

11th September 2024

Bajaj Housing Finance Ltd – SUBSCRIBE

Investment Thesis

Bajaj Housing Finance (BHFL) IPO is a book built issue of Rs 6,560.00 Cr. The issue is a combination of fresh issue of 50.86 Cr. shares aggregating to Rs 3,560.00 crores and offer for sale of 42.86 Cr. shares aggregating to Rs 3,000 Cr.

BHFL plans to use the net proceeds from its fresh issue to strengthen its capital base for future lending needs and enhance its brand visibility through stock exchange listing.

As of June 30, 2024, BHFL operates 215 branches across 174 locations in 20 states and three union territories, supported by six centralized retail underwriting hubs and seven processing hubs.

The company employs both direct and indirect channels for loan origination, focusing on self-occupied residential properties as collateral to maintain a lower risk profile.

BHFL's Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) ratios were 0.28% and 0.11%, respectively, indicating strong asset quality.

Registered as a corporate agent with IRDAI, BHFL offers bundled insurance products, enhancing revenue streams.

Despite challenges like the NBFC crisis and COVID-19, BHFL has become the second-largest Housing Finance Company (HFC) in India, achieving a 30.9% CAGR in Assets Under Management (AUM) from FY2022 to FY2024.

For the quarter ended June 30, 2024, BHFL reported a profit after tax of ₹4,826.1 million, with a Return on Average Assets of 2.3% and Return on Average Equity of 14.3%.

The company provides a wide range of financial solutions, including lease rental discounting, tailored commercial loans and developer financing to support property owners, catering to diverse client needs.

BHFL is enhancing its technology and analytics capabilities to improve productivity, automate processes, and refine underwriting practices.

The collections team has improved efficiency, achieving a collection rate of 99.5% as of June 30, 2024, through a robust four-tier collections infrastructure comprising touch-free collection (tele-calling), field collection, legal recovery and settlement to help it with loan collections recognition.

Financials

Particulars (In INR Mn)*	FY22	FY23	FY24	Q1FY25
Net Interest Income	13,264	20,579	25,098	6,648
Net Interest Margins	4.00%	4.50%	4.10%	3.90%
PPOP	11,409	18,236	22,222	6,399
PAT	7,096	12,578	17,312	4,826
Assets Under Management	5,33,217	6,92,279	9,13,704	9,70,713
Return on Average Assets	1.80%	2.30%	2.40%	2.30%
Return on Average Equity	11.10%	14.60%	15.20%	14.30%

* At highest price band # Post listing

IPO Details

Issue Open Date	09 September 2024
Issue Close Date	11 September 2024
Price Band (Rs.)	Rs.66 – Rs. 70
Issue Size*	Rs. 65,600Mn
Issue Size (Shares)	937,142,858
Market Lot	214 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	Rs. 35,600 Mn
Issue Type	Book Building
Book Running Lead Manager	Kotak Mahindra Capital, Bofa Securities India, Axis Capital, Goldman Sachs (India), SBI Capital Markets, Jm Financial and Iifl Securities.
Issue structure	QIB: 17.87% Non Institutional:13.4% Retail: 31.27% Anchor Investors: 26.8% Employee share offer: 3.05% Other share offer: 7.62%
Credit of Shares to Demat Account	13 September 2024
Issue Listing Date	16 September 2024

* At highest price band

Key Business Highlights

- Bajaj Housing Finance Limited (BHFL) is a non-deposit-taking Housing Finance Company (HFC) that has been registered with the National Housing Bank (NHB) since September 24, 2015. It has been actively involved in mortgage lending since the fiscal year 2018. As of September 30, 2022, the Reserve Bank of India (RBI) classified BHFL as an "Upper Layer" Non-Banking Financial Company (NBFC-UL) under its Scale Based Regulations (SBR).It offers financial solutions tailored to individuals and corporate entities for the purchase and renovation of homes and commercial spaces. Its mortgage product suite is comprehensive and comprises (i) home loans; (ii) loans against property ("LAP"); (iii) lease rental discounting; and (iv) developer financing. Furthermore, its primary emphasis is on individual retail housing loans, complemented by a diversified collection of lease rental discounting and developer loans. Consequently, BHFL's financial products cater to every customer segment, from individual homebuyers to large-scale developers.
- BHFL's strong credit ratings reflect its financial stability and investor trust. Operating under the "Bajaj Finserv" brand, BHFL leverages its parent company, Bajaj Finance Limited, to enhance its market presence.
- BHFL maintains a strategic presence in mortgage-centric markets through a well-structured distribution network comprising 215 branches, six centralized underwriting hubs, and seven processing hubs as of June 30, 2024. With 1,780 active channel partners, BHFL effectively addresses the diverse needs of customers across urban and rural areas. Its omni-channel sourcing strategy combines physical locations with digital onboarding, enhancing customer experience and market reach. The company employs a dual sourcing approach for retail products, focusing on direct channels and intermediaries for home loans and loans against property (LAP), ensuring specialized expertise in each channel.

Valuation

- Bajaj Housing Finance Ltd (BHFL) has seen consistent performance backed by its business growth, balanced portfolio, and improved operating efficiency. As a result, the HFC has seen a robust AUM growth of 30.9% CAGR over FY22-24 with 56.2% PAT CAGR. The HFC is strategically positioned to meet the specific needs of its target customers, as demonstrated by its increased market access, minimal concentration risk, and diverse product portfolio. **We are recommending SUBSCRIBE rating to the IPO of Bajaj Housing Finance Ltd. (BHFL) for medium to long term perspective.**

Risk & Concern

- BHFL faces risks from falling property prices and liquidity issues in its mortgage business, as lower collateral values could impact loan recoveries.
- Developer financing loans are secured by project inventory; delays in projects may reduce BHFL's ability to enforce security value.
- BHFL may face increased Gross Non-Performing Assets (GNPAs) or Stage 3 Assets due to uncontrollable macroeconomic factors, regulatory changes, and customer issues like willful defaults and operational mismanagement, adversely affecting its loan portfolio quality.

Graphs & Charts

Figure 1: Net Interest Income (Rs. Mn)

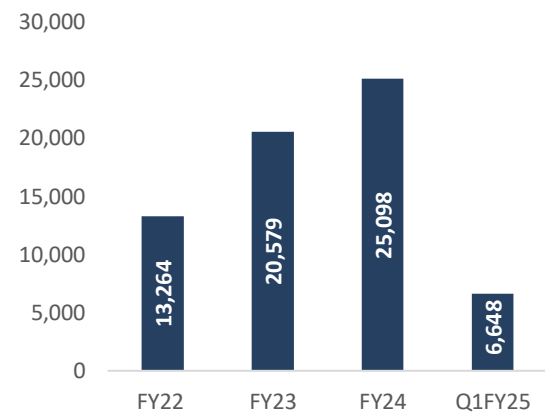


Figure 2: Asset Under Management (Rs.Mn)

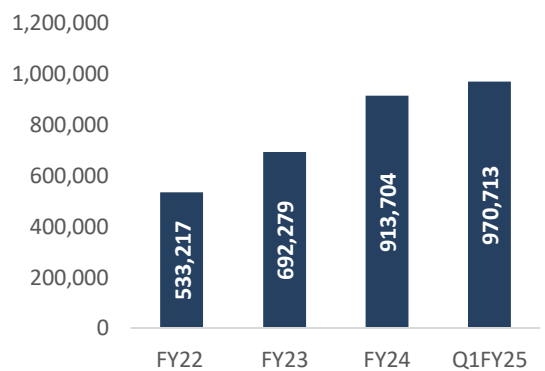
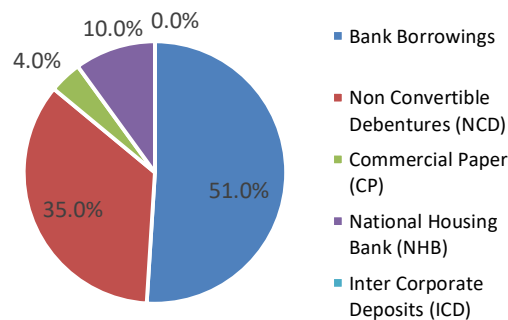


Figure 3: Asset Quality

ASSET QUALITY	Q1FY25	FY24	FY23
NNPA			
Home Loans	0.12%	0.10%	0.07%
LAP	0.31%	0.26%	0.31%
Lease Rental Discounting	0.00%	0.00%	0.00%
Developer Financing	0.03%	0.04%	0.00%
Others	0.19%	0.21%	0.15%

Figure 4: Borrowings Mix as of FY24



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