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A quality report by JainMatrix Investments

Bajaj Housing Finance IPO – Take This Loan

- Large Cap: ₹ 58,300 cr. Mkt cap
- Sector – Housing Finance

- Date 08th Sept 2024; IPO Opens Sep 9th-11th, at ₹ 66-70 /share
- Valuations: P/E – 33.7 , P/B 3.83 times post IPO
- Opinion: It is a BUY. Investors can SUBSCRIBE for the Long term



BAJAJ HOUSING FINANCE LIMITED

- **Summary:** Bajaj Finance Ltd. has transferred its mortgage loans business to BHFL. Growth in Home loans AUM has been excellent over 3 years at 42% CAGR. As the #2 largest HFC NBFC, BHFL looks set to grow and expand this market with competitive and innovative offerings. The BHFL vision is to build a mortgages reputation on par with HDFC group. Its systems look excellent as its loans have the lowest GNPA & NNPA in this sector. It's adopted the digital path with mobile applications, website and loan processing apps, which should drive new business. The IPO valuations look reasonable adjusted for growth, quality and top notch Bajaj Group backing, as the P/B of BHFL is 3.8 times versus Bajaj Finance- 5.6. The leadership & brand of Bajaj Finance should rub off on BHFL.
- **Risks:** 1) Regulatory risk and control of RBI 2) Economic & cyclical risk – we can expect a Real Estate slowdown in 4-6 years 3) mortgage loan competition from banks, NBFCs & fintechs 4) Deterioration of asset quality 5) interest rate sensitive sector 6) Some overlap in business with BajFin.
- **Opinion:** The BHFL IPO is a BUY, and Investors can SUBSCRIBE for Long term.
- **Disclosure:** JMI and Punit Jain have analyzed and tracked Bajaj Finance since Feb 2012, see reports [Bajaj Finance, Automatic Growth](#) and [Bajaj Finance – a Firm you can Bank on](#) and [NBFC Sector](#)

Here is a note on Bajaj Housing Finance Ltd - BHFL.

IPO highlights

- The IPO opens from 9-11th Sep'24 in a Price Band of ₹ 66-70 per share.
- The IPO is a Fresh Issue of ₹ 3,560 cr. and ₹ 3,000 cr. of Offer for Sale totaling ₹ 6,560 cr.
- The main reasons and objects of the IPO are:
 - RBI identified BHFL as an "upper layer" NBFC, and mandated it to list by Sep'25. It is early in this.
 - BajFin will use the IPO to boost BHFL's capital base, enabling it to fund expansion of lending operations and capitalize on future growth opportunities in the housing finance sector.
 - BajFin too in the OFS will raise funds that will help in future growth.
- The lot size is 214 shares and Face Value is ₹ 10 per share.
- The IPO share quotas are QIBs: Non-Institutional Investors: Retail is 50:35:15%. In addition, BHFL has reserved shares worth ₹ 200 cr. for eligible employees, and shares worth ₹ 500 cr. for shareholders of BajFin and Bajaj Finserv. (The Record Date was 30 Aug'24.)
- The unofficial/grey market premium of BHFL is ₹ 50/share over the IPO price. This is a positive.
- The IPO allotment is likely to be finalized on 12th Sep., refunds will be on 13th Sep., and also crediting of shares to eligible allottees. BHFL shares will be listed on BSE and NSE, on 16th Sep.

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Introduction

- Founded in 2008, BHFL a non-deposit-taking HFC, registered with the National Housing Bank since 2015, and engaged in mortgage lending since FY'18. Most of the mortgage lending business of Bajaj Finance (BajFin) is done in BHFL. Pre IPO BHFL was a 100% subsidiary of BajFin.
- The financials – Revenues, NII & Profits, in FY24 were ₹ 7,618 cr., ₹ 2,925 cr. and ₹ 1,730 cr. Revenues NII & Profits have grown at 42%, 35% and 56% CAGR over the last 3 years.
- BHFL was identified and categorized as an “Upper Layer” NBFC (NBFC-ULs) by the RBI in Sep'22, as part of its “Scale Based Regulations (SBR): A Revised Regulatory Framework for NBFCs” of Oct'21. The company is part of the Bajaj Group, a diversified group of companies.
- BHFL offers financial solutions tailored to individuals and corporate entities for purchasing and renovating homes and commercial spaces. The mortgage product suite is comprehensive, see Fig 1.1. Furthermore, their emphasis is on individual retail housing loans, complemented by a diversified collection of lease rental discounting and developer loans. Consequently, BHFL financial products cater to every customer segment, from individual homebuyers to large-scale developers.

1. Salaried Home Loans	4. Loan Against Property	7. Developer Finance
2. Salaried Loan Against Property	5. Self Employed Home Loans	8. Commercial Construction Finance
3. Near Prime & Affordable housing finance	6. Lease Rental Discounting	9. Corporate Lease Rental Discounting

Fig 1.1 - Product portfolio

- BHFL a leading non-deposit taking HFC (in AUM) in India within seven years of commencing mortgage operations; #2 largest HFC and #8 largest NBFC-ULs (in terms of AUM) in India with an AUM of ₹ 97,071 cr. as of June 2024. The largest HFC is LIC Housing Finance with AUM 2.77 lakh cr.
- BHFL has the lowest GNPA ratio (0.27%) and NNPA (0.1%) among large HFCs in India. The average loan ticket size is of ₹ 46 lakh, which is quite large.
- BHFL has 308,693 active customers, of which 81.7% are home loan customers (FY24). Total employee headcount stood at 2,239 as of 30 June 2024.
- It has a network of 215 branches in 174 locations across 20 states and three UTs, overseen by six centralized retail loan review centers and seven centralized loan processing centers.
- Management - Sanjiv Bajaj (Chairman & NE Director), Rajeev Jain (Vice Chair & NE Director), Atul Jain (MD), Gaurav Kalani (CFO) and Jasmininder Singh Chahal (President Home Loan).
- BHFL has the highest credit ratings from CRISIL and India Ratings with the AAA/Stable for its long-term debt programme and A1+ for its short-term debt programme from both the rating agencies.

- BajFin holds 100% of BHFL while Bajaj Finserv holds 51.34% of BajFin. BajFin stake will fall to 95% of BHFL after the IPO.

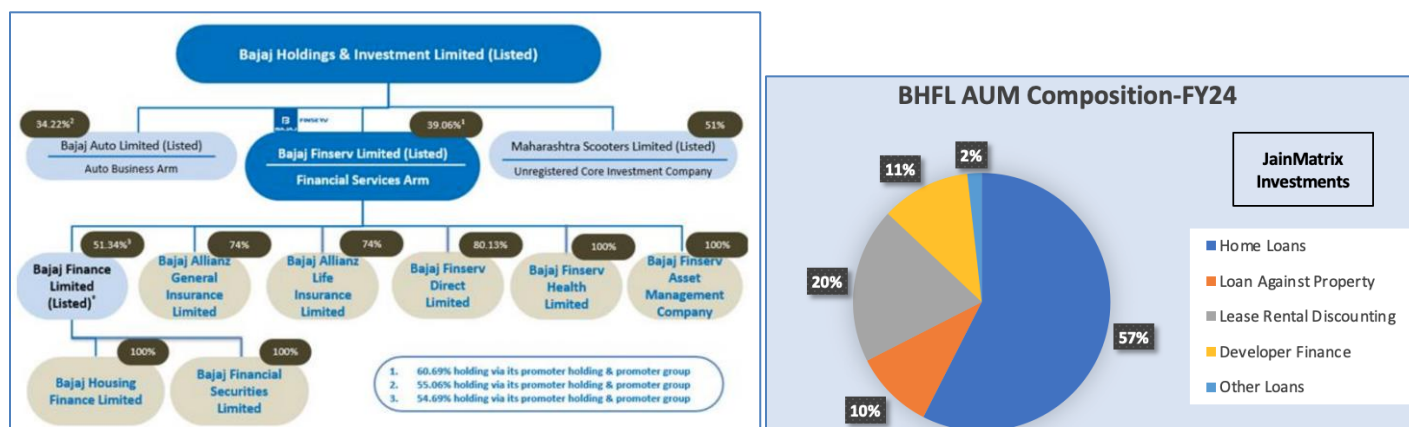


Fig 1.2 - Bajaj Group Corporate Structure, Fig 1.3 - BHFL AUM Composition

BHFL - News, Updates and Strategies

- The promoter, BajFin, has been an outstanding firm in the Indian markets over the last decade, and the share price has risen by 41.7% CAGR over the last 10 years.
- The top 5 states for BHFL contribute 86% of the loans AUM, see Fig 1.4.
- BHFL is focused on building a low-risk medium-return portfolio. Home loans contribute 58% of the portfolio. Of this, 92% of home loans pertain to lower-risk segments of salaried and self-employed professional customers. The Home Loan portfolio is dominated by Salaried customers, see Fig 1.5.
- SEBI mandates a minimum float for listed companies. The rules suggest promoters hold less than 75% stake in a listed company and the rest should be public float. We expect a 20% dilution to be done within 3 years of listing as per the minimum public shareholding (MPS) rule. See Fig 1.6.
- BHFL's decision to IPO helps to comply with RBI regulations. By Sep'25, NBFC-ULs are required by RBI to list. BHFL will meet this timeline.
- 06th Sep'24 - BHFL allocated shares worth ₹ 1,758 cr. to anchor investors ahead of its IPO. Major anchor investors included Govt of Singapore (3.57%), ICICI Prudential Banking & FS Fund (4.55%) and New World Fund Inc. (4.27%), among others. A total of 104 anchor investors were issued shares. Apart from them, the anchor issue also saw 21 MFs applied through a total of 43 schemes.
- Apr'24- BHFL appointed Sayantani Dutta as CHRO. Earlier Dutta was with Kotak Mahindra as HR.
- July 24- BHFL enters the affordable segment with the launch of its 'Sambhav Home Loans' product with the income norm for first-time homebuyers, starting from ₹ 10,000/month, and loan amounts as low as ₹ 10 lakh. This income criterion makes it accessible to prospects from low income groups.
- Feb'24- BHFL announced the launch of its 'DIY' application for Home Loans - an end-to-end digital journey to transform the customer experience, and it enables consumers to enjoy a contact-free journey from the application stage to the approval stage digitally.
- Feb'24- RBI slaps ₹ 5 lakh fine on BHFL for violating provisions for changing management, which resulted in a change of directors in BHFL without seeking prior permission from the regulator.
- The residential RE sector witnessed high growth in FY24 as well, where both launches as well as absorption grew YoY. For BHFL, both retail and commercial businesses grew their portfolios during the year which helped BHFL to deliver 32% YoY growth of AUM.

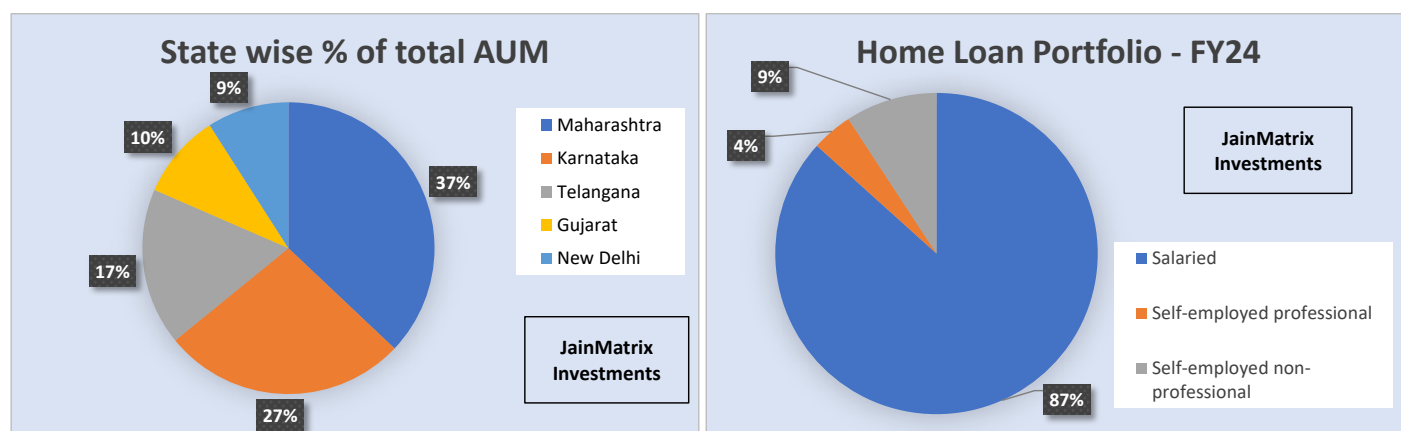
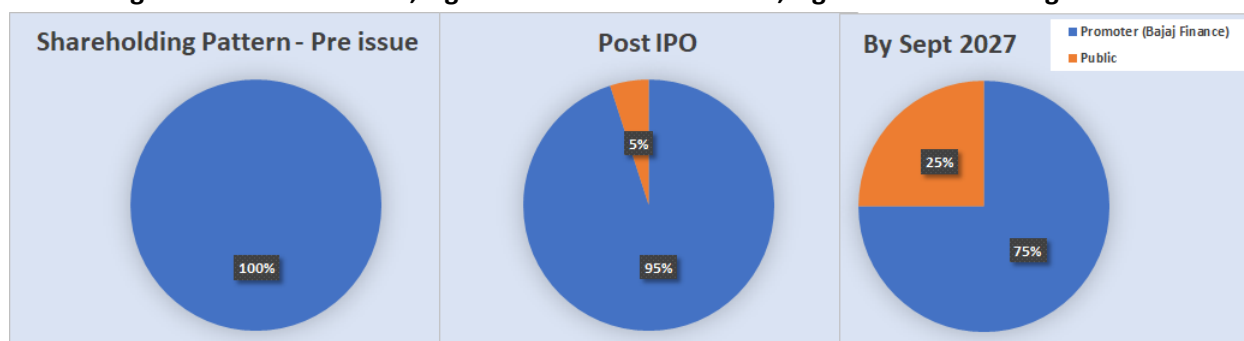


Fig 1.4 - State Wise AUM, Fig 1.5 - Home Loan Portfolio, Fig 1.6 – Shareholding Pattern

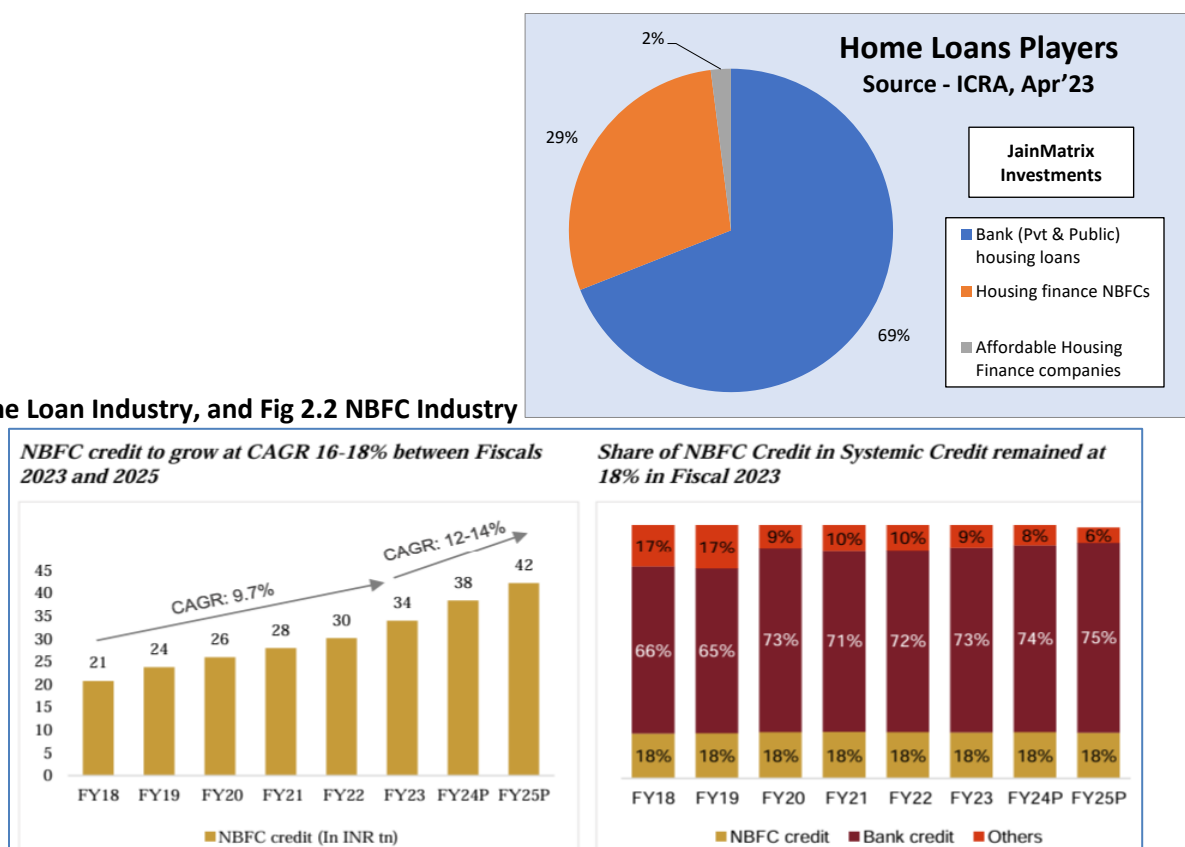


- BHFL continues to maintain its diversification strategy in borrowing mix through active management and a higher mix of new funding sources like NHB refinance. See Fig 2.3.
- To augment digital initiatives in collateral monitoring, BHFL implemented system-based title search initiation functionality during the year with automated updates to strengthen portfolio monitoring.
- During the year, BHFL was registered as a corporate agency with the IRDAI. This will help bundle mortgage loans with insurance during sales. It has received a Corporate Agency license from the IRDAI during the year thereby enhancing the fee income pool for the Company.

Industry Outlook of the Indian Housing Sector

- **High Growth:** Post Covid in 2020, the housing & real estate sector has emerged with high growth. The pandemic established the importance of owned housing, drove the Work-From-Home habits that are widely accepted in the software and tech industry, and made inroads across the industrial landscape. It's helped by the GoI focus on housing.
- The public sector and private sector banks held the largest market share in housing loans, followed by HFCs and AHFCs. See Fig 2.1. Although affordable housing loans constitute around 6% of the overall housing finance industry (Dec'22), the market remains underpenetrated. (ICRA, Apr'23).
- Investors interested in the housing & RE sector can also invest in RE/Home Loans firms. Following a period of subdued growth in FY20-22, AHFCs experienced good growth during FY23, expanding by 27% YoY. This growth trajectory is expected to continue, with CareEdge Ratings forecasting a 29% growth in FY24 and 30% in FY25 for AHFCs. Affordable home loans are nothing but a form of microfinance secured against housing collateral.
- **Priority Sector Lending Benefits.** The RBI has also provided incentives to the housing finance industry by extending priority sector status to housing loans.
- **NBFC Share Steady:** NBFCs have grown at 16-18% overall, see Fig 2.2.

Fig 2.1 Home Loan Industry, and Fig 2.2 NBFC Industry



- **Contribution to Economy:** The Indian housing sector is a crucial aspect of the country's economy, contributing nearly 11% to the GDP and providing employment opportunities to millions of people. With a cyclical revival in real estate post covid, this is on an upswing.
- **Pradhan Mantri Awas Yojana:** The Indian government has initiated a Housing for All scheme by 2022 to promote affordable and low-cost housing in the country. To achieve this objective, the government has introduced several measures, including the PMAY for rural and urban regions aims to provide affordable housing for lower-income groups and economically weaker sections of society.
- **Relaxed ECB guidelines:** The GoI has also relaxed ECB guidelines to help finance homebuyers. In addition, GoI has announced tax incentives to promote the housing sector. RERA has been implemented to improve transparency, timely delivery, and organized operations in the sector. GoI also announced a last-mile affordable housing funding package to complete ongoing housing projects in affordable and middle-income categories.
- **Increase in Non-Housing Portfolio Share:** Amidst intense competition and the imperative to maintain margins, the share of the non-housing portfolio among AHFCs has risen from 17% as of Mar'19 to 26% as of Mar'23. This trend is anticipated to persist, with the non-housing portfolio share projected to reach 27% by Mar'24. (CareEdge ratings report).
- Gruh Finance, an affordable housing finance subsidiary of HDFC was acquired by Bandhan Bank in Oct'19. It used to enjoy high valuations and can be remembered as an excellent industry case study.
- However, RE sector is cyclical by nature, and the last boom from 2004-08 was followed by 12 years of weak performance by the sector, followed by a post Covid revival.

Financials of BHFL

- BHFL AUM, Total Income and PAT have grown at 72%, 104% and 136% resp. CAGR over 7 years.

- Overall AUM was up 31% YoY at ₹ 97,071 cr. as against ₹ 74,124 cr. as of 30 June 2023.
- Of overall AUM, Home Loans AUM grew by 25%, Loans Against Property grew by 21%, Lease Rental Discounting grew by 41%, and Developer Finance grew by 75%.
- Portfolio composition of Home Loan:LAP:LRD:DF:Others stood at 57%:10%:20%:11%:2% as of Jun'24. (Loan against Property; Lease Rental Discounting; Developer Financing).
- Borrowing mix - Banks: NHB: Money Market stood at 48%: 12%: 40% as of 30 June 2024.
- In Q1, disbursements were ₹ 12,004 cr. as against ₹ 10,383 cr. in Q1 FY24 with cost of funds 7.85%.
- In Q1, NII grew by 16% to ₹ 810 cr. as against ₹ 701 cr. in Q1 FY24.
- In Q1, Opex to Net total income was 21.0% as against 24.0% in Q1 FY24.
- GNPA & NNPA stood at 0.28% and 0.11% in Jun'24 as against 0.23% and 0.08% in Jun'23.

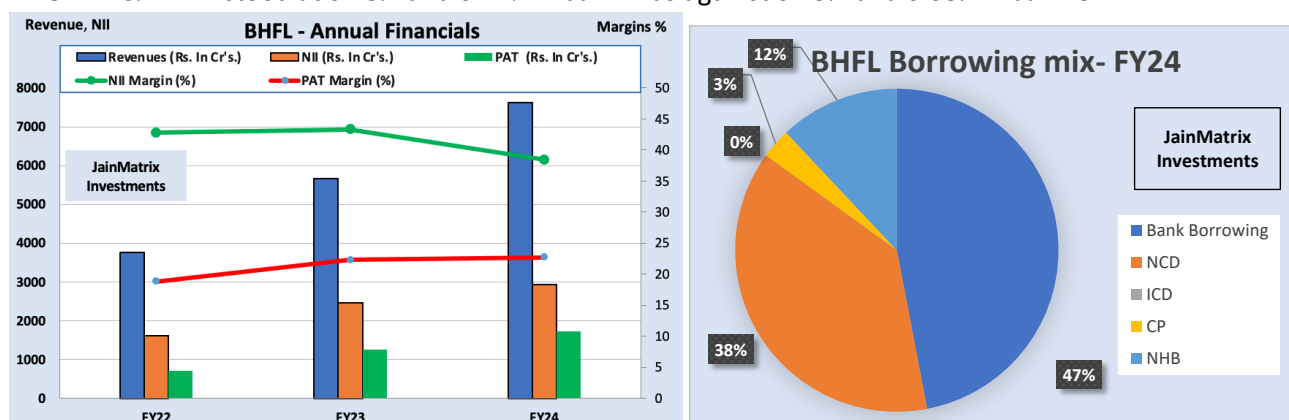
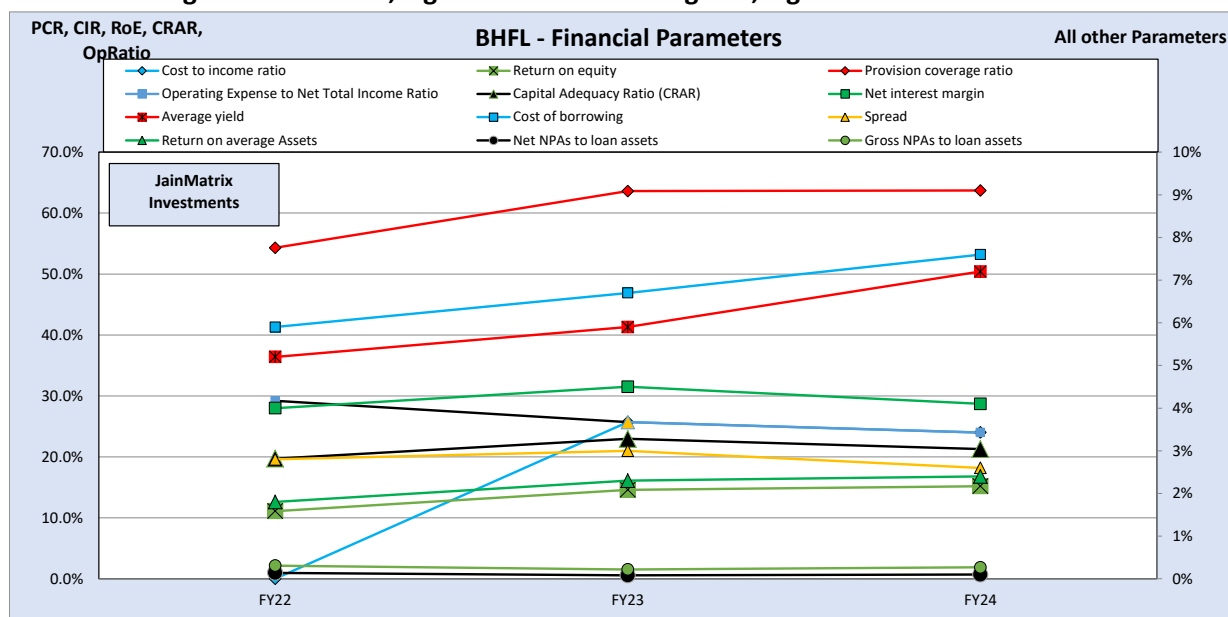


Fig 2.2 – Financials, Fig 2.3 - BHFL Borrowing Mix, Fig 2.4 – Financial Metrics



- PAT grew by 5% to ₹ 483 cr. in Q1 FY25 inspite of a one-time reversal of deferred tax liability of ₹ 73 cr. in Q1 FY24. The company delivered an annualized ROA of 2.35% and ROE of 14.32%.
 - The capital adequacy ratio stood at 23.8% as of 30 June 2024. Tier-1 capital was 23.26%.
 - Both basic and diluted EPS have shown an upward trend, rising from ₹ 1.5 in FY22 to ₹ 2.6 in FY24.
- The financial parameters in Fig 2.4 indicate that:
- The cost of borrowings is rising for BHFL, and the average yield is also rising, while Spread is flat.

- Return on Average assets is high and rising. RoE at 14-15% range is excellent.
- Capital Adequacy Ratio is comfortably over 15% requirement, with scope for growth capital.
- Gross and Net NPAs are well below 1% and indicate good quality.

SWOT analysis and Benchmarking

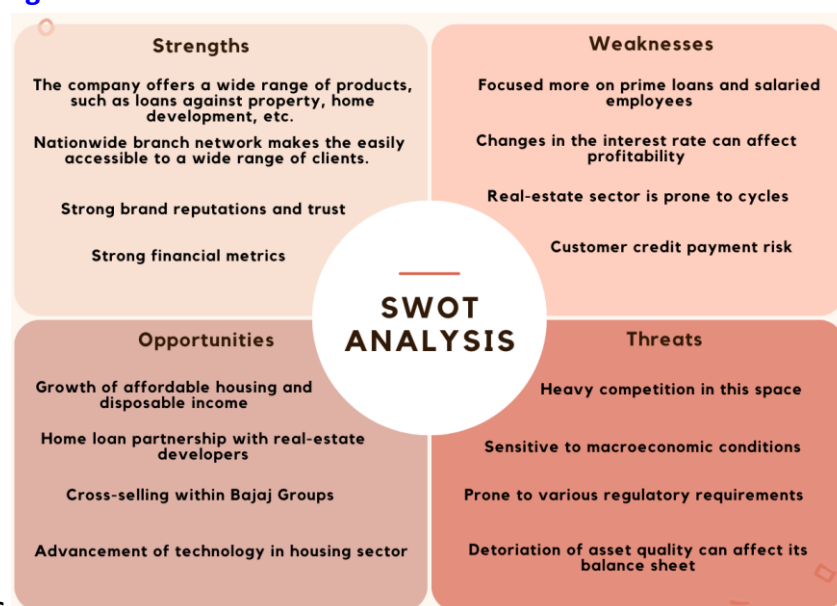


Fig 3.1 SWOT Analysis

- BHFL is the second largest HFC with assets under management of ₹ 97,071 cr. and the fastest growing HFC with a CAGR of 34.5%.

Particulars	Bajaj Housing Finance	Bajaj Finance	LIC HF	PNB HF	AAVAS financier	Aptus Value	HUDCO	CAN FIN Homes	Aadhar Housing
Revenues (₹ cr.) (FY24)	7,617	54,969	27,277	7,014	2,018	1,365	7,784	3,523	2,587
EBITDA (₹ cr.) (FY24)	6,894	38,879	24,518	6,287	1,485	1,191	7,814	3,202	1,967
Profits (₹ cr.) (FY24)	1,731	14,451	4,760	1,527	491	612	2,117	751	750
Market Cap (₹ cr.)	58,297	4,21,549	36,775	21,172	13,326	15,246	57,725	11,241	16,789
PE (x)	31.62	28.50	7.66	13.17	26.35	23.85	25.97	14.69	22.40
3 Yr CAGR Sales (%)	34.5	27.26	11.11	-2.49	22.29	28.76	2.32	20.41	17.98
3 Yr CAGR Profit (%)	37.60	48.37	20.19	18.09	19.22	31.85	10.27	18.07	30.10
Debt to equity ratio (x)	5.70	3.82	8.03	3.68	3.29	1.38	4.45	7.34	3.14
EBITDA Margin (%)	90.50	70.40	89.88	89.50	73.49	83.48	98.28	90.85	76.04
Net Profit Margin (%)	22.73	26.29	17.45	21.78	24.31	44.82	27.19	21.31	28.98
Return on Equity (%)	15.20	22.05	16.22	11.80	13.93	17.22	13.21	18.79	18.40
RoCE (%)	-	11.87	8.79	9.27	9.91	14.68	9.24	9.26	11.36
Dividend Yield (%)	0.00	0.52	1.36	0.00	0.00	1.49	0.52	0.71	0.00
Price to book value	3.72	5.57	1.17	1.43	3.49	4.03	3.47	2.61	3.86
EV/EBITDA	11.86	17.20	11.60	11.70	15.50	16.20	16.00	13.00	15.20
CRAR (Capital Adequacy)	21.3%	22.5%	20.8%	28.2%	44.2%	71.8%	86.9%	24.0%	48.2%

Fig 3.2 Benchmarking

- It reported sales of ₹ 7,617 cr. for FY24 higher than competitors like PNBHF and Aadhar Housing Fin.
- BHFL performed better than its peers in sales and profits indicating growth. BHFL currently commands the highest PE among the peer group.
- BHFL has high margins with EBITDA margin of 90.5% and PAT margin of 22.7%. BHFL is #2 most profit-making HFC with a strong RoE. BHFL has the lowest GNPA ratio (0.27%) and NNPA (0.10%).
- BajFin has the highest RoE and EV/EBITDA.
- BHFL has high PE valuations, among HF-NBFCs which is justified by high growth rates, margins and RoE. P/B is lower than BFL, which means this IPO offering has been made attractive.

Overall Opinion and Recommendation

- **Summary:** Bajaj Finance Ltd. has transferred its mortgage loans business to BHFL. Growth in Home loans AUM has been excellent over 3 years at 42% CAGR. As the #2 largest HFC NBFC, BHFL looks set to grow and expand this market with competitive and innovative offerings. The BHFL vision is to build a mortgages reputation on par with HDFC group. Its systems look excellent as its loans have the lowest GNPA & NNPA in this sector. It's adopted the digital path with mobile applications, website and loan processing apps, which should drive new business. The IPO valuations look reasonable adjusted for growth, quality and top notch Bajaj Group backing, as the P/B of BHFL is 3.8 times versus Bajaj Finance- 5.6. The leadership & brand of Bajaj Finance should rub off on BHFL.
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- Punit Jain discloses that he has shareholding in Bajaj Finance since April 2003 (<1% stake). Other than this, he has no financial interest or transactions with Bajaj Finance, or any group company. In addition, JMI and its promoters/ employees have no direct or financial interest in these companies, and no known material conflict of interest as on date of publication of this report. Punit Jain intends to apply in this IPO in line with this research note opinion.
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