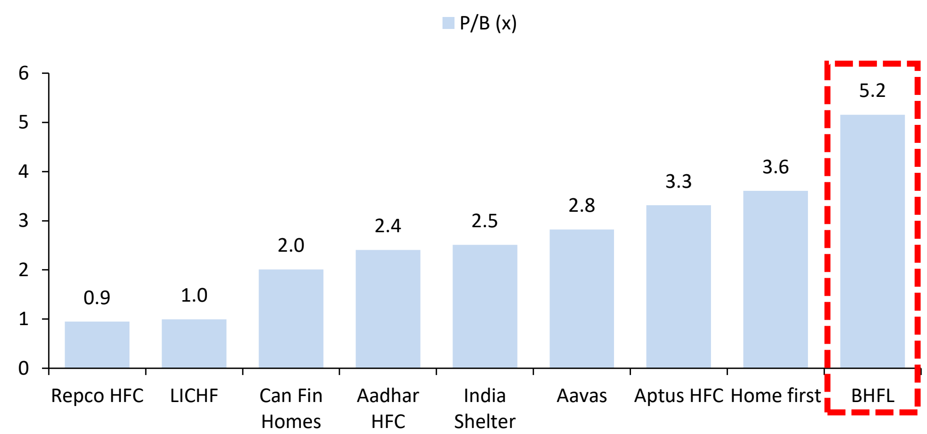
Expect 35%+ upside on BAF with BHFL listing: Our bull, bear, and base scenarios

Bajaj Housing Finance Ltd (BHFL) was classified as an upper-layer NBFC as per scale-based regulations, and so it got listed within three years of this classification. We have worked out three scenarios, and taken a hold-co discount of 15% to be conservative, even though present tax considerations don't mandate a hold-co discount. We have taken a 50% weightage for our base scenario, 40% for our bear scenario, and 10% for a bull scenario. In the bull case, we assumed a P/E multiple of 30x – c.20% lower than +1sd of BAF. We are using earnings multiple for the standalone entity, given it is a fast-churn, high-velocity, consumption-driven credit business. We are using price-to-book multiple for the housing finance entity as it's a traditional lending business.

Our view: (1) BHFL's average home loan customers earn a salary of c.Rs 1.4mn, giving them pricing power and multiple choices in key markets. To sweeten its offerings, BHFL astutely offers top-up home loans in addition to the original home loan, which boosts its yield in this highly competitive market. (2) BHFL sources c.40% of its home loans from existing BAF customers and gives c.90% of its HLs to salaried customers. This reduces costs (lower expense ratio) in the medium term and augments its risk-adjusted spreads, leading to higher return ratios vs. peers. (3) c.70% of its LAP loans are for self-occupied residential property. It originates these loans c.45% LTV from c.40% existing customers, implying strong focus on opex and return ratios. (4) As BHFL scales up, its AUM per branch is closing in on LICHF and its AUM per employee is at par with Can Fin Homes. (5) It borrowing cost is better than Can Fin Homes', risk-adjusted spreads are lower, reflected in RoE.

Valuation: We believe BHFL is in a league of its own, with its focus on the 'desirable' sweet spot for many home loan (HL) aspirants – a ticket size of Rs 5mn. This way, it addresses c.65% of home-loan originations in India. It is increasingly focusing on Lease Rental Discounting (LRD), a high-yield segment that provides operating leverage with scale. The CF (construction finance) book will be range-bound at 8-10% of its total book. In three years, BHFL is likely to have a balance sheet of Rs 2tn+. Near-term, credit costs will remain benign; this, along with its focus on building a low-risk balance sheet, will lead to RoA/RoE of 2%+/12%+. With scale, BHFL has scope to improve its expense ratios, implying an improvement in return ratios. Hence, we would look favourably at BHFL for its acute focus on salaried HL, steady expense ratio, and benign credit costs, manifesting strong return ratios. We value Bajaj Housing Finance at 6.5x Sep-26 BV at Rs 210, implying 27% upside. Initiate with BUY.

Exhibit 1: P/B comparison across housing finance companies



Source: Company Data, PhillipCapital India Research

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BHFL: To be among top-4 mortgage players in the medium term

Exhibit 2: We estimate an upside of 35%+ using BHFL listing scenario analysis

Scenario 1

Rs mn	Present Mcap	FY26E Mcap	Upside (%)
Consol	4,544,733	6,569,725	45
Consol FY26e NW	1,199,308	1,199,308	
Implied P/B (x)	3.8	5.5	45

Rs mn	FY26E multiple (x)	FY26E Net Worth/PAT	FY26E Mcap
Standalone	25.0	210,428	5,260,692
HFC	5.4	284,315	1,540,038

Note: Assumed HoldCo discount of 15%

Scenario 2

Rs mn	Present Mcap	FY26E Mcap	Upside (%)
Consol	4,544,733	5,255,780	16
Consol FY26e NW	1,199,308	1,199,308	
Implied P/B (x)	3.8	4.4	16

Rs mn	FY26E multiple (x)	FY26E Net Worth/PAT	FY26E Mcap
Standalone	20.0	210,428	4,208,554
HFC	4.3	284,315	1,232,031

Note: Assumed HoldCo discount of 15%

Scenario 3

Rs mn	Present Mcap	FY26E Mcap	Upside (%)
Consol	4,544,733	7,883,670	73
Consol FY26e NW	1,199,308	1,199,308	
Implied P/B (x)	3.8	6.6	73

Rs mn	FY26E multiple (x)	FY26E Net Worth/PAT	FY26E Mcap
Standalone	30.0	210,428	6,312,830
HFC	6.5	284,315	1,848,046

Note: Assumed HoldCo discount of 15%

Final valuation table

Rs mn	Present Mcap	FY26E Mcap	Upside (%)
Consol	4,544,733	6,175,541	36
Consol FY26e NW	1,199,308	1,199,308	
Implied P/B (x)	3.8	5.1	36

Rs mn	FY26E multiple (x)	FY26E Net Worth/PAT	FY26E Mcap
Standalone	23.5	210,428	4,945,051
HFC	5.1	284,315	1,447,636

Note: Assumed HoldCo discount of 15%

Source: PhillipCapital India Research, Company Data, Bloomberg

Key risks we see to our thesis

- Competition from banks in salaried home loans.
- Higher credit risk due to top-up loans on home loans.
- Increasing reliance for growth on higher ticket size CF.

BHFL – background information

BHFL leverages low-cost funds, scalable tech, and a strong team to grow in a large market

- BAF launched its mortgage business in FY09 with LAP products. In subsequent years, it entered into home loans for self-employed and salaried customers, LRD, and CF.
- It hived off Bajaj Housing Finance (BHFL) into a separate entity in FY18.
- With BHFL, it received access to a lower cost of funds, a dedicated team to focus on the large Rs 33tn market (which is likely to expand at 12% p.a.), and the opportunity to lever the business by 7-8x.
- Atul Jain, who had set up a successful rural lending business, heads BHFL.
- It has an extensive distribution network comprising 174 branches as of 1QFY25 and a scalable technology infrastructure across its business operations and throughout the loan life cycle. It had a three-year CAGR of 33% in its AUM during FY21-24.

Exhibit 3: Management Snapshot

Name	Profile
Atul Jain, MD	Atul Jain was appointed the Managing Director of Bajaj Housing Finance in 2022 after serving as the CEO of the Company for four years. Over the last decade, he led key portfolios in Bajaj Finance Limited before taking over the reins of its mortgages arm, Bajaj Housing Finance Limited. During his time at BFL, Atul held numerous Senior Management roles, including those of the Chief Collections Officer and Enterprise Risk Officer. Atul has an MBA in Finance and a rich work history spanning over three decades.
Gaurav Kalani, CFO	Gaurav Kalani has been with the Bajaj Group since 2003, earning immense recognition for his contributions. An IIM Ahmedabad alumnus, he plays a significant role in driving key strategies across verticals.
Jasminder Singh Chahal, President – Prime and Affordable	Jasminder joined Bajaj Housing Finance as the President - Home Loan. He holds a postgraduate diploma in management from Symbiosis Institute of Management Studies, Pune.
Pawan Bhansali, Senior Executive Vice President – Near Prime and Affordable Business	Pawan Bhansali heads the company's Near Prime and Affordable Business. He also oversees business for Rural and Emerging Markets.
Amit Sinha, Executive Vice President - HL	A seasoned professional with over 14+ years of experience in the Bajaj Group, Amit Sinha heads the company's Home Loan B2C vertical.
Vipin Arora, Executive Vice President - CRE and LAP	Vipin Arora is a seasoned mortgage professional with more than 18 years of experience in Sales and Underwriting. He is a C.A. specializing in business development, analytics, and risk management.
Niraj Adiani, Executive Vice President - Risk	With 14+ years of experience in the Bajaj Group, Niraj Adiani is the heads risk for Bajaj Housing Finance, playing a vital role in maintaining the Company's superlative portfolio quality.
Gaurav Pruthi, Executive Vice President - Debt management services	A seasoned professional with over 13 years of experience in the Bajaj Group, Gaurav Pruthi is responsible for debt management services at Bajaj Housing Finance since 2018. He also heads the Legal Department.
Dushyant Poddar, Executive Vice President – Developer Finance	Dushyant heads the Developer Finance function of the Company. He has previously worked with Citibank, N.A.
Biraj Kumar Mishra, Chief Business Officer- Home Loans	Biraj is responsible for the Home Loan – B2B function of the company. He was previously associated with HDFC Bank Limited.
Alankrit Atal, Senior Business Head – Pre-Qualified Mortgages	Alankrit is responsible for the Pre-Qualified Mortgages function of the Company. He was previously associated with Barclays Investments & Loans (India) Limited.

Source: Company, PhillipCapital India Research

Exhibit 4: DuPont Analysis

	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	8.1	9.3	9.8	9.4	9.2	9.3
Interest Expended	5.0	5.7	6.4	6.1	6.0	6.0
Net Interest Income	3.1	3.6	3.4	3.3	3.2	3.3
Other Operating Income	0.7	0.7	0.6	0.5	0.4	0.3
Net Income	3.7	4.3	4.0	3.8	3.6	3.6
Operating Expenses	1.1	1.1	1.0	0.8	0.8	0.8
Operating Income	2.6	3.2	3.0	2.9	2.8	2.9
Provisions/write offs	0.4	0.2	0.1	0.1	0.1	0.1
PBT	2.2	3.0	3.0	2.9	2.8	2.8
Tax	0.6	0.8	0.6	0.7	0.7	0.7
Reported PAT	1.6	2.2	2.4	2.1	2.1	2.1
Leverage (x)	6.8	6.6	6.4	5.5	5.3	6.0
RoE	11.1	14.6	15.2	11.8	10.9	12.4

Source: Company, PhillipCapital India Research

Strategies for growth in the housing loan market

- BHFL continues to widen geographical presence to further strengthen its market share in this business.
- In FY16, it changed its HL (housing loan) origination strategy from a DSA basis to in-house originations, which lowered the cost of customer acquisition, increased retention, and improved credit quality.
- In-house loan sourcing, cross-sell opportunity to existing customers (who have c.Rs 5tn of mortgages as per the management), and popular ticket-size loans of Rs 4.5-5.0mn will act as key growth drivers for BHFL in the near-to-medium term
- To increase its housing-loan penetration, BHFL continues to do these three things: (1) Deepen its presence at existing developers' projects, (2) increase distribution reach, and (3) leverage developer-finance relationship for higher retail home loan contribution.
- Going forward, BHFL intends to expand its housing loans business to the self-employed segment and also to affordable housing (launched in FY22) – with a calibrated risk strategy to cover the full spectrum of the housing loan market.
- Its developer-finance portfolio will continue to expand its geographical footprint, deepen relationships with existing developers, and on-board newer developers that meet its underwriting standards and allow building a granular portfolio.
- In commercial real estate, BHFL now offers financing for commercial construction and lease rental discounting for build-to-suit warehousing and industrial properties.

BHFL is increasing its geographical presence in housing loans, focusing on in-house loan sourcing. Key drivers include focusing on most-desired ticket-sizes, cross-selling to existing customers, and targeting the self-employed and affordable housing segments. It also plans to expand its developer-finance portfolio and commercial real estate offerings.

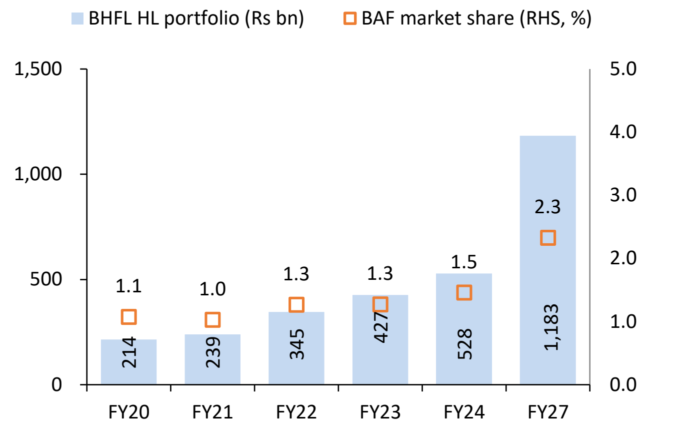
BHFL's financials: To focus on building a low-risk balance sheet

- Management expects BHFL to deliver 14-15% ROE in the near term. With scale, operating leverage will also play out in this business (though a few years away), thereby meaningfully contributing to return ratios.
- We expect BHFL to focus on building a low-risk balance sheet with RoA/RoE of 1.8%/13% with a core focus on salaried HL over the next 3-5 years.
- We expect the CF book to be range bound at 8-10% of BHFL's total book.
- The ticket size focus is likely to remain on the Rs 3-10mn segment with strong CIBIL scores of 750+.
- When it attains a certain size, BHFL's continuous focus on process efficiencies will start showing in operating leverage.
- With optimal borrowing mix of bank lines, money market instruments, NHB refinance and assignment (15-20% of borrowings), we expect steady NIMs of 3.5%+ in FY25-27.
- With a guidance of GNPA of 0.6-0.8%, we expect credit costs to remain benign in the near term, leading to above-mentioned return ratios.

BHFL aims for 14-15% ROE with a focus on building a low-risk balance sheet. Mortgages will see 32% CAGR, during FY24-27. NIMs should be steady and credit costs will stay low, supporting healthy return ratios

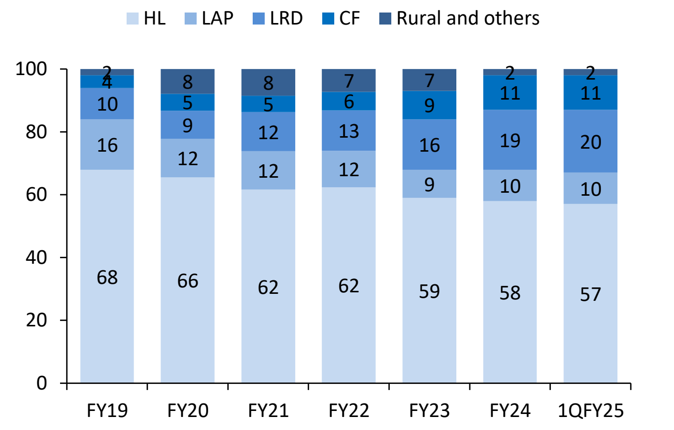
- We expect mortgages to have a 32% CAGR in the book over FY24-27. They are likely to touch c.Rs 2.1tn by FY27.

Exhibit 5: BHFL is likely to grow to c.2.5% of HL market share by FY27…



Source: PhillipCapital India Research, Company Data, CRIF High Mark / Note: Includes BHFL portfolio

Exhibit 6: …driven by increasing penetration in CF sales value



Source: Company, PhillipCapital India Research

Aims to be among the top-4 mortgage originators in India in the medium term

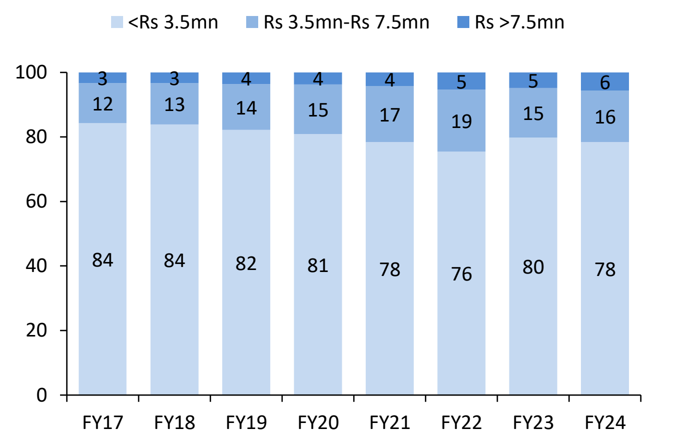
In its six years of operations, BHFL already ranks among the top-7 mortgage originators and top-3 HFCs in India. It aims to be among the top-4 mortgage originators in India in the medium term. The management wants to create a low-risk sustainable balance sheet, keeping gross NPA (%) between 0.6-0.8%, with a larger focus on salaried housing loans. BHFL is focused on BAF's 88mn customer base, for data enrichment, to create right propositions – with a focus on cross-selling. The parent infused capital worth Rs 25bn in FY23 and Rs 20bn through rights issue, taking its total capital infusion to Rs 95bn. With strong parentage and a low-risk model, it has been given AAA rating by CRISIL and India ratings.

Exhibit 7: Snapshot of product suite

	HL	LAP	LRD	CF
Avg. ticket size (Rs mn)	4.6	5.8	1,000	450
LTV (%)	70	55	55	NA
Locations	174	74	14	13

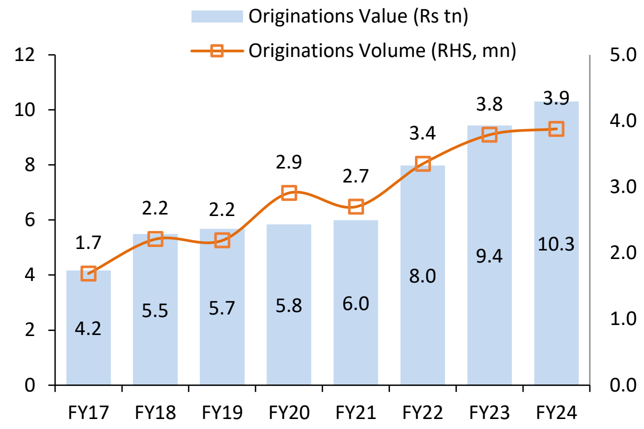
Source: PhillipCapital India Research, Company Data / Data as of 4QFY24

Exhibit 8: BHFL operates in a sweet spot of Rs 4.5-5.0mn HL ticket size



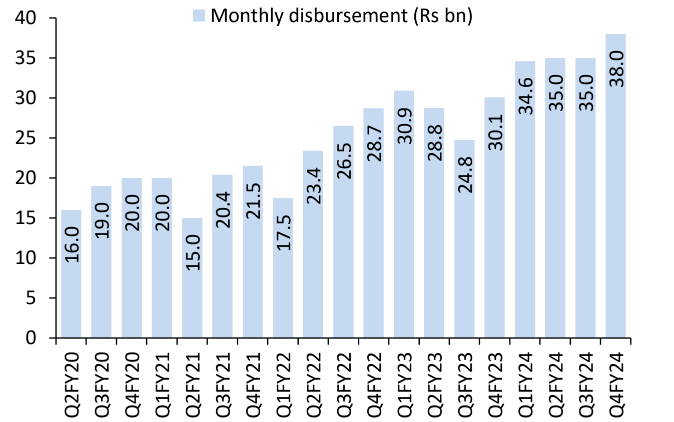
Source: PhillipCapital India Research, CRIF High Mark / Data for originations value

Exhibit 9: HL originations have increased in FY21…



Source: PhillipCapital India Research, CRIF High Mark

Exhibit 10: …with BHFL clocking a quarterly mortgage disbursement run-rate of c.Rs 75-80bn over the last 3-4 quarters



Source: PhillipCapital India Research, CRIF High Mark / Note: Monthly disbursement only for last month of the quarter

Home loans: Focused on building a low-risk portfolio

- **Home loans for ready and under-construction properties:** BHFL offers home loans for ready-to-move-in homes as well as those under construction to mass affluent salaried customers across 84 locations in India with an average ticket size (ATS) of Rs 5.1mn.
- **Micro-market strategy, repo-linked housing loans for re-pricing:** It follows a micro-market-presence strategy, using a mix of direct and indirect channels. BHFL started offering its customers external benchmark (repo)-linked housing loans; so, c.30% of acquisition comes at repo-rate-linked housing loans, leading to faster loan re-pricing.
- **Focuses on the mass-affluent-and-above range of customers**, where average age is 35-40 years and average salary is Rs 1-2mn.
- **High digital usage:** All sanction letters are digital. BHFL does only Aadhar-based on-boarding.
- **Moved to e-agreements from August 2022:** It sends pre-filled agreements to all customers, which are signed digitally by the company. There's no ceiling on ticket size.
- **Urban focus with 97% salaried customers:** In urban areas, c.97% of on-boarding is salaried customers, so ticket size does not exceed Rs 20mn. This offers a natural hedge. In rural HLs, BHFL will on-board self-employed non-professionals (SENPs), but the ticket size is lower.
- **Handles large-ticket loans for super-prime marquee property buyers:** BHFL handles 2-3 >Rs 50mn cases per month. It treats any ticket size above Rs 30mn with preference (except Mumbai metropolitan region) as these customers would usually be buying marquee property. Besides, these customers are super-prime, so they would receive quotes from most HFCs and banks, so BHFL has to land them with a faster quotation and better service.

Net balance transfer impact is negligible of BHFL book

BHFL's inward and outward balance transfers offset each other

BHFL has an inward balance transfer (BT) of Rs 4bn per month, which has a top-up component – where THE LTV difference is the difference between permissible LTV and current LTV on run-down HL. However, its balance transfer outward – to SBIN and HDFC – is also at similar levels of Rs 4bn per month. c.25% of all disbursement is BT in. HL BT out is 1.6-1.7% monthly and HL BT in is Rs 3-3.5bn monthly.

BHFL's HL acquisition is largely done via developer counters and in-house sales
At present, BHFL acquires most of its housing loans through developer, DSAs, and via its in-house sales force. The company keeps calibrating HDFC's best practices and adapts the same strategy – of selecting a developer of choice and size to make housing-loan offerings to end-users.

Two ways of sourcing: Direct and indirect sourcing are two ways to source HL. Direct sourcing done 5 ways: 1) through direct marketing team (zero pay-out), 2) converting CF exposure into HL, where BHFL has c.20% penetration on developer sales value with 30-40bps pay-out, 3) through digital partners, with 30-40bps pay-out and 5-6% conversion, 4) HL sourced from 6,000+ approved projects, with 30-50bps pay-out, 5) from BAF, with pay-out of 30-40bps only for files where marketing activity is done. Indirect sourcing happens via connectors, DSAs and large aggregators like Andromeda. The pay-outs are between 40-90bps per file.

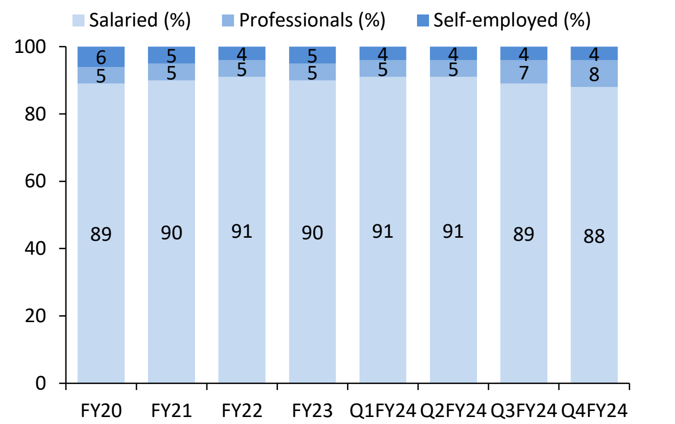
BAF is a key HL referral partner: The saving on opex is not significant. Only when targeted marketing activities are done, payouts happen. Quite a few times a BAF customer turns up at developer sales desk, but payout does not happen to BAF. Credit cost difference is not much for a BAF or non-BAF customer as it's a secured exposure. Bajaj Finserv Markets sourcing is at c.Rs 600-800mn per month

BHFL increasing focus on developer sales desk: BHFL limits single party exposure, hence 6,000+ approved projects are over and above CF exposure. In CF exposure the company slowly wants to expand penetration of sales value to 35% from present 20%. Pay-outs are done in a structured way, wherein lower pay-out if only lead is given vs. fulfilment of lead will lead to higher pay-out.

Top-up loans given selectively: Top-up loans are given selectively to either low LTV HL or BT cases which had low loan exposure earlier. Flexi component on top up loan is very small.

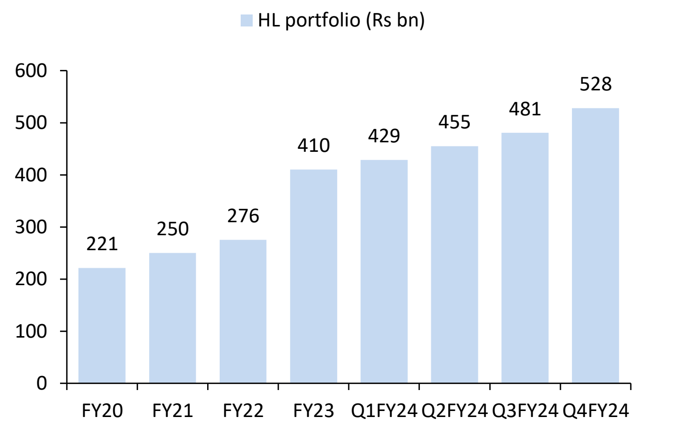
Sourcing yield: HL sourcing is 8.5%, while 9.3-9.4% is portfolio yield on HL. Top-up loan yield is 10%. Incrementally more sourcing will be done from developers who have CF exposure, to reduce on sourcing cost.

Exhibit 11: Hedge for interest-rate risk is maintained by keeping salaried sourcing 90%+…



Source: Company, PhillipCapital India Research

Exhibit 12: …leading to 50% of BHFL's book being housing loans



Source: Company, PhillipCapital India Research

Increase in interest rates over the last c.1.5years has fuelled competitive intensity
In primary sales, in terms of demand, there was no significant downturn due to an increase in rates. However, in secondary sales, the rate increases led to slight demand compression. As BHFL predominantly gives home loans to salaried people rather than

self-employed people, competitive intensity impacted BHFL's originations. However, management has alluded to maintaining margins despite competition. It books fresh HL at 9%+ after rate hikes. BHFL's LTV norms are similar to that of HDFC.

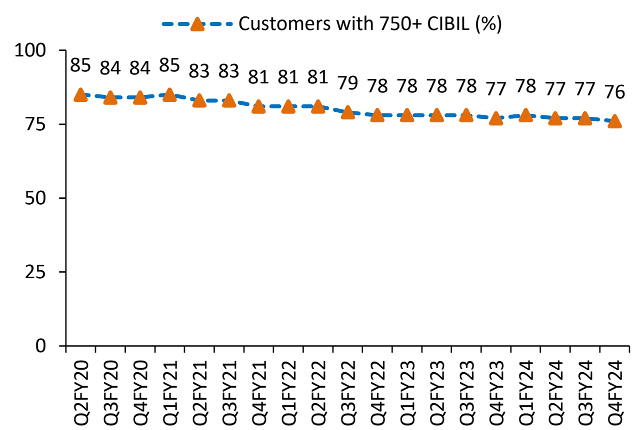
c.50% of HL customers have a previous relationship with BAF
BHFL screens salaried customers based on previous credit relationships – which is a new practice for the company. Around 45-50% of home loan customers have previous relationships with BAF, so BHFL can generate data-analytics-based offers for these customers, leading to better risk management. c.11% of its home-loan sourcing comes from Bajaj Finserv's digital channels. HLs have a maturity period of 4-5 years based on 'behaviouralized maturity' and the B2C channel offers BHFL higher profitability, driven by the ability to cross-sell.

Micro-market focus helps increase market presence in B2B home-loan sourcing
In B2B home-loan sourcing, BHFL adopts a micro-market-based approach and focuses on customers who have had HLs for 7-8 years (behaviouralized maturity). It caters to majorly elite, A+ and A-category developers. To improve scale, relationships, and risk management, it is focused on 'own-cash-flow-funded' projects. It is building a large array of partners to increase its scale and only selected and risk-approved projects are allowed for sourcing. As of now, BHFL's home loans via developers remain a hard sell, as customers tend to ask for HDFC home loans; it will take 3-4 years for BHFL to create a brand name in this segment. However, the company remains focused on this market opportunity in B2B, as it is less risky and offers a highly stable portfolio with centralized underwriting.

DSA-sourcing offers stable portfolio in HLs, unlike in LAP
Direct Selling Agents (DSAs) don't flip customers (encourage them to switch) in HLs (home loans), but they do it in LAP (loan against property) because LAP loans need top-ups each year, giving DSAs the incentive (in terms of commissions). The flipping of LAP customers does not happen because of rates hardening.

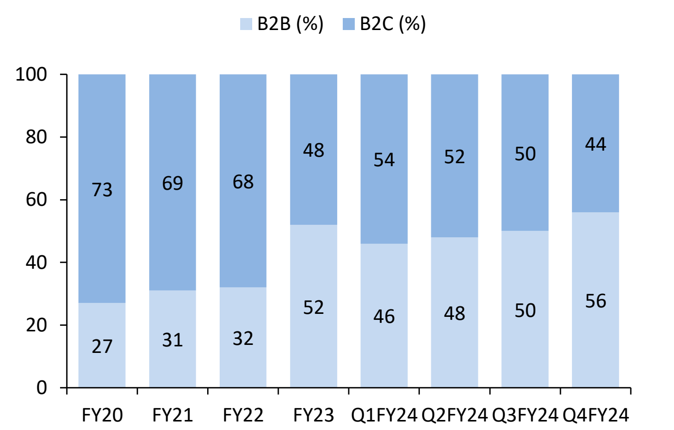
55-70% FOIR gets decided on net income
The prudence of customers is the first filter for BHFL, which is decided by their salary. Fixed-obligation to income ratio (FOIR) is calculated on net income and ranges between 55-70%. Higher the salary, higher the FOIR, which is a proxy for credit modelling, and will be 5-6% different from others in the HL market.

Exhibit 13: c.80% of on-boarded HL customers have 750+ CIBIL score…



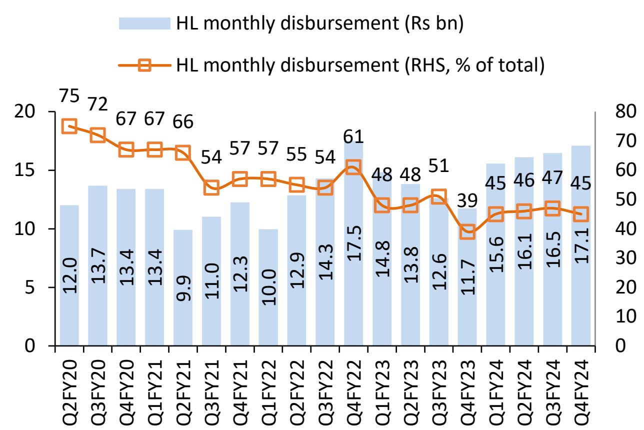
Source: Company, PhillipCapital India Research

Exhibit 14: …and these largely get driven from B2B sourcing



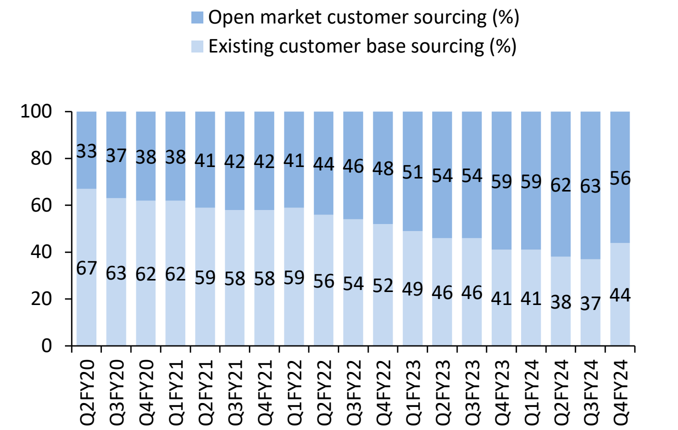
Source: Company, PhillipCapital India Research

Exhibit 15: HL is clocking c.Rs 35-40bn quarterly disbursement run-rate…



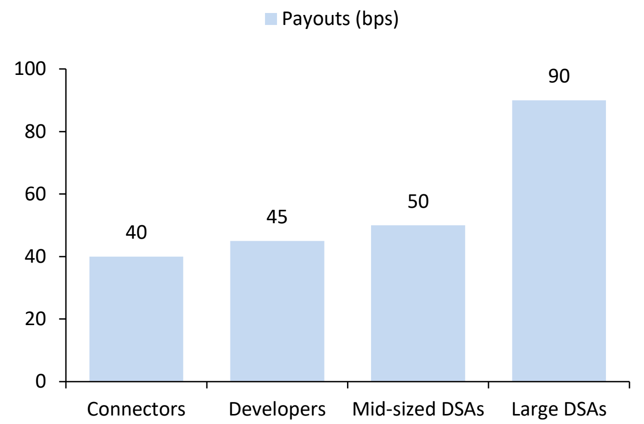
Source: PhillipCapital India Research, Company Data / Note: Monthly disbursement only for last month of the quarter

Exhibit 16: …with an increasing focus on open sourcing



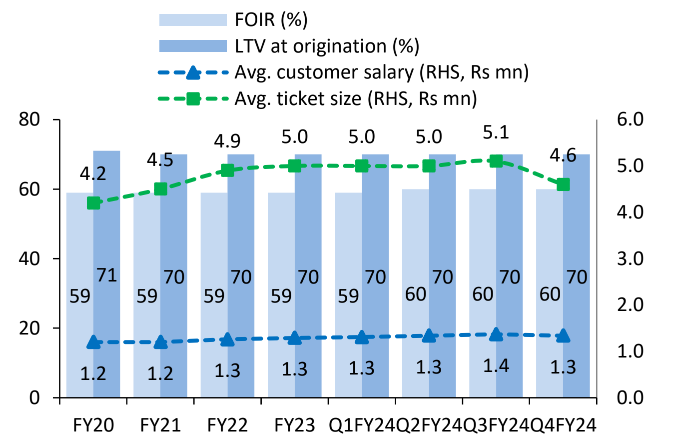
Source: Company, PhillipCapital India Research

Exhibit 17: Pay-outs for HLs are decided as per origination source…



Source: Company, PhillipCapital India Research

Exhibit 18: …while maintaining FOIRs and avg. customer salary



Source: Company, PhillipCapital India Research

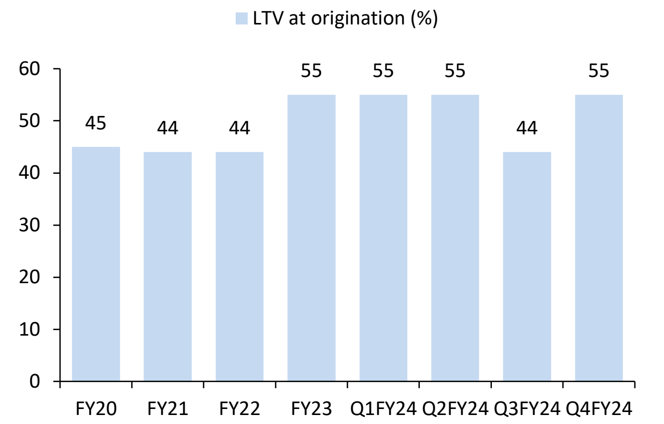
Increasing focus on loan against property (LAP)

LAP business targets SMEs and self-employed, with limits on LTVs

BHFL offers LAP to SMEs, self-employed individuals and professionals against mortgage of their residential and commercial properties. Its LAP business operates in 29 locations across India with an average ticket size (ATS) of Rs 5.8mn. It is presently c.10% of BHFL's balance sheet and is likely to remain similar in the near term. BHFL's LTV (loan to value ratio) is maximum for SORP (self-occupied residential property) at 60-70%, while for commercial properties, it is c.65%. For lower credit profile customers, it limits its LTV to c.50%.

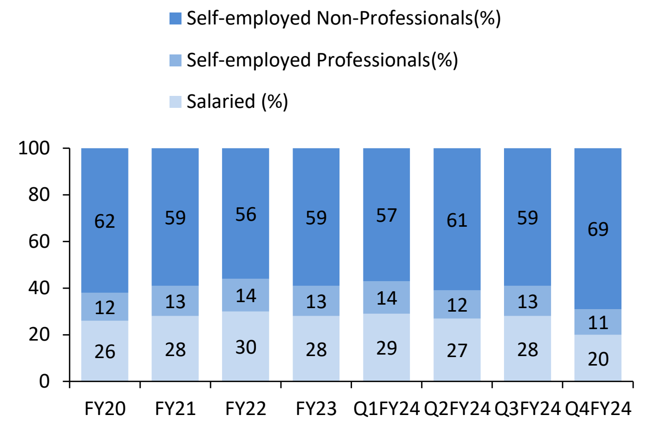
BHFL LAP sourcing yield is at c.10%, while portfolio yield is at c.11%. LAP is sourced both directly and indirectly. DSAs may have intent to flip the customer, however customer does not churn LAP as foreclosure charges higher than new loan fee income. NCR is a negative geography for BHFL, hence it does not have much of concentration in NCR. BHFL LAP disbursement is at Rs 2bn per month. Banks and other NBFCs compete with BHFL in LAP in top-74 cities. Incrementally BAF will also compete in these markets in LAP for its SME business.

Exhibit 19: Benign LTV at origination ensures margin of safety…



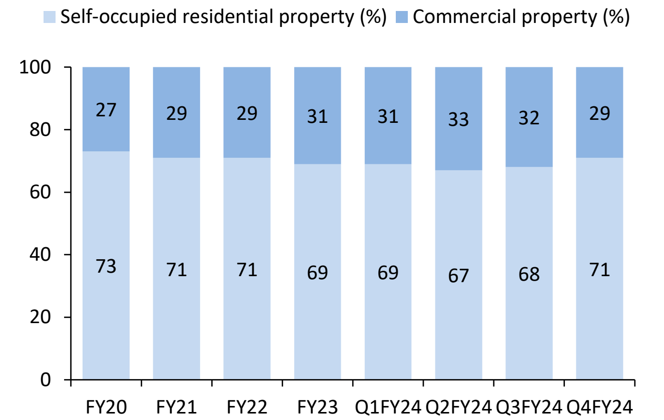
Source: PhillipCapital India Research, Company Data

Exhibit 20: …with increasing contribution from self-employed customers



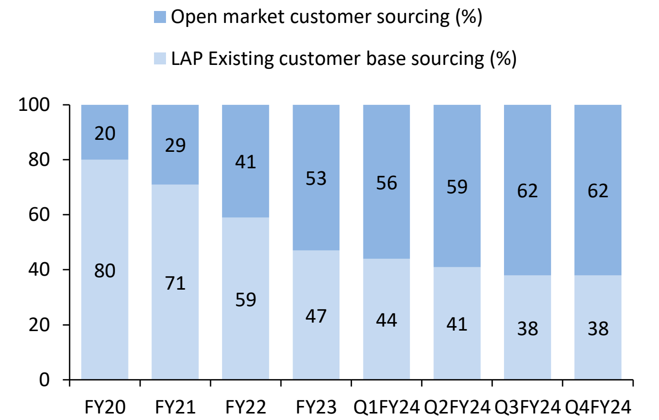
Source: PhillipCapital India Research, Company Data

Exhibit 21: Majority of collateral is self-occupied residential property…



Source: PhillipCapital India Research, Company Data

Exhibit 22: …despite increasing proportion of open-sourced customers



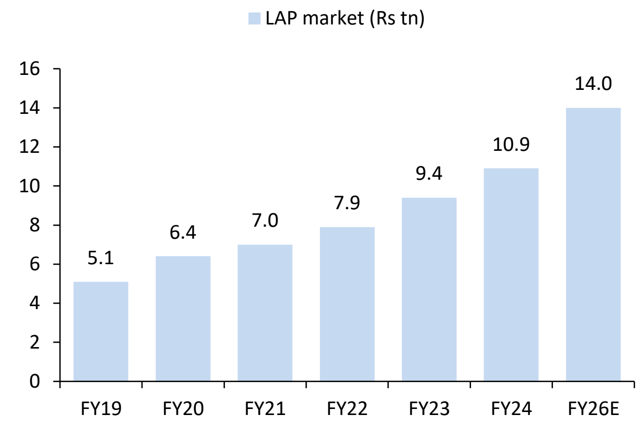
Source: PhillipCapital India Research, Company Data

NBFCs' LAP portfolio grew sharply in FY21, but they are now more conservative

As per CRIF High Mark, the total LAP portfolio of NBFCs is estimated to have been at Rs 4.8tn in FY24. In FY21, it saw higher growth than non-LAP (secured non-LAP and unsecured) as NBFCs preferred mortgage-based lending over cash-flow-based lending in the short run, given the potential risks in other segments. NBFCs are unlikely to be as aggressive as they were in the past (12% CAGR between FY17-20) when they were driven by lower interest rates and desire for higher penetration. However, after FY19, NBFCs lost share in LAP, as they focused on containing asset-quality deterioration.

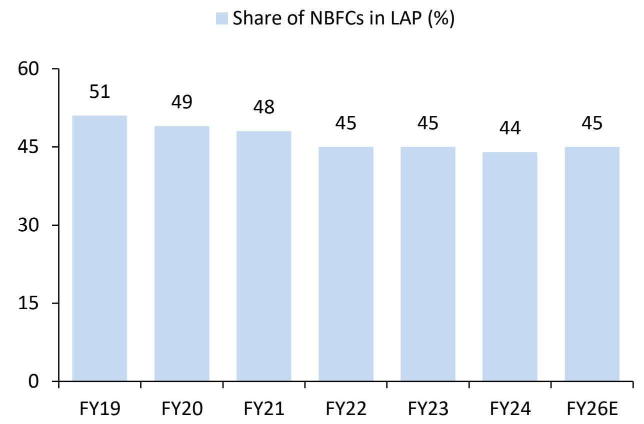
Banks registered strong growth in LAP due to their aggressive strategies, higher market penetration, lower cost of funds, and adequate liquidity support. CRIF High Mark expects LAP segment to grow 9-11% in FY25, driven by improving economic conditions and normalisation of business activities.

Exhibit 23: Per CRIF High Mark NBFCs' LAP book…



Source: PhillipCapital India Research, CRIF High Mark

Exhibit 24: …should inch up to Rs 6.5tn in FY26

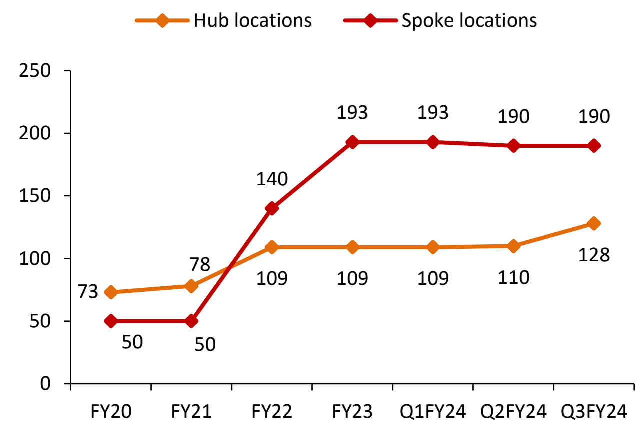


Source: PhillipCapital India Research, CRIF High Mark

Rural mortgage loans offer geographic diversification

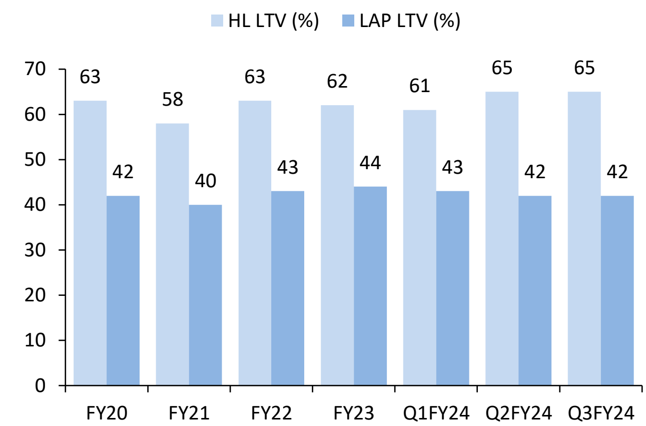
BHFL offers home loans and loans against property to salaried and self-employed customers across 128 small towns in India. It aims to expand its geographic presence in tier-3 locations. Rural mortgages business operates at an ATS of c.Rs 1.8mn and helps BHFL widen its geographic reach and reduce portfolio concentration risk.

Exhibit 25: Expanding reach via hub-and-spoke model…



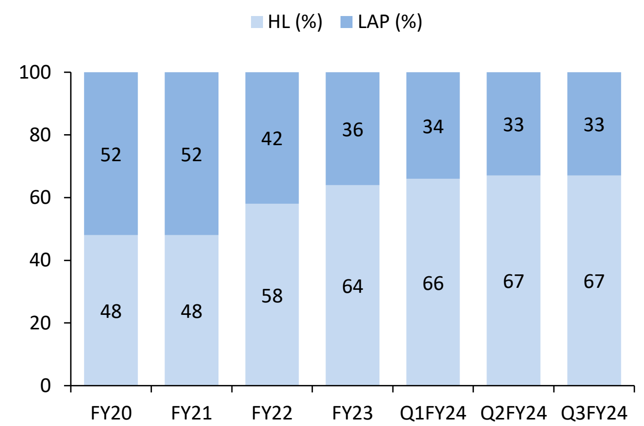
Source: PhillipCapital India Research, Company Data

Exhibit 26: …but keeping LTV in check



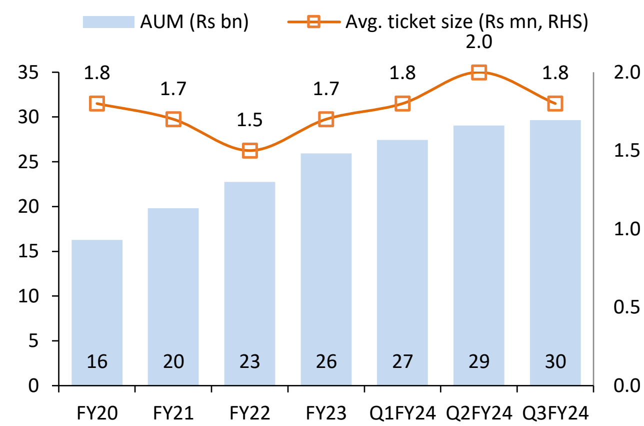
Source: PhillipCapital India Research, Company Data

Exhibit 27: Increasing proportion of HLs…



Source: PhillipCapital India Research, Company Data

Exhibit 28: …is contributing to growth in AUMs



Source: PhillipCapital India Research, Company Data

LRD (lease rental discounting) and CF (construction finance) remain growth vectors

BHFL focuses on relationships with top developers, HNIs for LRD

BHFL focuses on high net worth individuals (HNIs) and developers for their lease rental discounting needs with loan amounts of up to c.Rs 6bn, which entails financing against lease-rental cash flows of commercial properties occupied by prominent lessees under a long-term lease contract. The LRD segment will grow, as it is cash-flow backed and has an escrow attachment. BHFL has managed to build relationships with all top developers in the last four years, which will lead to growth.

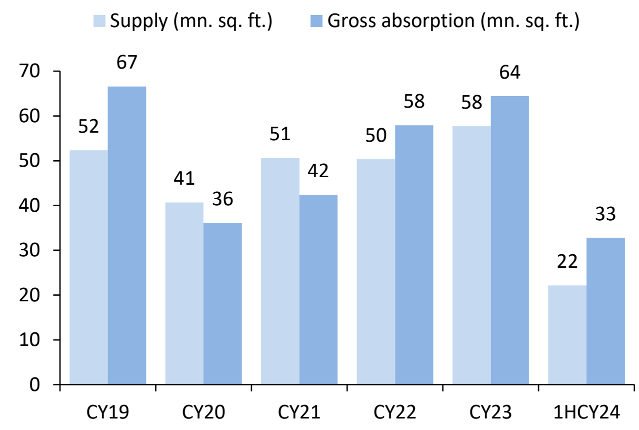
India's major cities like Bangalore, Delhi-NCR, and Hyderabad will see strong demand for office space and BFSI, e-commerce, and life sciences, and flexible space operators will drive sustained leasing activity

LRD portfolio yield is at c.9%, however end use is not tracked. BHFL works with pure-play IT work spaces. BHFL has 15% market share in LRD acquisition. BHFL does not underwrite malls in LRD book. From Covid times the management learnt that customers have other cash flows which are unencumbered and will pay for LRD EMI if they can't meet through rentals.

Establishment of global capability centres will boost corporate leasing

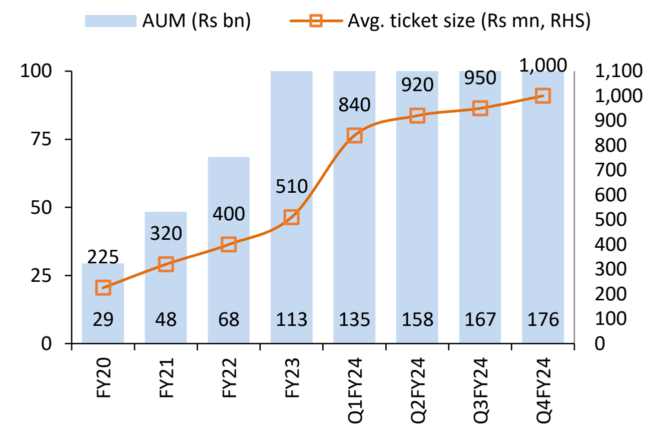
India is likely to remain an attractive cost-effective destination, leading to strong office space demand in Bangalore, Delhi-NCR, and Hyderabad. Sustained leasing activity is expected in Chennai, Mumbai Metropolitan Region (MMR), Pune, and Kolkata driven by BFSI, e-commerce, life sciences, and flexible space operators. Select tier-2 markets would continue to attract attention from corporates that prefer to locate closer to their talent pools. Sustained technology spending by corporates and increasing digitization of business operations would also drive corporate leasing activity in FY24-25. 500+ global capability centres (GCCs) are likely to be set up in India across sectors by FY26, which will sum up to 2,500+ GCCs by FY30. During the same period, the GCC market size is likely to increase to Rs 8.8tn from Rs 3.7tn in FY23. A steady supply of c.65mn sq. ft. should be delivered during CY24, and should increase in FY24-25 by c.3% each. Bangalore, Delhi-NCR, and Hyderabad should dominate completions, followed by Chennai, MMR, Pune, and Kolkata. With demand outstripping supply, vacancy rates are likely to be range-bound in CY24, leading to a strong LRD market in FY24-27.

Exhibit 29: Absorption has outstripped demand in FY22-1HCY24…



Source: PhillipCapital India Research, CBRE

Exhibit 30: …leading to low vacancy rates and strong LRD off-take



Source: PhillipCapital India Research, Company Data

Provides construction finance (CF) to stable small and mid-sized developers

BHFL offers cash-flow financing to small- and mid-sized developers with strong track records of timely delivery of projects and loan repayments. Here, the average loan value is Rs 300mn. It is present in 13 locations across the country in this segment (excluding Delhi-NCR). Developer relationships enable BHFL to acquire retail customers for home loans and it offers inventory finance to developers against their unsold completed construction inventory. It secures repayments for these loans through

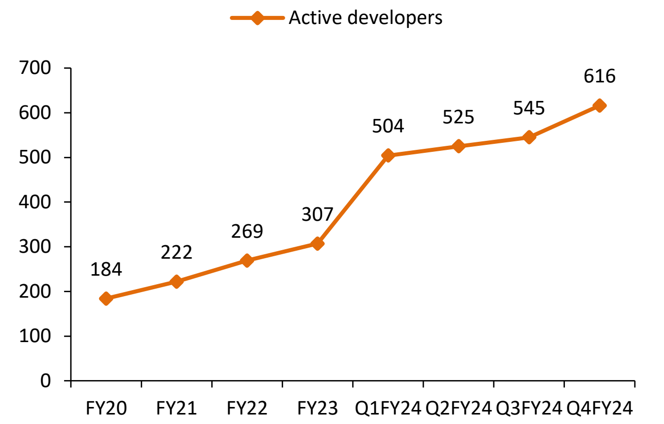
BHFL offers cash-flow financing to developers, securing loan repayments via escrow. It focuses on project-level exposure escrow arrangements. Earlier, BHFL did not go beyond Rs 1bn, but now it has – on 2-3 projects. All its CF loans are at a project-level. There are no group exposures and it does not give loans to holding companies.

BHFL selects developers based on specific criteria – should have built minimum 0.8-1.0mn sq. ft. in the preceding 7-10 years, should not have 4+ live projects, should have low leverage, and significant market share in a micro-market. BHFL has centralized underwriting, and disburses loans only after RERA and building approvals. Disbursements are deferred on the basis of construction stages and sales milestones. Interest servicing is mandatory on a monthly basis with no moratorium.

BHFL is focused on building a granular CF book and focuses on house prices being less than Rs 10mn in cities other than MMR and less than Rs 15mn in MMR. It does not finance land acquisitions. The focus is to convert CF exposure to retail low-risk home loan and LRD exposures.

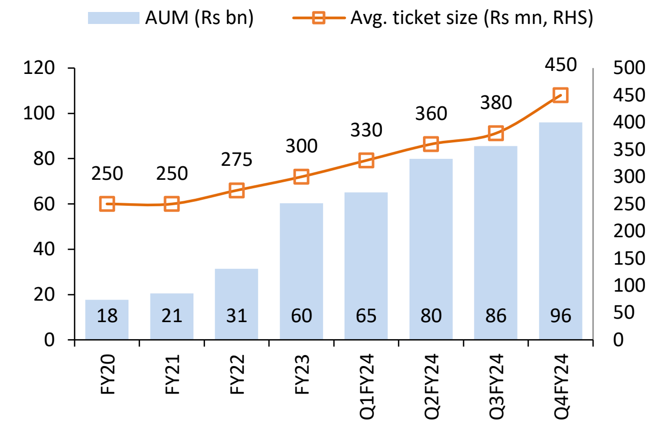
Has strict criteria for selecting developers, disburses loans based on construction progress

Exhibit 31: Developer relationships have risen…



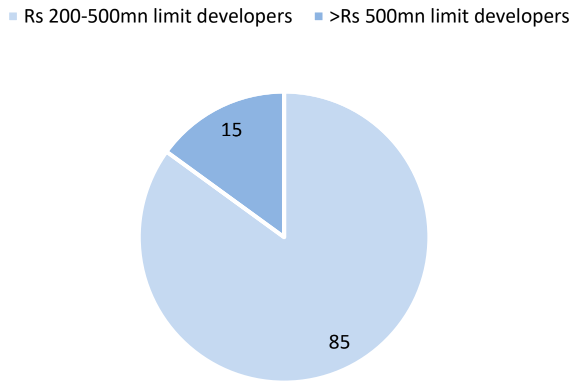
Source: PhillipCapital India Research, Company Data

Exhibit 32: …leading to uptick in average ticket size and AUM



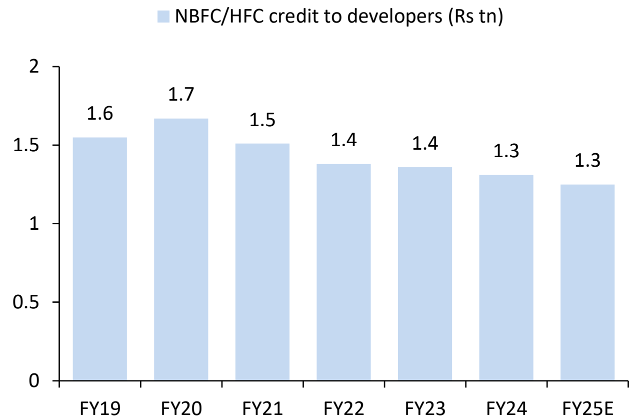
Source: PhillipCapital India Research, Company Data

Exhibit 33: Lower limits to c.85% of developers…



Source: Company Data, PhillipCapital India Research

Exhibit 34: …acts as a natural hedge to keep CF book granular



Source: Company Data, PhillipCapital India Research

Expanding developer relationships, diversifying commercial real estate products

Going forward, BHFL plans to deepen relationships with existing developers, expand reach to new developers with a granular exposure strategy, increase its developer-financing offerings to new geographies, and create presence with large developers.

In the commercial real-estate portfolio, BHFL continues to expand its product suite by adding new product variants such as commercial construction finance, lease rental discounting for build to suit warehousing, and lease rental discounting for industrial properties.

Separate underwriting structures for salaried and self-employed loans, special underwriting for commercial loans, and a separate debt-management structure for retail loans leads to efficient loan processing and resolution of legal cases

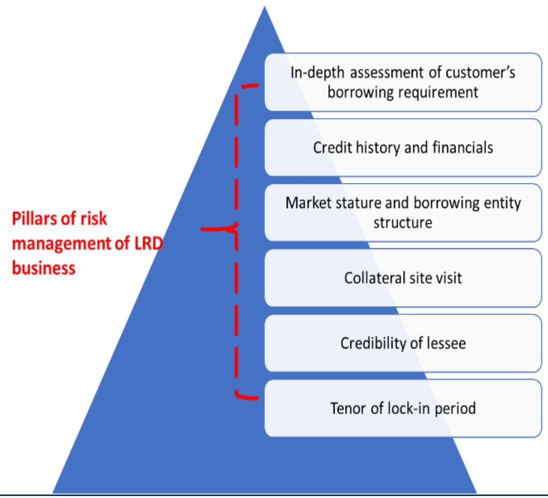
Prudent risk management to ensure balance between risk and return

HL and LAP loans have separate dedicated underwriting structures for salaried and self-employed loans. For salaried loans, it follows a hub model, while it underwrites self-employed loans across all locations – to address business and collateral-related nuances. It conducts telephone personal discussion (Tele-PD) for all salaried loans while a physical PD with the underwriter is mandatory for all self-employed loans. It performs legal and technical evaluation of collateral through its in-house collateral team and empanelled vendors, as per regulatory norms. It has checkpoints / hind-sighting processes over the life-cycle of a loan.

For LRD and CF loans, BHFL has a dedicated underwriting structure of subject-matter experts with relevant domain experience. It uses industry best-practices and tools for preparing a credit approval memo (CAM) for each commercial transaction. It has centralized disbursal of all commercial transactions for better control.

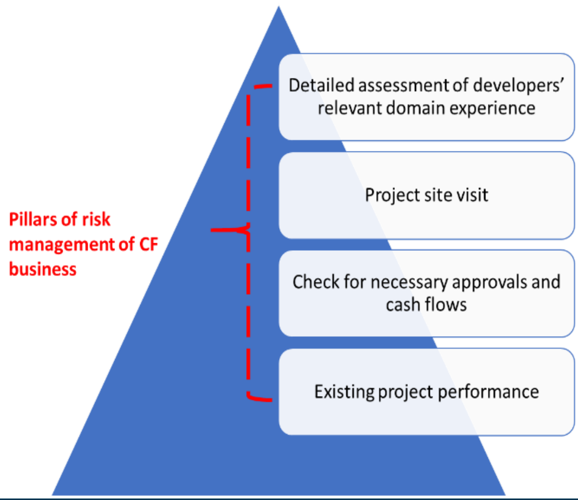
The company has a dedicated debt-management structure for all retail loans – urban and rural, which it performs through an in-house team (no external agencies), which is backed by a strong legal structure focused on SARFAESI wherever needed. With this dedicated team in place, it efficiently resolves legal cases at different stages.

Exhibit 35: LRD and CF businesses have…



Source: PhillipCapital India Research, Company Data

Exhibit 36: …strong risk-management practices



Source: PhillipCapital India Research, Company Data

Lowering borrowing costs will lead to margin expansion in the near-term

BHFL focuses on the low-risk segments across its portfolio; therefore, individual housing loans constitutes c.62%, and even within this, c.95% of AUM consists of loans given to salaried and self-employed professionals. LAP, LRD, and CF book are equally granular and have natural hedges due to limits in ticket sizes and prudent risk-management, which helps in keeping their gross NPA and net NPA low.

BHFL's priority is low-risk segments. Majority of its portfolio consists of individual housing loans. Since cost of funds has decreased, its growth in affluent micro-markets has increased

BHFL's cost of funds has begun to structurally decrease over the last 5-6 quarters vs. BAF's because for a mortgage company, the interest rate curve is lower than for an NBFC. This benefit is coming through, now that BHFL has completed five full years of operations. Rates are lower for BHFL in the bond and bank term loan markets, so, the company is passing on benefits in order to acquire customers in select affluent micro-markets. The sweet-spot for BHFL in home loans (size) remains Rs 5.0-7.5mn, but the company wants to finance high-ticket loans in certain affluent pockets as well, which will ensure that it can create a space for itself in an intensely competitive market.

BHFL's ticket-size focus will stay on the Rs 3-10mn bracket, with strong CIBIL scores of 750+. When it moves to a larger scale, operating leverage benefits will kick in, as it is focused on process efficiencies. With optimal borrowing mix of bank lines, money market instruments, NHB refinance, and assignments (15-20% of borrowings) we expect steady NIMs of 3.5%+ in FY25-27.

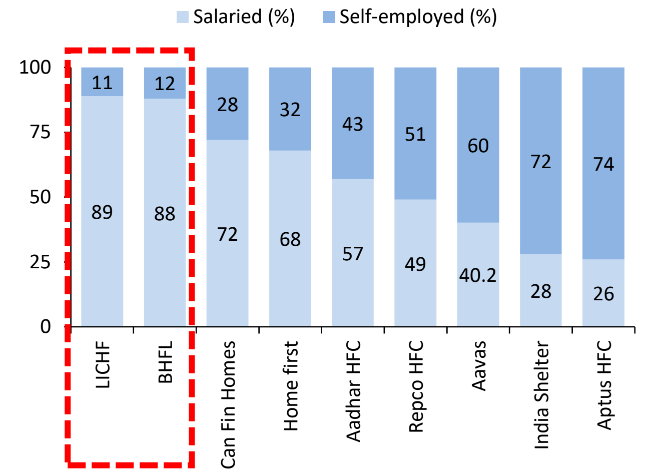
We expect RoA/RoE of 2%/12% in FY25-27 for BHFL

BHFL's aim is to become a top mortgage originator with a low-risk balance sheet that focuses on salaried home loans. It has received significant capital infusion, holds AAA ratings, and is targeting strong return ratios

BHFL aims to be among the top-4 mortgage originators in India in the medium term. It wants to create a low-risk sustainable balance sheet, delivering gross NPA (%) between 0.6-0.8% with large focus on salaried HLs. It is focused on BAF's 88mn customer base for customer data enrichment to create the right propositions for cross-selling. There was a capital infusion of Rs 25bn in FY23 and rights issue of Rs 20bn, taking the total capital infusion by its parent to Rs 95bn. With strong parentage and a low risk model, it has been given AAA rating by CRISIL and India ratings.

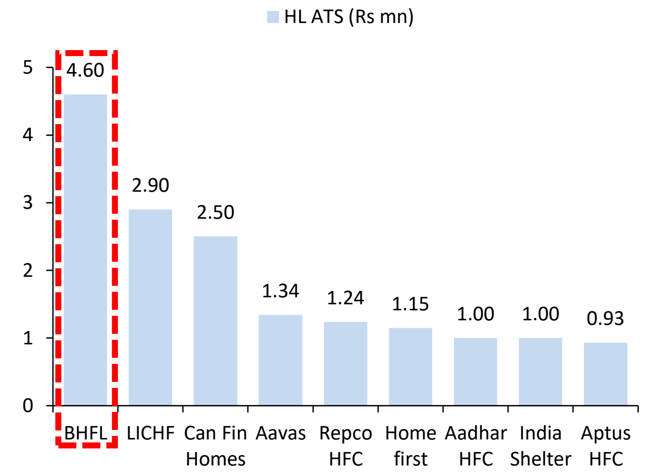
Operating leverage will be dependent on scale of CF, LAP, and its LRD exposure. Its core focus will be on salaried home loans over the next 3-5 years. The CF book will be range-bound at 8-10% of its total book. In three years, BHFL is likely to have a balance sheet of more than Rs 2tn. Its opex growth in the next 3-4 years will be slightly lower than its balance-sheet growth. With a guidance of GNPA of 0.6-0.8%, we expect credit cost to remain benign in the near term; this along with its focus on building a low-risk balance sheet will lead to RoA/RoE of 2%/12% in FY25-27.

Exhibit 37: BHFL has comparable salaried % of HL portfolio like LICHF



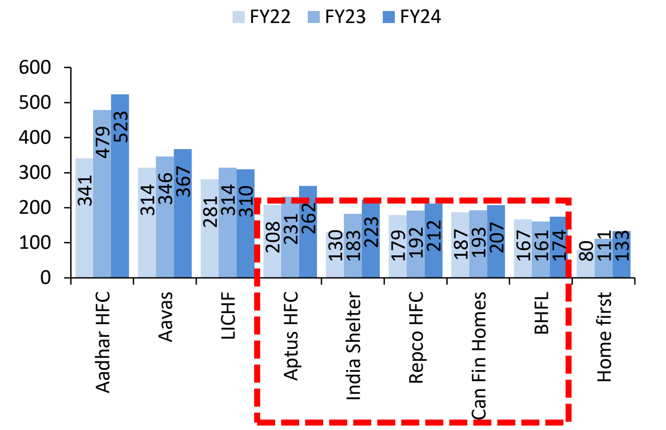
Source: PhillipCapital India Research, Company Data / Note: Data as of FY24

Exhibit 38: BHFL operates in the sweet spot of ticket size in metros and tier 1 cities



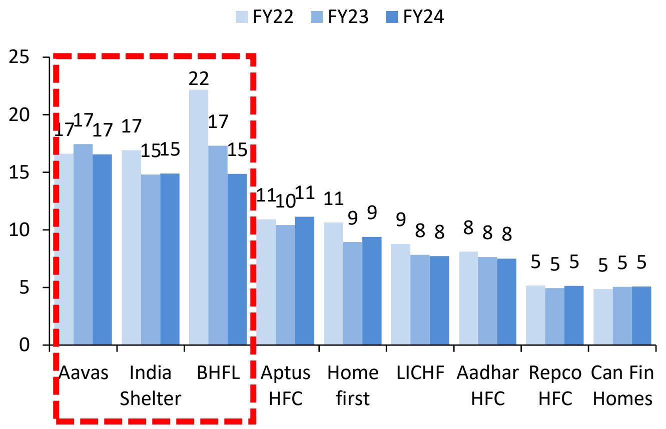
Source: PhillipCapital India Research, Company Data / Note: Data as of FY24

Exhibit 39: Branch count is well managed for the size of BHFL



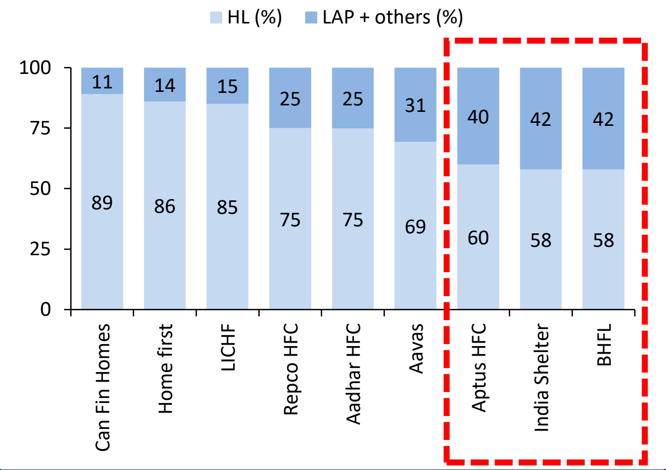
Source: PhillipCapital India Research, Company Data

Exhibit 40: Higher manpower allocation per branch as rural branches operate in hub and spoke model



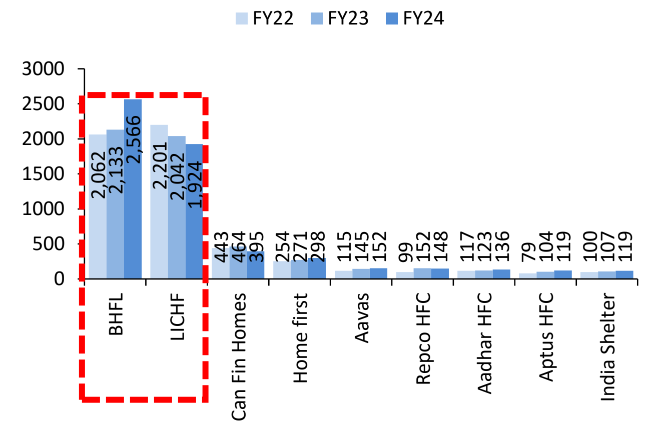
Source: PhillipCapital India Research, Company Data

Exhibit 41: HL is at c.60% of AUM to play on risk-adjusted yields of non-HL products



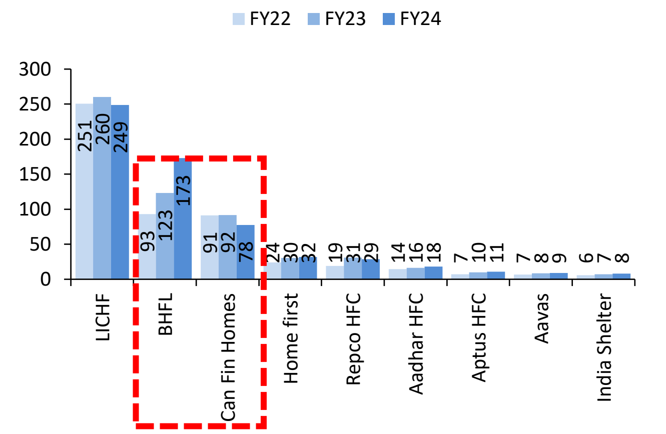
Source: PhillipCapital India Research, Company Data / Note: Data as of FY24

Exhibit 42: Disbursement per branch (Rs mn) is closer to LICHF, though c.50% of disbursement is towards high-ticket size CF and LRD products



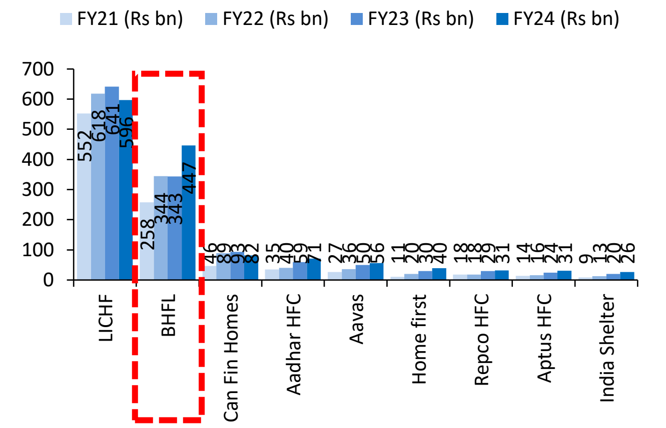
Source: PhillipCapital India Research, Company Data

Exhibit 43: Disbursement per employee (Rs mn) is c.50% of LICHF and has scope to inch up with increase in distribution…



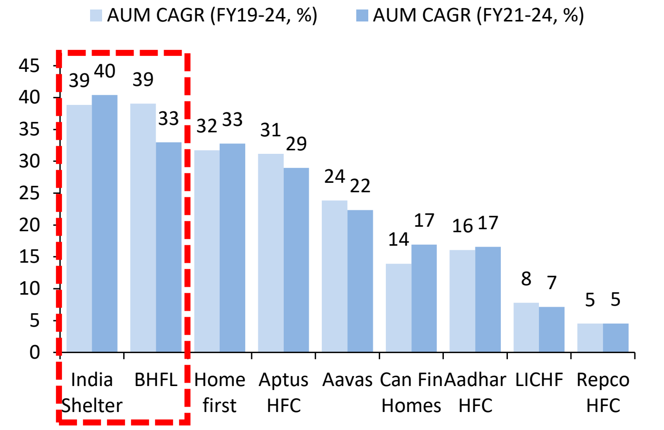
Source: PhillipCapital India Research, Company Data

Exhibit 44: …which looks evident in run-rate of disbursement in FY21-24



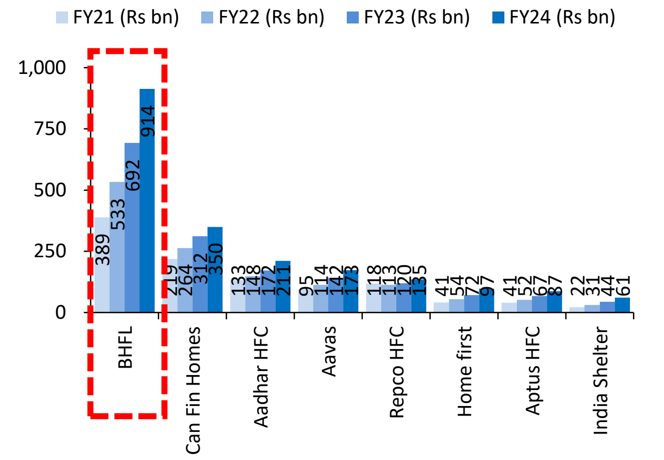
Source: PhillipCapital India Research, Company Data

Exhibit 45: AUM CAGR higher than peers driven by move towards high-ticket CF and LRD…



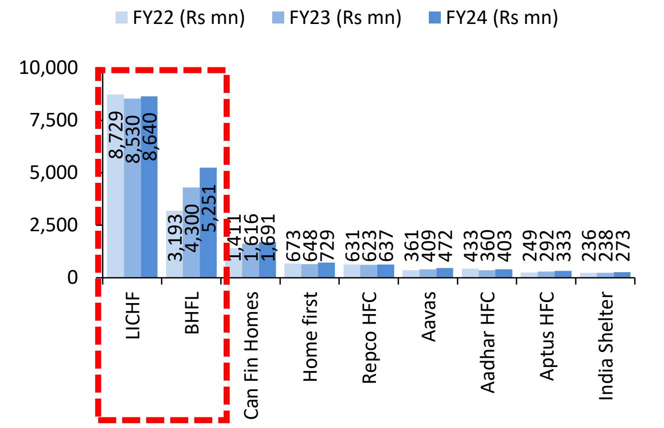
Source: PhillipCapital India Research, Company Data

Exhibit 46: …which is reflected in high growth in AUM



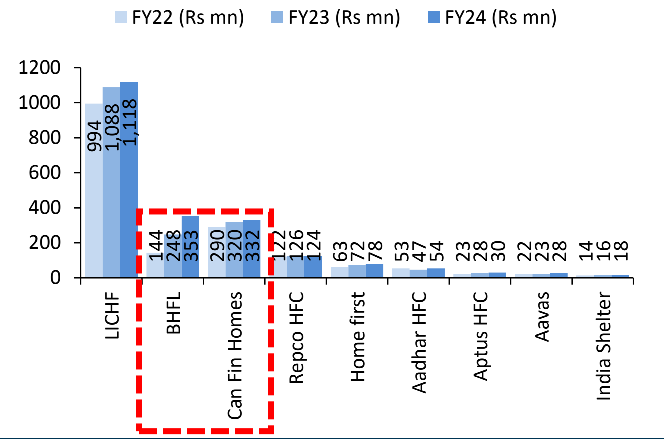
Source: PhillipCapital India Research, Company Data

Exhibit 47: Though, AUM per branch inching closer to LICHF as BHFL is scaling up…



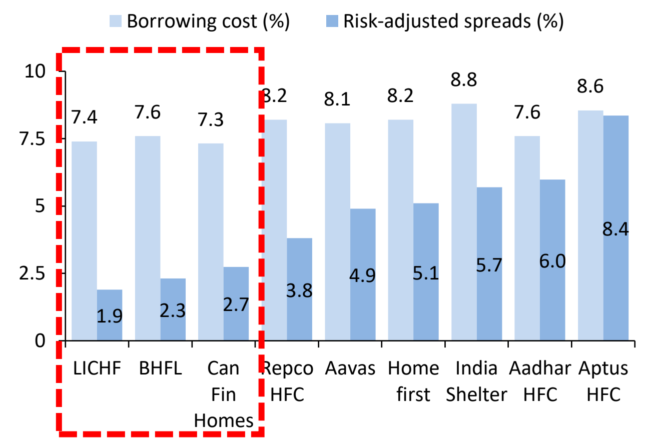
Source: PhillipCapital India Research, Company Data

Exhibit 48: …AUM per employee is now at par with Can Fin Homes



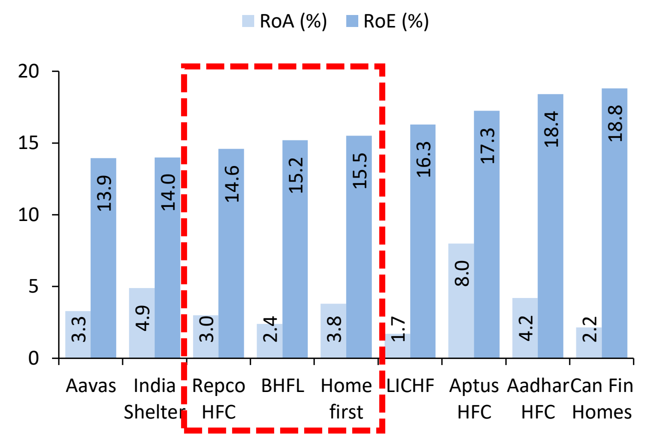
Source: PhillipCapital India Research, Company Data

Exhibit 49: Though, borrowing cost is better than Can Fin Homes…



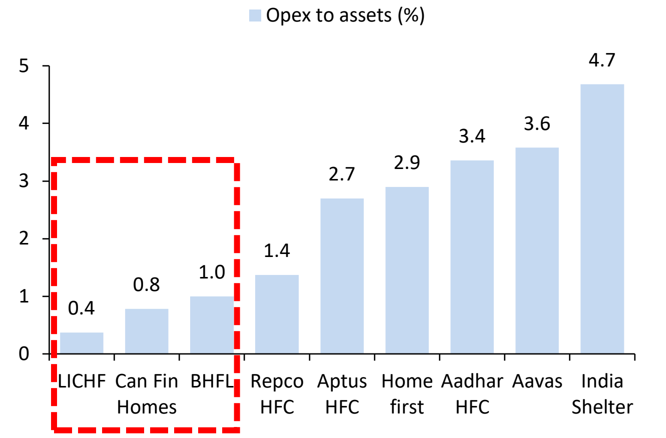
Source: PhillipCapital India Research, Company Data

Exhibit 50: …risk-adjusted spreads lower than Can Fin Homes, reflecting in RoE



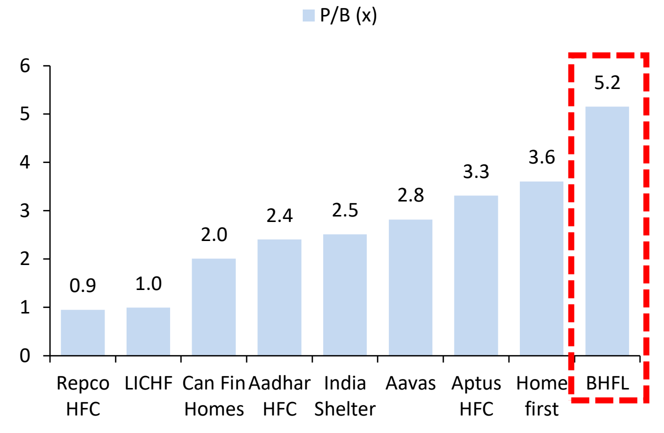
Source: PhillipCapital India Research, Company Data

Exhibit 51: With scale BHFL has scope for improvement in expense ratios in coming years…



Source: PhillipCapital India Research, Company Data

Exhibit 52: …implying a 27% premium over Can Fin Homes P/B ratio



Source: PhillipCapital India Research, Company Data

Financials

Income Statement

Y/E Mar, Rs bn	FY24	FY25E	FY26E	FY27E
Interest on Loans	72.0	93.6	122.6	157.8
Interest on Investments	-	-	-	-
Others	-	-	-	-
Total Interest Earned	72.0	93.6	122.6	157.8
Total Interest Expended	46.9	60.5	79.5	101.7
Net Interest Income	**25.1**	**33.1**	**43.2**	**56.2**
Total non-interest income	4.2	4.6	5.0	5.5
Total Income	29.3	37.7	48.2	61.7
Personnel Expenses	4.7	5.6	6.8	8.6
Other Expenses	2.4	2.8	3.5	4.4
Total Op expenses	**7.0**	**8.4**	**10.3**	**12.9**
Net Inc (Loss) before prov	**22.2**	**29.2**	**37.9**	**48.8**
Provision for NPAs	0.6	0.8	1.1	1.5
Net Inc (Loss) before tax	**21.6**	**28.4**	**36.7**	**47.3**
Provision for Income Tax	4.3	7.2	9.3	11.9
Net Profit	**17.3**	**21.3**	**27.5**	**35.4**

Balance Sheet

Y/E Mar, Rs bn	FY24	FY25E	FY26E	FY27E
Assets				
Cash & Bal with RBI	0.6	81.1	79.3	83.7
Loans, Adv&Int accrued	793.0	1,060.7	1,391.5	1,797.6
Investments	19.4	19.6	19.8	20.0
Fixed Assets (Net)	1.2	1.2	1.2	1.2
Other assets	4.0	4.0	4.1	4.1
Total Assets	**818.3**	**1,166.7**	**1,495.9**	**1,906.7**
Liabilities				
Share capital	67.1	87.6	87.6	87.6
Reserves and Surplus	55.2	151.6	179.1	214.4
Borrowing	691.3	922.8	1,224.5	1,599.9
Total Deposits	-	-	-	-
Other liab incld. prov	4.6	4.7	4.7	4.8
Total Liabilities	**818.3**	**1,166.7**	**1,495.9**	**1,906.7**

Valuation Ratios

	FY24	FY25E	FY26E	FY27E
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	19.5	16.2	15.0	17.2
RoAE (%)	15.2	11.8	10.9	12.4
Pre-provision Operating ROA (%)	2.7	2.5	2.5	2.6
RoAB (%)	0.0	0.0	0.0	0.0
EPS (Rs.)	2.0	2.4	3.1	4.0
Dividend per share (Rs.)	-	-	-	-
Book Value (Rs.)	14.0	27.3	30.4	34.5
Adj BV (Rs.)	14.0	27.3	30.4	34.5
Revenue Analysis				
Interest income on IBA (%)	-	-	-	-
Interest cost on IBL (%)	763.8	750.0	740.0	720.0
NIM on IBA / AWF (%)	354.9	357.1	352.0	352.1
Core fee Inc / AWF (%)	17.4	14.3	12.0	10.2
Portfolio gains / Total Inc (%)	-	-	-	-
Op.Exp / TI (%)	24.0	22.4	21.4	20.9
Op.Exp / AWF (%)	1.0	0.8	0.8	0.8
Employee exps / Op exps (%)	66.2	66.2	66.2	66.2
Tax / Pre-tax earnings (%)	19.9	25.2	25.2	25.2
Asset Quality				
GNPAs / Gr Adv (%)	27.0	28.4	31.0	34.1
NNPAs / Net Adv (%)	14.0	10.7	11.7	12.8
Growth Ratio				
Loans (%)	27.7	33.8	31.2	29.2
Investments (%)	(3.1)	1.0	1.0	1.0
Deposits (%)	28.6	33.5	32.7	30.7
Networth (%)	16.5	95.5	11.5	13.3
Net Int Income (%)	22.0	31.9	30.4	30.1
Non-fund based income (%)	4.8	10.1	10.0	10.0
Non-IntExp (%)	11.5	20.0	22.5	25.0
Profit Before Tax (%)	27.1	31.5	29.2	28.8
Net profit (%)	37.6	22.8	29.2	28.8
Asset / Liability Profile				
Avg CASA/ Deposits (%)	-	-	-	-
AvgAdv / Avg Dep (%)	1,002.1	990.0	980.0	970.0
AvgInvst / AvgDep (%)	-	-	-	-
IncrAdv / Deposits (%)	-	-	-	-
Avg Cash / AvgDep (%)	-	-	-	-
Capital Adequacy Ratio:				
CRAR	21.3	18.7	17.0	15.9
Tier I (%)	20.7	18.3	16.7	15.7
CET 1 (%)	-	-	-	-
NNPAs to Equity (%)	0.6	0.5	0.6	0.8

Source: Company, PhillipCapital India Research

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	>= +10%	Target price is equal to or more than 10% of current market price
NEUTRAL	-10% > to < +10%	Target price is less than +10% but more than -10%
SELL	<= -10%	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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