Bajaj Housing Finance Limited

Debt Investors Presentation

Q4 FY20 & Full Year Ended 31 March 2020

Bajaj Housing Finance Ltd.

2,000 Cr

Monthly Acquisition
(as of Feb, 2020)

32,705 Cr

Asset
Under Management
(as of March 31, 2020)

2,404

Employees

105

Locations
(Urban-32; Rural-73)

- Bajaj Housing Finance Ltd. (BHFL) is registered with National Housing Bank (NHB) as a Housing Finance Company (HFC)
- BHFL is a 100% subsidiary of Bajaj Finance Ltd. (BFL) – a Bajaj Finserv Group Company
- BFL has been in the mortgage business since 2008
- BHFL has been carved out as HFC to conduct mortgages businesses for the group with dedicated focus
- BHFL started its full fledged operations from January 2018 with dedicated sales, operations, collections, branch & IT infrastructure

Bajaj Housing Finance Ltd.

Independent Board

Separate and independent Board Committees

Dedicated Functional Units

Dedicated Sales, Credit, Risk, Ops, Collections, IT, Finance, HR and other support functions

Dedicated Infrastructure

Dedicated infrastructure in terms of separate Head office, branches and IT infrastructure.

A standalone, fully functional and operational legal entity

Financials

₹ in Crore

Financials snapshot	Q4 FY20	Q4 FY19	YoY	FY20	FY19	YoY
Assets under management	32,705	17,562	86%	32,705	17,562	86%
Assets under finance	27,975	17,332	61%	27,975	17,332	61%
Interest income	687	382	80%	2,303	998	131%
Fee and other income	87	49	78%	343	158	117%
Total Income	**774**	**431**	**80%**	**2,646**	**1,156**	**129%**
Interest expenses	491	269	83%	1,616	685	136%
Net Interest Income	**283**	**162**	**75%**	**1,030**	**471**	**119%**
Operating Expenses	72	68	6%	339	297	14%
Loan losses and provisions (ECL stage 1 & 2)	69	6	1050%	86	21	310%
Loan losses and provisions (ECL stage 3 & write off)	20	2	900%	38	4	850%
Profit before tax	**122**	**86**	**42%**	**567**	**149**	**281%**
Profit after tax	**91**	**62**	**47%**	**421**	**110**	**283%**
Ratios						
Operating expense to Net Interest Income	25.4%	42.0%		32.9%	63.1%	
Loan loss to Average AUF	1.31%	0.22%		0.55%	0.24%	
Return on Average Assets	1.3%	1.6%		1.9%	1.1%	
Return on Average Equity	7.6%	7.9%		9.1%	4.2%	

Behaviouralized ALM snapshot (as of 31 March'20)

Particulars	1 m	>1 to 2 m	>2 to 3 m	>3 to 6m	>6m to 1 yr	>1 to 3 yr	>3 to 5 yr	>5 to 7 yr	>7 to 10 yr	>10 yr	Total
Cash & Investments	1,659	500	1,000	-	-	-	-	-	-	-	3,159
Advances	527	384	387	1,114	2,067	6,422	4,506	3,433	3,742	5,640	28,222
Other inflows	590	4	8	10	175	3,083	590	454	61	198	5,173
Total Inflows (A)	2,776	888	1,394	1,124	2,242	9,505	5,097	3,887	3,803	5,838	36,554
Cumulative Total Inflows (B)	2,776	3,664	5,059	6,182	8,425	17,930	23,027	26,913	30,716	36,554	
Borrowings	39	20	321	683	3,124	12,530	6,968	1,512	154	1,800	27,151
Capital Reserves and Surplus										5,531	5,531
Other Outflows	414	32	40	160	70	503		2,500		154	3,872
Total Outflows (C)	453	51	361	844	3,194	13,033	6,968	4,012	154	7,484	36,544
Cumulative Total Outflows (D)	453	504	865	1,709	4,903	17,936	24,904	28,916	29,070	36,554	0
Mismatch (E = A - C)	2,323	837	1,033	280	(952)	(3,528)	(1,871)	(125)	3,649	(1,646)	
Cumulative mismatch (F = B-D)	2,323	3,160	4,193	4,474	3,522	(6)	(1,877)	(2,003)	1,646	0	
Cumulative mismatch as % (F/D)	513%	627%	485%	262%	72%	0%	-8%	-7%	6%	0%	
Permissible cumulative GAP %	-15%				-15%						

*Other inflows include line of credit committed by other institutions, current and long term assets, tax paid in advance & interest and income receivable

*Other outflows include loan commitments pending disbursal, lines of credit committed to other institutions, interest payable on bonds & sundry creditors

As per previous GAAP

ECL Summary

ECL categorization	Mar'19	Jun'19	Sep'19	Dec'19	Mar'20
Stage 1 & 2 (represents standard assets)	99.95%	99.94%	99.94%	99.93%	99.92%
Stage 3 (represents GNPA)	0.05%	0.06%	0.06%	0.07%	0.08%

Summary of stage wise assets and ECL provisioning

₹ in Crore

Financial Assets & ECL provision	Mar'19	Jun'19	Sep'19	Dec'19	Mar'20
Gross Stage 1 & 2 assets* (A)	17,435	20,601	23,481	26,532	28,199
ECL Provision Stage 1 & 2 (B)	26	34	37	43	112
Net Stage 1 & 2 assets (C = A-B)	17,409	20,567	23,443	26,488	28,088
ECL Provision % Stage 1 & 2 assets (D = B/A)	0.15%	0.16%	0.16%	0.16%	0.40%
Gross Stage 3 assets@ (E)	9.5	13.1	13.3	19.9	23.7
ECL Provision Stage 3 (F)	3.4	4.2	6.0	6.3	9.0
Net Stage 3 assets (G = E-F)	6.1	8.9	7.3	13.6	14.7
Coverage Ratio % Stage 3 assets (H= F/E)	35%	32%	45%	32%	38%
ECL/Total Assets	0.17%	0.18%	0.18%	0.19%	0.43%

*Gross stage 1 & 2 assets represent loans balance as per Ind AS after adjusting for the impact of amortisation of fees earned and acquisition cost incurred including other assets like security deposits, receivable from related parties, capital advances etc

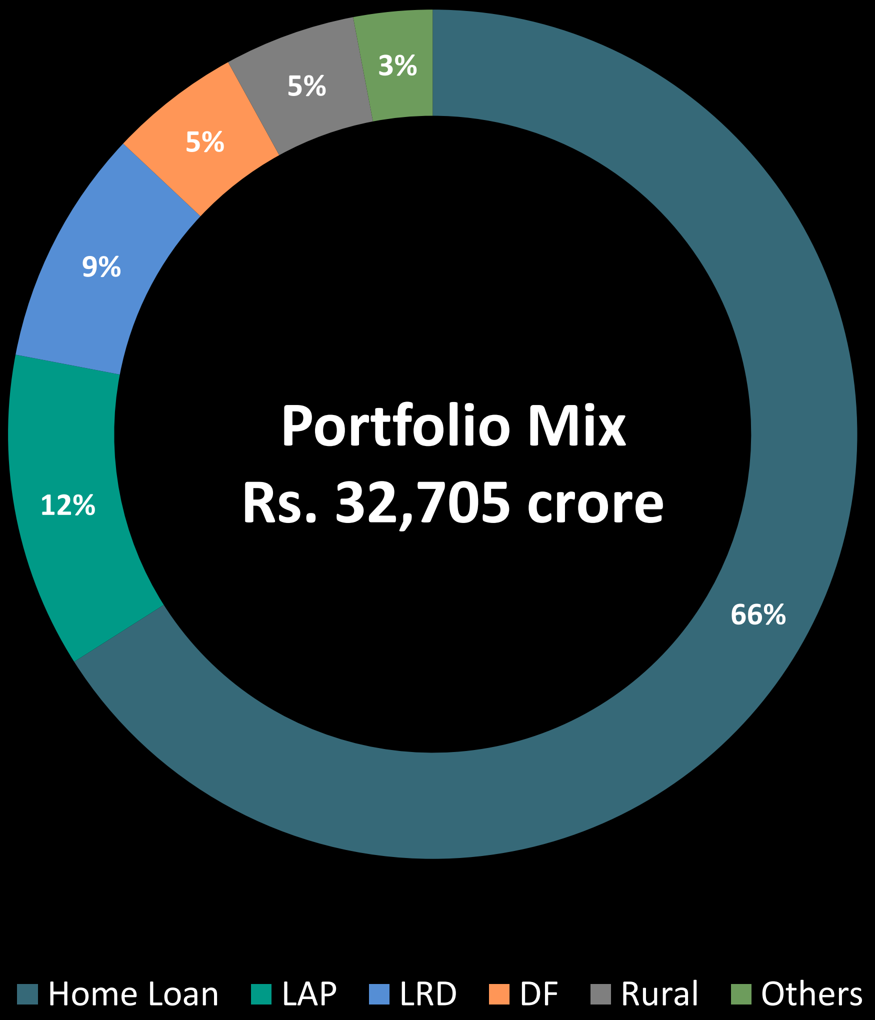
@ Gross Stage 3 assets represents Loans balance as per Ind AS after adjusting for the impact of (i) amortisation of fees earned and acquisition cost incurred and (ii) overdue interest considered recoverable under Ind AS and other receivables considered as non-performing as at the end of respective periods.

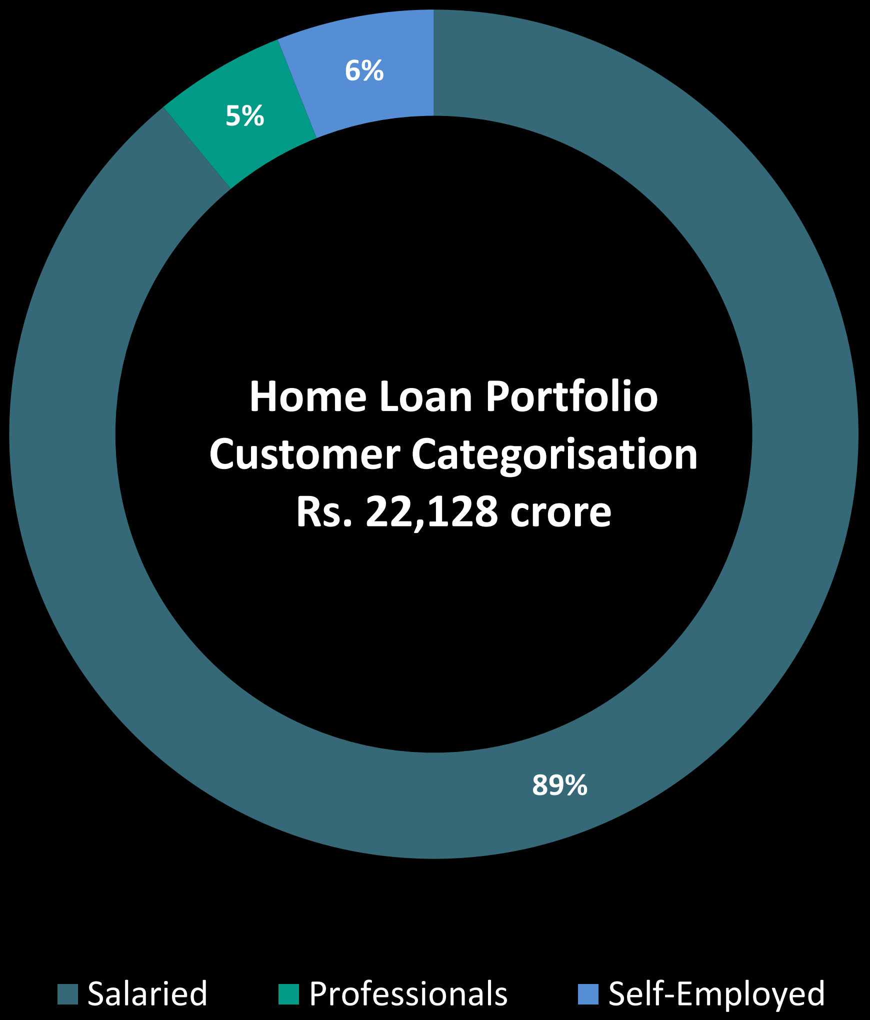
BHFL Key Ratios (Q4FY20)

1.8%	Spread
8.15%	COF
9.67%	Yield
0.08%	GNPA
25%	OPEX / NIM
1.3%	ROA
7.6%	ROE
25.15%	Capital Adequacy

Target OPEX/NIM of <20% and ROE of 13-15%. The Company remains well capitalized with additional capital infusion of ₹ 1,500 Cr done in Feb'20.

BHFL Portfolio View

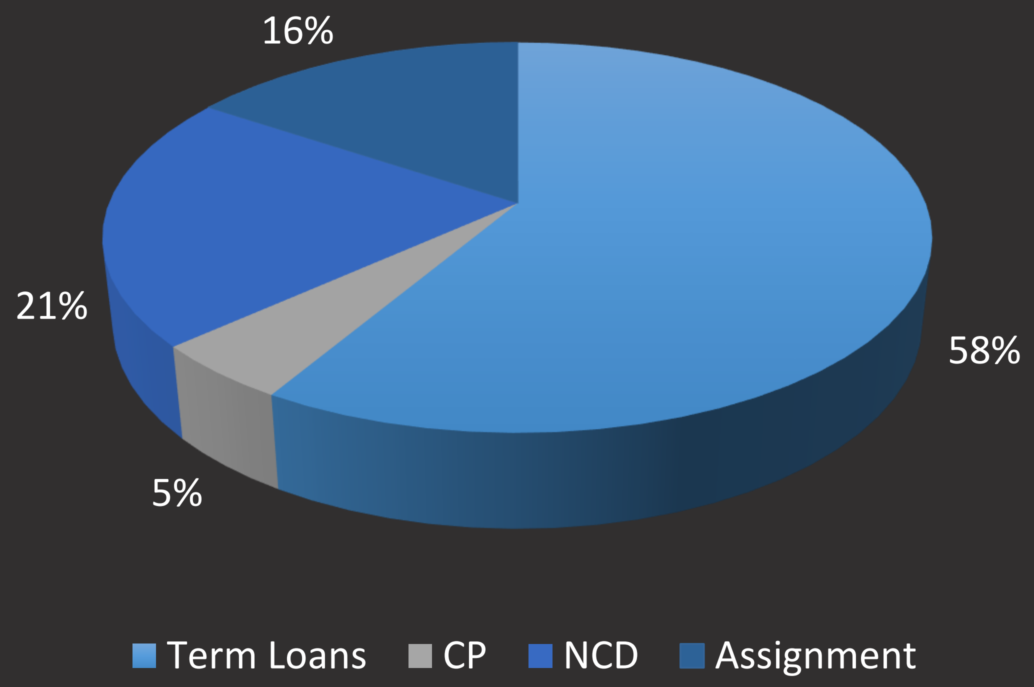




A well diversified portfolio with dominant share of HL

Focus on low-risk, fast growing Salaried Home Loan customer

Treasury Strategy - Borrowing Mix



Mar 2020

- Market expected to stabilize and liquidity stress to ease out over 15-18 months
- Book mix to shift more towards long term Bank borrowings
- Maturity of book to open avenues for sub-debt and NCD borrowing supporting ALM
- Open NHB refinance for helping in diversification of borrowings
- Assignments to drive balance sheet growth and address ALM mismatch

To add new brick of sub-debt and refinance as balance sheet matures and play aggressively on assignment

BHFL Core Strategy

TOP 4 MORTGAGE ORIGINATOR

- In 2 years of operations, BHFL ranks among top 7 mortgage originators in India
- Aim to be amongst the top 4 mortgage originators in the country

BUILD A LOW RISK BUSINESS MODEL

- To create a low risk sustainable balance sheet delivering <0.75% GNPA & 13-15% ROE
- Focus largely on salaried home loan opportunity

FOCUS ON CROSS SELL

- 42 Mn+ customer base
- 12 Lakh Cr mortgage opportunity available
- Focus on customer data enrichment to create right propositions
- Lower risk

DIVERSIFIED HL FOCUSED BUSINESS MIX

- Entire suite of products available to meet customer mortgage requirements
- Home loans to contribute 60%-65% of portfolio
- Risk based business mix to ensure low risk portfolio contribution

FOCUS ON FEE INCOME

- Mortgage is a highly competitive & low margin business with minimal pricing width available
- Focus on cross-sell income through cross-selling / up-selling customized VAS products & services

FOCUS ON MASS AFFLUENT(+) CLIENTS

- Focus on mass affluent and above customer segment
- Average age of 35-40 years and average salary of 10-20 lakhs

BHFL Strengths

BRAND NAME

Bajaj group is one of the most reputed & vintage groups in the country. Bajaj Finance is a leading financial services name in the industry

CAPITAL

BFL has infused 5,050 Cr till date and is committed to grow Mortgages

COMMITTED LINE

BHFL has a committed credit line from BFL available on tap

CREDIT RATING

Agency	Long-term	Short-term
CRISIL	AAA (Stable)	A1+
India Ratings	IND AAA (Stable)	A1+

CUSTOMER BASE

BHFL has access to the vast customer base of BFL (42 Mn+) to cross sell mortgages

ANALYTICS ORIENTATION

BHFL mines the vast customer base for eligibility & offer computation through highly sophisticated analytical models

FULL PRODUCT SUITE

Mortgage products for Retail as well as Commercial customers with customized VAS products & services for cross sell / up-sell

DEBT MANAGEMENT

Dedicated and well-staffed Debt Management unit for both urban and rural markets

BHFL Product Suite

- Home Loans
- Developer Finance
- Rural Mortgages
- Lease Rental Discounting
- VAS Products
- Loan Against Property

Full suite of mortgages products and services for retail and commercial customers

Home Loans

21,435 Cr

Asset Under Management

67%
of Monthly Acquisition Mix

91%
Salaried Home Loan

62%	59%	71%	12 Lakh	84%	42 Lakh
Existing Customer base sourcing	FOIR	LTV at origination	Avg. Customer salary	Customers with 750+ CIBIL	Avg. Ticket Size

63% of the Company’s incremental AUM is contributed by HL to salaried individuals…

Home Loans Verticals

B2C 73%			B2B 27%		
Appx. 67-70% customers are having prior relationship with Bajaj	Data-analytics based offer generation approach for better risk mgmt.	**15%** Contribution Customer sourcing on digital channels across Bajaj Finserv assets	**5 Markets** Micro-Market approach basis customer spread	**7-8 Years** Behaviouralized maturity of loan	BHFL caters to majorly Elite A+/A category developers
4-5 Years Behaviouralized maturity of loan	Higher profitability in B2C channel driven by ability to cross-sell	Combination of field and regional underwriting processes for balancing TAT and Risk	Focused on DF funded projects for scale, relationship and risk mitigation	PSS to embed BHFL in developer ecosystem; door-opener for large relationship	Only defined, selected, risk-approved projects allowed for sourcing

Continue to leverage the 42 Mn+ existing customer base to grow

Focus on the huge market opportunity in B2B to provide exponential growth. Less risky and highly stable portfolio

Loan Against Property

3,996 Cr

Asset Under Management

80%

Existing Customer mix

45%

LTV at Origination

- Operative in top 15 cities with ATS of 48 Lakh. Focused on Mass affluent and above salaried and self-employed customers
- More focused on direct to customer strategy with intermediary business contributing less than 20% of new acquisition
- ATS ranges from 30 Lakh to 100 lakh with a cap of 300 Lakhs. AUM mix is 26% from Salaried, 12% from SEP and 62% from SENP.
- Business focused on Fresh LAP with faster turn-around-time of 72-120 hours
- Self occupied residential property (SORP) constitutes 73% of the total book. Max LTV exposure restricted at 75%

Rural Mortgages

1,629 Cr	5.3%	73
Asset Under Management	**Spread**	**Locations**

- Hub and spoke model with presence across 73 upcountry locations as HUB and 50 locations as Spoke thru ASSC tie-ups
- Only business where company acquires self-employed non professionals in HL. 50% Salaried & 50% SENP customer profile mix
- ATS of 18 lakh with average Home Loan LTV of 63% and average Loan against Property LTV of 42%
- 42% of portfolio is HL and 58% is LAP – targeting 50:50 acquisition mix by March 2020
- Highest standards of controllership across all products supported by adequate spread

Lease Rental Discounting Business

2,940 Cr

Asset Under Management

20-25 Cr

Average Ticket Size

Top 8

Locations

- Offers lease rental discounting to high net worth individuals (HNI) and developers primarily for leased out office spaces
- Lessees are majorly Fortune 500 companies. The properties are relatively easier to lease out later as well
- Conservative discounting and comfortable LTVs (~55%). Loan size ranges from 5 Cr – 200 Cr
- All the LRD transactions are backed by rentals through ESCROW mechanism with exclusive charge
- Continuous monitoring of each transaction on a monthly basis by a dedicated risk team structure

Developer Finance

1,774 Cr	184	15-35 Cr
Asset Under Management	**Active Developers**	**Average Ticket Size**

Business Approach

- Focus on building a granular book
- Focused on end unit price <1 Cr other than Mumbai and <1.5 Cr in Mumbai
- No land financing
- Operative in 8 locations (not operational in Delhi & NCR)
- Focus on converting DF exposure to retail low risk HL exposures

Developer Profile

- Developer should have built minimum 0.75 - 1 million sqft. in past 7-10 yr.
- Developer should not have more than 2-3 live projects
- Low leverage
- Developer should be large in the concerned micro-market

Operating Model

- Centralized underwriting
- Disbursal only after RERA and Building approvals
- Deferred disbursement basis stage of construction and sales milestones
- Principal sweep from Day 1
- Interest servicing mandatory to be done on a monthly basis with no moratorium

Strong Underwriting and debt management capabilities

Retail Loans Underwriting (Home Loans & Loan Against Property)	▪ Separate dedicated underwriting structures for salaried and self-employed loans ▪ Salaried loans follow a hub model while self-employed loans are underwritten across all locations to address business and collateral related nuances ▪ Tele-PD for all salaried loans while physical PD with underwriter mandatory for all self-employed loans ▪ Legal and technical evaluation of collateral though in-house collateral team and empaneled vendors as per the regulatory norms ▪ Checkpoints / hind-sighting processes over the life-cycle of the loan
Commercial Loans Underwriting (Developer Finance & Lease Rental Discounting)	▪ Dedicated underwriting structure of subject matter experts with relevant domain experience ▪ For LRD transactions: In-depth assessment of customer's borrowing requirement, credit history, financials, market stature, borrowing entity structure, collateral site, credibility of lessee's, lock-in period ▪ For DF transactions: detailed assessment of developers history, project site, approvals, cash flows, existing projects performance ▪ Use of industry best practices and tools for the preparation of Credit Approval Memo (CAM) for each commercial transaction ▪ Centralized disbursal of all commercial transaction for better controllership
Debt Management Approach	▪ Dedicated debt management structure for all Retail loans – urban as well as rural ▪ Debt management is done through in-house debt management team - no external agencies ▪ Backed by a strong legal structure ▪ Dedicated team in place for efficient resolution of legal cases at different stages

BHFL Way Forward

Optimal Balance Sheet Mix

- Focus on building a low-risk balance sheet with medium ROE. Salaried HL to be the core growth driver over the next 3-5 years.
- Developer Finance book to be range bound (7-8% of the portfolio)

Capital adequacy

- Maintain CRAR of over >15% over the next 3 years against regulatory norm of 13%

Profitability & Risk metrics

- ROE: 13-15%
- ROA: 1.8% – 2.1%
- GNPA: < 0.75%

Granular Portfolio

- Continue to focus on mass affluent customers as core target segment
- Continue to focus on ATS of 30 – 100 Lakh in retail

Operating efficiency

- Continued focus towards OPEX management through cost out & process efficiencies
- OPEX/NIM ~20% by FY23

Diversified Borrowings

- Maintain optimal borrowing mix of bank lines and money market.
- Add new lines through refinance, sub-debt and ECB
- Assignment ~18-20%

Covid-19 & its impact

In these unprecedented times, Company is focused on capital preservation, balance sheet protection and operating expenses management. Company has healthy capital adequacy, strong liquidity position, low gross and net NPA, large mass affluent customer franchise to cross sell, diversified portfolio mix and strong risk management orientation. As a result, Company is confident of navigating the challenges posed by Covid-19.

- Amidst Covid-19, the Company has taken a cautious stance, and has tightened underwriting and LTV norms across all businesses till July 2020.
- There was no business in the month of April on account of nationwide lockdown. Green & Orange zones have resumed operations in May with Red zones opening up for business in phased manner and with reduced capacity.
- Company operates predominantly in top 30 cities and since most of these cities are in Red zone, it is likely to take longer time to gain momentum.
- As of 15th May 2020, the Company had liquidity buffer of ₹ 3,400 crore representing 13% of its total borrowings. Given the environment, Company will continue to run high liquidity buffer, despite an impact on cost of funds in the short term.
- Company has stress tested its liquidity model and is comfortably placed to meet its repayment obligations and business growth for a foreseeable period.
- Company has strong control over operating expenses with modularity built across various line items. In addition, variable cost approach for sourcing and loan processing leads to self balancing of expenses in line with volume movement.
- Company has started to prepare itself for potential Covid-19 impact. It took one-time provision amounting to ₹ 50 crore in Q4.
- As of 30 April 2020, ~10% of the Company's AUM was under mortarium. Of customers under mortarium, 70% have no recent bounce history with us.
- Company is currently executing significant ramp up of its collections capacity to manage Covid-19 bounce portfolio.
- Gross NPA & Net NPA stood at 0.08% and 0.05% as of 31 March 2020. Company has offered moratorium to all its Non NPA customers basis request or on a suo-moto basis. However, as a matter of prudence, Company decided that a set of customers with 60 days overdue and high likelihood of moving into NPA should not be offered moratorium.
- Capital adequacy remained strong at 25.15% as against regulatory requirement of 13%, would help support continued growth for the company.

Thank You

Bajaj Housing Finance Limited

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Glossary of terms

Term	Full form
SMT	Senior Management Team
ATS	Average Ticket Size
AUF	Assets under Finance
ECL	Expected Credit Loss
COF	Cost of funds
GNPA	Gross Non Performing Assets
VAS	Value added products & services
FOIR	Fixed obligation to income ratio
LTV	Loan to Value
PSS	Property search services
B2C	Business to Business
B2B	Business to Customer
SENP	Self employed Non Professionals
SEP	Self employed Professionals
PD	Personal discussion
CAR	Capital adequacy ratio
ROA	Return on average assets
ROE	Return on average equity
ECB	External commercial borrowing