



IPO note:

BAJAJ HOUSING FINANCE LIMITED - SUBSCRIBE



Bajaj Housing Finance is a non-deposit-taking Housing Finance Company ("HFC") registered with the National Housing Bank ("NHB") on September 24, 2015. It has been lending mortgages since Fiscal 2018. The RBI has designated and categorized the company as a "Upper Layer" NBFC ("NBFC-UL") in India since September 30, 2022, as part of its "Scale Based Regulations (SBR): A Revised Regulatory Framework for NBFCs" dated October 22, 2021. The company provides financial solutions to individuals and corporations for the purchase and renovation of residential and commercial properties. The mortgage product suite is broad, including (i) Home loans; (ii) Loans Against Property ("LAP") (iii) Lease rental discounting (iv) Developer finance. Furthermore, the primary focus is on individual retail dwelling loans with a diverse portfolio of lease rental discounting and developer loans. As a result, financial solutions cater to all consumer segments, from individual homeowners to large-scale developers.

The company is part of the Bajaj group, which was founded in 1926 and is a diverse business conglomerate with holdings in a variety of industries. As of June 30, 2024, the company has 323,881 active customers, 83.2% of which were house loan customers. Loan disbursements totalled Rs. ₹120,035.1 million, ₹103,825.2 million, ₹446,562.4 million, ₹343,336.3 million and ₹261,752.4 in the three months ending June 30th 2024, June 30th 2023 and June 30th 2022, indicating increased business and market reach. As of June 30, 2024, the organization had 215 branches dispersed across 174 sites in 20 states and three union territories. These branches are controlled by six centralized hubs for retail underwriting and seven for loan processing. Diversified reach caters to customers in both urban and rural areas, meeting their unique needs.

Bajaj Finance uses both direct and indirect channels to originate loans. They generate direct revenue by partnering with developers, engaging customers, using leads from the digital ecosystem, and collaborating with digital stakeholders. The company uses indirect sourcing channels to generate revenue through a network of intermediaries, including channel partners, aggregators, direct selling agents, third-party agents, and connectors. A direct-to-customer ("D2C") strategy allows for consistent and personalized customer experiences. This hybrid model, which involves both intermediaries and direct client involvement, caters to diverse customer preferences and enhances market presence.

Focusing on self-occupied residential homes as collateral for LAP helps the company retain a low risk profile while expanding its loan portfolio. As of June 30, 2024, lower-risk consumers including paid and self-employed professionals accounted for 28.9% of LAP AUM. In addition, the company has teamed with several insurance firms to supply customers with bundled packages. On December 22, 2023, it registered as a corporate agent with the Insurance Regulatory and Development Authority of India ("IRDAI"), allowing it to broaden its insurance offerings to include life, general, and health insurance. This expansion meets client's comprehensive insurance needs and generates additional source of fees income.

Investment Recommendation and Rationale: -

At the upper price band of Rs. 70, the issue is priced at a P/E multiple of 33.65 its FY24 post IPO EPS of Rs. 2.08. We give a 'SUBSCRIBE' rating to the issue for the following reasons: -

1. The company has a notable tradition through the "Bajaj" brand, which is well recognized as a dependable retail brand with great brand equity.
2. The company is India's second largest HFC in terms of assets under management (AUM) and has had consistent development through its diverse portfolio.
3. The company has access to diverse and cost-effective borrowing sources, helped by strong credit ratings from rating agencies.
4. An experienced management team supported by a team of dedicated professionals and ability to attract and retain talented employees.

Type of Issue	Fresh Issue of 50,85,71,429 shares (aggregating up to Rs. 3,560.00 Cr) Offer for Sale of 42,85,71,429 shares (aggregating up to Rs. 3,000.00 Cr)
Issue size	Rs. 6,560.00 crores
Price Band	Rs. 66 to Rs. 70 (FV-Rs. 10)
Bid lot/ Bid Size	214 shares/ Rs. 14980
Issue structure	QIB-50% HNI-15% Retail-35%
Post issue equity shares	8,32,81,46,702 shares
Post issue implied market cap	Rs. 58,297.03 crores
BRLMs	Kotak Mahindra Capital Company Limited, BofA Securities India Limited, Axis Capital Limited, Goldman Sachs (India) Securities Private Limited, SBI Capital Markets Limited, JM Financial Limited, IFL Securities Limited
Registrar to the issue	KFin Technologies Limited

Financial Summary (Restated Consolidated) (₹ in Million)

Particulars	FY24	FY23	FY22
Net Worth	122,335.0	105,031.9	67,413.6
Net Total Income	29,251.0	24,541.2	16,118.2
PAT	17,312.2	12,578.0	7,096.2
PAT (YOY Growth)	37.6%	77.2%	56.6%
Yield on Advances (%)	10.2%	9.7%	8.7%
Cost of Borrowings	7.6%	6.7%	5.9%
Spread (%)	2.6%	3%	2.8%
Credit Cost (%)	0.1%	0.2%	0.5%
Debt to Equity ratio	5.7	5.1	6.2
EPS	2.6	1.9	1.5
Portfolio Cuts			
AUM	9,13,704.0	6,92,279.0	5,33,217.2
Disbursement	4,46,562.4	3,43,336.3	2,61,752.4

Source: Red Herring Prospectus (RHP)



Objects of the issue

Offer for Sale of 42,85,71,429 shares aggregating up to Rs. 3,000.00 Crores

Shareholding pattern

Name of the Selling Shareholders	Type	Number of Equity Shares Offered	Weighted Average Cost of Acquisition per Equity Share (in ₹)^
Bajaj Finance Limited	PSS	Equity Shares of face value of ₹10 each aggregating up to Rs 300.00 Cr	12.2

Source: Red Herring Prospectus (RHP)

Fresh Issue of 50,85,71,429 shares aggregating up to Rs. 3,560.00 Crores

Company plans to use the Net Proceeds to fund the following objects:

1. Company proposes to utilise the Net Proceeds from the Fresh Issue towards augmenting capital base to meet future business requirements of Company towards onward lending.
2. Company expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges, including enhancement of Company's brand name and creation of a public market for Equity Shares in India.
3. General corporate purposes

Source: Red Herring Prospectus (RHP)

Peer Comparison

Name of Company	Total income (Rs. in million)	Face value per equity share Rs	P/E (x)	P/B (x)	EPS (Basic) (Rs per share)	RoNW(%)	Net Asset Value "NAV" (Rs. in million)
Bajaj Housing Finance Limited	76,177.1	10	NA	NA	2.6	15.2	122,335.0
Listed Peers							
LIC Housing Finance Limited	272,778.0	2	7.7	1.2	86.5	16.2	314,800.6
PNB Housing Finance Limited	70,570.9	10	14.1	1.4	58.4	11.6	149,744.4
Can Fin Homes Limited	35,246.9	2	15.0	2.6	56.4	18.8	43,438.5
Aadhar Housing Finance	25,869.8	10	21.4	3.8	19.0	18.4	44,497.5
Aavas Financiers	20,206.9	10	26.8	3.5	62.0	13.9	37,733.2
Aptus Value Housing Finance	14,168.4	2	25.0	4.0	12.3	17.2	37,679.2
Home First Finance	11,565.5	2	30.3	4.3	34.7	15.5	21,214.9

Source: Red Herring Prospectus (RHP)

Competitive Strengths

- The "Bajaj" brand has a distinguished pedigree and is widely recognized for its reliability and great brand value.
- The second-largest HFC in India by AUM has experienced tremendous growth through a diverse portfolio.
- Strategic presence with omni-channel sourcing strategy, driven by customer-focused digitization initiatives and technology.
- Well-defined credit evaluation and risk management methods resulted in the lowest GNPA and NNPA among peers in fiscal 2024.
- High credit ratings from rating agencies enable access to diverse and cost-effective borrowing options.

Source: Red Herring Prospectus (RHP)

Growth Strategies

- Utilize technology and analytics to increase productivity, cut costs, improve customer experience, and control risks.
- Diversifying and strengthening market presence through strategic customer focus and risk management.
- Continue to diversify the borrowing profile to optimize borrowing costs.
- Continue to recruit, develop, and retain excellent personnel.

Source: Red Herring Prospectus (RHP)

Key Risks

- Failure to recover collateral or outstanding amounts from defaulted loans can have a negative impact on business, cash flows, and financial situation.
- Non-compliance with Reserve Bank of India standards can negatively impact a company's business, earnings, cash flows, and financial situation.
- Failure to meet debt financing covenants can have a negative impact on business, operations, and finances.
- The company obtained borrowings from connected parties, which may have resulted in more favourable terms if not for the transactions.
- The assets under administration are concentrated in four states and the union territory of New Delhi. Any negative events in these regions may impact the business, operations, cash flows, and financial situation.

Source: Red Herring Prospectus (RHP)



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