BAJAJ HOUSING FINANCE LIMITED

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IPO Report

09th Sept'24

Snapshot

Company is a non-deposit taking Housing Finance Company ("HFC"), registered with the National Housing Bank ("NHB") since September 24, 2015, and engaged in mortgage lending since Fiscal 2018. Company have been identified and categorized as an "Upper Layer" NBFC ("NBFC-UL") in India by the RBI since September 30, 2022. Company offer financial solutions tailored to individuals and corporate entities for the purchase and renovation of homes and commercial spaces. Company's mortgage product suite is comprehensive and comprises (i) home loans; (ii) loans against property ("LAP"); (iii) lease rental discounting; and (iv) developer financing. Furthermore, company's primary emphasis is on individual retail housing loans, complemented by a diversified collection of lease rental discounting and developer loans.

VALUATION

Company is bringing the issue at price band of Rs 66-70 per share at p/b multiple of 3.19x on post issue book value basis.
Company have a distinguished heritage of the "Bajaj" brand, which & is the second largest HFC in India (in terms of AUM) with a track record of strong growth driven by a diversified portfolio. Company have well defined credit evaluation and risk management practices resulting in lowest GNPA and NNPA among its peers in Fiscal 2024.Hence looking after all this , we recommend "Subscribe" to issue.

Price Band (Rs./Share)	66-70
Opening date of the issue	09th Sept '2024
Closing Date of the issue	11th Sept '2024
No of shares pre issue	7,819,575,273 Eq Shares
Issue Size	Rs 6560 Cr
Fresh issue	Rs 3560 Cr
Offer For Sale	Rs 3000 Cr
Face Value (Rs/ share)	Rs 10/share
Bid Lot	214
BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 443,939,392 Eq Shares)
Non-Institutional	15% of the offer (Approx 133,181,819 Eq Shares)
Retail	35 % of the offer (Approx 310,757,576 Eq Shares)
Employee Reservation	30,303,030 Equity Shares
Shareholder Quota	75,757,575 Eq Shares
Lead managers	Axis Capital, Kotak Mahindra Capital, BofA Securities, Goldman Sach, SBI Capital Markets, JM Financial, IIFL Securities
Registrar to the issue	KFin Technologies Ltd.

WHAT WE LIKE

Distinguished heritage of the "Bajaj" brand, which enjoys widespread recognition as a reliable retail brand with strong brand equity

The "Bajaj" brand has consequently evolved into a recognized retail brand, which has contributed to the recognition and growth of company's business. Furthermore, company's 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, company's parent company.

Second largest HFC in India (in terms of AUM) with a track record of strong growth driven by a diversified portfolio

Company have 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. Company achieved this within a short period of time since the commencement of company's operations in Fiscal 2018. Company's AUM has grown at a CAGR of 30.9% from Fiscal 2022 to Fiscal 2024 and it was at ₹970,713.3 million as at June 30, 2024.

Access to diversified and cost-effective borrowing sources facilitated by the highest possible credit ratings from rating agencies

As at June 30, 2024, company have established relationships with 23 banks ensuring a diversified borrowing portfolio and reliable access to varied funding sources. Further, company have also received approval from the NHB under the NHB's refinance scheme. The NHB refinance sanction, in addition to diversifying company's business portfolio also helps support a more cost-effective and longer tenor source of funds in the future.

COMPANY BACKGROUND

Company are a part of the Bajaj group, which was founded in 1926 and is a diversified business group with interests across various sectors. As at June 30, 2024, company had 323,881 active customers, 83.2% of whom were home loan customers. Company's overall loan disbursements were ₹120,035.1 million, ₹103,825.2 million, ₹446,562.4 million, ₹343,336.3 million and ₹261,752.4 million in the three months ended June 30, 2024 and June 30, 2023 and Fiscals 2024, 2023 and 2022, respectively, which demonstrates a growth in business and market reach.

To support company's offerings, company had a network of 215 branches as at June 30, 2024, spread across 174 locations in 20 states and three union territories, which are overseen by six centralized hubs for retail underwriting and seven centralized processing hubs for loan processing. Company's diversified reach helps company meet the specific needs of its target customers across geographies, in urban as well as upcountry locations. Company use direct and indirect channels for origination of loans. For example, company source direct business through strategic partnerships with developers, self-sourcing by customer engagement, leveraging leads from digital ecosystem and partnership with digital players. Under indirect sourcing channels, company originate business through a distribution network of intermediaries such as channel partners, aggregators, direct selling agents, third party agents and connectors. Simultaneously, a direct-to-customer ("D2C") strategy empowers company to maintain control over the customer experience thereby enabling company to maintain consistency in its services while personalizing its customer experience. This hybrid model, leveraging both intermediaries and direct engagement with customers allows company to cater to various customer preferences and increase its market presence. Furthermore, by focusing on sourcing of self-occupied residential properties as collateral for LAP, company maintain a lower risk profile while growing company's loan portfolio. Within this segment, company's lower risk customers comprising of salaried and self-employed professional customers contributed 28.9% of LAP AUM, as at June 30, 2024. Company have also developed customized credit evaluation procedures and operational workflows. Company's operations comprise a tailored loan initiation system that is supported by comprehensive monitoring frameworks and mechanisms, all designed to facilitate on-boarding, maintain strong credit quality and portfolio performance. These practices are supplemented with prudent risk management strategies and as a result, even amidst the current economic climate marked by inflationary pressures and rising interest rates over the last two years, company's Gross NonPerforming Assets ("GNPA") ratio and Net Non-Performing Assets ("NNPA") ratio had been at 0.28% and 0.11%, respectively, as at June 30, 2024.

Company have also partnered with multiple insurance providers to offer bundled products to its customers. Company have recently, on December 22, 2023, registered itself as a corporate agent with the Insurance Regulatory and Development Authority of India ("IRDAI"), enabling company to expand its suite of insurance products to include life, general, and health insurance. This expansion caters to the comprehensive insurance needs of company's customers while creating an additional stream of fee income for company. Furthermore, digitization and innovation remain at the forefront of company's evolution in the housing finance industry, and to support its growing retail lending portfolio. In Fiscal 2023 company introduced OTP-based e-agreements wherein loan agreements can be executed through AADHAR-based OTP authentication, eliminating the requirement for multiple signatures on physical agreements. Company also introduced a Do-it-yourself ("DIY") home loan portal to streamline digital onboarding along with instant in-principle loan sanction letter via WhatsApp and its website and enhanced customer engagement with user-friendly 'Call Me Back' and 'Call to Apply' features. These initiatives reflect company's commitment to simplifying the loan process and improving operational efficiency. Company's Board of Directors is comprised of a team of independent directors and qualified and experienced personnel. Company's senior management team has an extensive knowledge of the housing finance and banking industries with an average of 22 years of overall experience, including 11 years specifically within the financial services sector in India. Furthermore, company's Managing Director and Chief Financial Officer have been associated with the Bajaj group for over 21 years and have been the founding members of Company.

INVESTMENT RATIONALE	
Strategic presence with omni-channel sourcing strategy, driven by customer-focused digitization initiatives and technology	Company have a strategic presence across mortgage-centric markets with the following key components: branches, centralized hubs and active channel partners. According to CRISIL MI&A as at March 31, 2024, Maharashtra accounted for the largest share of housing finance credit in India, at approximately 22%. As at June 30, 2024, Maharashtra also accounted for 32.0% of company's total AUM and 35.8% of its total disbursements, the highest among the states where company operate. As at June 30, 2024, company's 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 company have conducted at least one transaction in the last 12 months. Company's diversified reach helps it meet the specific needs of its target customers across geographies, in urban as well as upcountry locations. Company have 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 streamline the loan application process, thus enhancing customer experience and strengthening company's market share. Company follow 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.
Well defined credit evaluation and risk management practices resulting in lowest GNPA and NNPA among company's peers in Fiscal 2024	Company have 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, company's 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, company have 6,349 APF projects. This approach is further enhanced by company's 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. Centralized specialized underwriting teams are tasked with assessing the financial profiles of both salaried and self-employed applicants, utilizing telephonic and video personal discussions to reinforce the thoroughness of company's credit appraisals. Furthermore, company's risk team tracks early warning signals in accounts that have bounce track record as well those from one day past due to monitor cases that show signs of delinquency. Company review portfolios on a periodic basis through credit bureau checks, credit databases and have set up a system of dashboard monitoring of cases by its risk team where members can review certain information of borrowers, identify areas of concern and initiate prompt action.
Experienced management team supported by a team of dedicated professionals and ability to attract and retain talented employees	Company has an operational history of seven years, however company's Key Managerial Personnel and Senior Management Personnel have an average of 11 years' experience in the financial services industry in India. Further, company's Managing Director and Chief Financial Officer have been associated with the Bajaj group for over 21 years and have been the founding members of Company. Company's operations are also supported by a team of trained personnel at its branch offices and processing hubs that have extensive knowledge of markets company aim to serve. This enables company to attract more favorable loan applications, enhance its credit assessment capabilities, manage risks more adeptly, and deliver personalized and elevated service to its customers.

OBJECTS OF OFFER

The Offer comprises the Fresh Issue and an Offer for Sale
Offer for Sale
The Promoter Selling Shareholder shall be entitled to the proceeds of the Offer for Sale after deducting its proportion of Offer expenses and relevant taxes thereon. Company will not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.
Objects of the Fresh Issue
Company proposes to utilise the Net Proceeds from the Fresh Issue towards augmenting its capital base to meet future business requirements of Company towards onward lending ("Objects").

RISKS

Company's inability to fully recover the collateral value or the sums due from defaulted loans promptly or entirely, could adversely affect company's business, results of operations, cash flows and financial condition.

Source:RHP

INDUSTRY OVERVIEW

OVERVIEW OF HOUSING FINANCE MARKET OF INDIA
Housing finance market in India to log a CAGR of 13-15% from Fiscal 2024 to 2027
The Indian housing finance market clocked a healthy approximately 13.1% CAGR (growth in credit outstanding) from Fiscal 2019 to Fiscal 2023, on account of rise in disposable incomes, healthy demand, and greater number of players entering the segment. Over the past two Fiscals, housing finance segment has seen favourable affordability on account of stable property rates and improved annual income of individual borrowers. The overall housing finance segment credit outstanding is approximately ₹ 33.1 trillion as of Fiscal 2024, which increased during Fiscal 2024, 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. Demand for home loans remained largely unscathed despite a sudden rise in repo rates. Moreover, the income of the salaried class remained largely intact despite the economic slowdown caused by the Covid-19 pandemic and rise in inflation, thereby allaying lenders' concerns about any deterioration in asset quality. Going forward, Crisil MI&A expects overall housing segment to grow at a CAGR of 13-15% from Fiscal 2024 to Fiscal 2027. The Government of India has been pursuing various social welfare schemes and initiatives to enhance the flow of credit to the housing sector and increase home ownership in India
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Prime housing finance segment witnessed the fastest growth in housing finance from Fiscal 2019 to Fiscal 2024
Among major ticket-size brackets, Prime housing segment (Loans above ₹ 5.0 million) witnessed the fastest growth from Fiscal 2019 to Fiscal 2024, growing at a CAGR of 20.2% which was followed by loans in the mass market housing segment (loans between ₹ 2.5 to ₹ 5.0 million) which grew at a CAGR of 15.8% and affordable housing (loans less than ₹ 2.5 million) growing at a rather slow pace of 5.9% during the Fiscals. Market share for ticket brackets, in value terms was equally distributed as at Fiscal 2024, with prime housing segment accounting for 35% market share, followed by affordable housing segment accounting for ~33% share and mass market housing with 32% market share.

Key Risks in the Overall Housing Finance Industry
Economic Scenario: **:**Any trends or events that have a significant impact on India's economy, including a rise in interest rates, could impact the financial standing and growth plans of HFCs. A decline in the interest rate with strong growth in the economy will boost the purchasing power of people, thus boosting demand for houses and housing loans. When the 47% 43% 44% 39% 38% 39% 26% 32% 31% 33% 36% 37% 5% 7% 8% 7% 8% 6% 5% 3% 4% 4% 3% 3% 6% 5% 7% 6% 5% 6% 10% 10% 5% 11% 12% 10% FY19 FY20 FY21 FY22 FY23 FY24E Bonds NCDs Term Loans Deposits Commercial Paper Refinance from NHB Other loans 191 government introduces rules and regulations such as the Benami Transactions Act, establishes bodies such as the Real Estate Regulatory Authority, or takes decisions such as demonetisation, all to control illegal activities and curb black money, demand for housing and housing loans takes a hit. Insufficiency of data for credit appraisal: Credit-score availability in India is still at a nascent stage despite the presence of credit bureaus. In several cases, borrowers lack a formal proof of income documents. This makes it difficult to judge the ability of the borrower to repay. Liquidity Risk: The apartment culture has still not developed in many of the semi-urban and rural areas, leading to financing of individual properties. This makes it harder to sell a property that is built according to the needs of the borrower. Also, in rural areas, it may become difficult to find a buyer for a repossessed property due to cultural issues. All this leads to liquidity risk. Collateral Fraud: The rising number of collateral frauds in the sector is becoming a serious issue. As a result, lending institutions are being forced to implement additional control measures, which increase their underwriting expenses. Delay in project approvals and construction: The cash flows of HFCs are largely dependent on the timely completion of projects in which their customers have bought housing. If the project gets delayed, the borrower may start defaulting on loans. Additionally, project delays also tend to impact growth in the loan book. Thin spreads in Housing Finance: HFCs face a risk of thin net interest margins due to lower interest rates in the segment as compared to other asset classes like MSME loans, vehicle financing etc. This is further aggravated due to intense competition in the segment among HFCs, banks and NBFCs

Consolidated Financials

(Rs in Mn)

Financials (Mn)	FY22	FY23	FY24	Q1 FY25
Total Income	37671.30	56654.40	76177.10	22087.30
Total Expenses	26262.00	38418.80	53955.10	15688.10
Pre Provision Profit	11409.30	18235.60	22222.00	6399.20
Provisions	1810.70	1235.00	608.80	100.40
PBT	9598.60	17000.60	21613.20	6298.80
Tax	2502.40	4422.60	4301.00	1472.70
PAT	7096.20	12578.00	17312.20	4826.10
Eq Cap	48833.30	67121.60	67121.60	78195.80
Net Worth	67,413.60	1,05,031.90	1,22,335.00	1,47,199.10
EPS	1.5	1.9	2.6	0.6
Book value	13.80	15.65	18.2	18.8
NIM %	4.0	4.5	4.1	7.9
ROE%	11.1	14.6	15.2	3.6
ROA%	1.8	2.3	2.4	2.3
CRAR%	19.71	22.97	21.28	23.82
GNPA%	0.31	0.22	0.27	0.28
NNPA%	0.14	0.08	0.10	0.11

(Source: RHP)

Peer Comparison

Company Name	Face value	EPS	NAV	P/E	P/B	RONW %
Bajaj Housing Finance Limited	***10***	***2.6***	***18.2***	***NA***	***NA***	***15.2***
Peers						
LIC Housing Finance Limited	2	86.5	572.3	7.7	1.2	16.2
PNB Housing Finance Limited	10	58.2	576.6	14.1	1.4	11.6
Can Fin Homes Limited	2	56.4	326.2	15.0	2.6	18.8
Aadhar Housing Finance	10	19.0	104.3	21.4	3.8	18.4
Aavas Financiers	10	62.0	476.8	26.8	3.5	13.9
Aptus Value Housing Finance	2	61.9	75.5	25	4.0	17.2
Home First Finance	2	34.7	230.7	30.3	4.3	15.5

(Source: RHP)

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