ANANDRATHI

Aadhar Housing Finance Limited

07-May-24

SUBSCRIBE- LONG TERM

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Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	3,000
Fresh Issue (No. of Shares in Lakhs)	317.46
Offer for Sale (No. of Shares in Lakhs)	634.92
Bid/Issue opens on	08-May-24
Bid/Issue closes on	10-May-24
Face Value	₹ 10
Price Band	300-315
Minimum Lot	47

Objects of the Issue

- **Fresh Issue: ₹1,000 million**
  - To meet future capital requirements towards onward lending.
  - General corporate purposes
- **Offer for sale: 2,000 million**

Book Running Lead Managers
ICICI Securities Limited
Citigroup Global Markets India Private Limited
Kotak Mahindra Capital Company Limited
Nomura Financial Advisory and Securities (India) Private Limited
SBI Capital Markets Limited
Registrar to the Offer
Kfin Technologies Limited

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	5,000.00
Subscribed paid up capital (Pre-Offer)	3,947.55
Paid up capital (Post - Offer)	4,265.01

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	98.7	76.5
Public	1.3	23.5
Total	**100**	**100**

Financials

Particulars (₹ In million)	9M FY24	9M FY23	FY23	FY22	FY21
Interest Income	**18950**	**14,878**	**20,432**	**17,283**	**15,753**
Interest Expense	7,248	5,857	7,992	7,612	8,160
NII	**11,702**	**9,021**	**12,440**	**9,671**	**7,594**
Other Income	2	4	3	3	2
Other Expense	152	121	165	133	112
Profit before Exceptional Item	7,010	5,163	7,208	5,674	4,325
Exceptional item	-	-	250	-	-
Profit before tax	7,010	5,163	6,958	5,674	4,325
Tax	1531.0	1,122	1,511	1,225	924
Consolidated PAT	**5,479**	**4,041**	**5,448**	**4,449**	**3,401**
EPS	**12.85**	**9.47**	**12.77**	**10.43**	**7.97**
Ratios	**9M FY24**	**9M FY23**	**FY23**	**FY22**	**FY21**
NIM (%)	9.0%	8.0%	8.0%	6.9%	5.8%
Sales growth		-27.18%	18.22%	9.71%	

Sector- Housing Finance **Company Description**

Aadhar Housing Finance is a retail-focused HFC focused on the low-income housing segment, serving economically weaker and low-to-middle income customers, who require small ticket mortgage loans. The average ticket size of their loans was ₹0.9 million and ₹1.0 million with an average loan-to-value of 57.7% and 58.3%, as of December 31, 2022, and December 31, 2023, respectively. They offer a range of mortgage-related loan products, including loans for residential property purchase and construction; home improvement and extension loans; and loans for commercial property construction and acquisition. Their financial performance has remained consistent and resilient through various external events in the Indian economy. They have made social objectives one of the core objectives of their business model. They operate a financially inclusive, customer-centric lending business and believe that their business model contributes significantly to the economic uplift of their target customers by contributing to an improvement in their standard of living. In addition to their customer-facing social objectives, they have also implemented social objectives in aspects of their business.

Their presence in urban and semi-urban locations across India provides a source of employment in these locations. They have an extensive network of 487 branches* including 109 sales offices, as of December 31, 2023. Their branches and sales offices spread across 20 states and union territories, operating in approximately 10,926 pin codes across India, as of December 31, 2023. Their branch and sales office network are widely dispersed with no state accounting for more than 14.0% in terms of Gross AUM as of December 31, 2023. They believe that their diversified reach is well positioned to meet the specific needs of their target customers across geographies, in urban and semi-urban areas.

They have robust and comprehensive systems and processes for underwriting, collections, and monitoring asset quality. These systems and processes are also technology-enabled across their front office and back office with a view to ultimately digitize the entire life cycle of a loan from origination to closure. Loan applications from salaried customers go through their regional processing unit ("RPUs"), increasing efficiency while those from self-employed customers, which require close understanding of the customer and their cash flows, are managed regionally. They also have an internally developed credit assessment model and have digitized monthly collections from customers to the extent possible to reduce processing and improve collection efficiency. They have migrated to a digital IT infrastructure with a view to reducing costs, carrying on real-time analysis of customer data, improving their control and underwriting functions, while increasing customer reach and distribution capability.

Valuation

Aadhar Housing Finance company is a HFC focused on the low-income housing segment in India with the highest AUM and net worth among their analyzed peers with a Seasoned business model with strong resilience through business cycles and Robust, comprehensive systems and processes for underwriting, collections and monitoring asset quality and Access to diversified and cost-effective long-term financing with a disciplined approach to asset liability and liquidity management.

At the upper price band company is valuing at P/E of 19.45x, with P/B of 2.85 and a market cap of ₹ 1,34,347 million post issue of equity shares and return on net worth of 16.50%.

We believe that the IPO is fairly priced and recommend a "**Subscribe-Long term**" rating to the IPO.

Business Operations

Company is a HFC focused on the low-income housing segment (ticket size less than ₹1.5 million), targeting primarily first-time home buyers in economically weaker and low-to-middle-income segments. They serve formal and informal customers in salaried and self-employed segments. As of March 31, 2023, and December 31, 2023, salaried customers accounted for 58.6% and 57.2% of their Gross AUM and self-employed customers account for 41.4% and 42.8% of Gross AUM, respectively. As of December 31, 2023, they have 255,683 live accounts (including assigned and co-lent loans). Apart from home loans, they also offer loans against property, loans for renovation and property extension, and loans for the purchase of commercial property. As of March 31, 2023, home loans and non-home loans (including respective insurance portion) accounted for 78.1% and 21.9% of their Gross AUM, respectively. As of December 31, 2023, home loans and non-home loans (including respective insurance portion) accounted for 75.9% and 24.1% of their Gross AUM, respectively. Further, for the disbursements made in the years ended March 31, 2023, and December 31, 2023, approximately 11.9% and 9.6% of their customers are new-to-credit, respectively.

The average ticket size of their loans was ₹1.0 million, with an average loan-to-value of 58.3%, as of December 31, 2023.

As of December 31, 2023, company had a network of 487 branches* (including 109 sales offices) covering over 533 districts in 20 states and union territories in India. They are evenly spread across states thereby helping them reduce risk of geographic concentration. The company have increased their scale and have strategically expanded to geographies where there is substantial demand for housing finance.

The following table sets forth breakdown of their Gross AUM, disbursements and average ticket sizes for their home loans and non-home loans, as of and for the years indicated:

(₹ in million)

Metric	Financial year ended March 31, 2021	Financial year ended March 31, 2022	Financial year ended March 31, 2023	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Gross AUM:					
Home Loans	1,12,959.60	1,20,918.00	1,34,593.1	1,31,785.7	1,50,738.1
Non-Home Loans	20,292.60	26,848.90	37,635.2	33,878.9	47,913.5
Project Finance	18.80	11.00	-	-	-
Disbursements:					
Home Loans	30,409.00	31,168.10	42,054.8	27,930.9	35,354.9
Non-Home Loans	5,038.10	8,751.20	16,971.3	11,522.7	13,685.7
Project Finance	-	-	-	-	-
Total	35,447.10	39,919.30	59,026.1	39,453.6	49,040.6
Average Ticket Size on Retail AUM:					
Home Loans	0.90	0.90	1.0	1.0	1.0
Non-Home Loans	0.70	0.70	0.8	0.8	0.8
Total	0.90	0.90	0.9	0.9	1.0

The following table sets forth certain key financial ratios for their Company as at/for the periods indicated:

Metric	Financial year ended March 31, 2021	Financial year ended March 31, 2022	Financial year ended March 31, 2023	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Live Accounts (including assigned and co-lent loans)	1,82,471.00	2,04,135.00	2,33,228.0	2,22,346.0	2,55,683.0
Number of branches and sales offices	310.00	332.00	469.0	415.0	487.0
Average ticket size	0.90	0.90	0.9	0.9	1.0
Retail AUM	133.252.2	1,47,766.90	1,72,228.3	1,65,664.6	1,98,651.6
Gross NPA to Retail AUM (%)	1.10%	1.50%	1.20%	1.80%	1.40%
Net Retail NPA to Retail AUM (%)	0.70%	1.10%	0.80%	1.30%	1.00%
Net Worth	26,927.60	31,466.30	36,976.0	35,556.8	42,491.0
Profit after tax before exceptional item	3,401.30	4,448.50	5,643.3	4,040.6	5,478.8
Profit after tax	3,401.30	4,448.50	5,447.6	4,040.6	5,478.8
Return before exceptional item on Average Total Assets (%)	2.60%	3.20%	3.60%	3.60%	4.20%
Return before exceptional item on Equity (%)	13.50%	15.20%	16.50%	16.10%	18.40%
Debt to Total Equity ratio	3.90	3.4	3.3	3.3	3.1
CRWAR (%)	44.10%	45.40%	42.70%	44.90%	39.70%
Average yield on Gross Loan Book (%)	13.20%	12.80%	12.80%	12.8%*	14.0%*
Average cost of Borrowing (%)	8.20%	7.20%	7.00%	7.0%*	7.6%*
Net Interest Margin (%)	5.80%	6.90%	8.00%	8.0%*	9.0%*
Cost to Income Ratio (%)	35.80%	36.30%	38.10%	36.70%	36.20%

The following table sets forth the breakdown of their Gross AUM by occupation as of the periods indicated:

Particulars	As of									
	March 31, 2021		March 31, 2022		March 31, 2023		December 31, 2022		December 31, 2023	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
Salaried	85,093.30	63.80%	90,891.10	61.50%	1,00,933.20	58.60%	98,490.70	59.50%	1,13,686.10	57.20%
Self Employed	48,177.70	36.20%	56,886.80	38.50%	71,295.10	41.40%	67,173.90	40.50%	84,965.50	42.80%
Total	**1,33,271.00**	**100.00%**	**1,47,777.90**	**100.00%**	**1,72,228.30**	**100.00%**	**1,65,664.60**	**100.00%**	**1,98,651.60**	**100.00%**

Strengths:

- **HFC focused on the low-income housing segment (ticket size less than ₹1.5 million) in India with the highest AUM and net worth among their analyzed peers in Fiscal 2021, Fiscal 2022, Fiscal 2023 and nine months ended December 31, 2022, and December 31, 2023**

Company is a HFC focused on the low-income housing segment (ticket size less than ₹1.5 million) in India and they had the highest AUM and net worth among their analyzed peers in Fiscal 2021, Fiscal 2022, Fiscal 2023, and nine months ended December 31, 2023. Their Gross AUM increased from ₹133,271.0 million in FY2021 to ₹147,777.9 million in FY2022 and ₹172,228.3 million in FY2023. Their Gross AUM increased from ₹165,664.6 million as of December 31, 2022, to ₹198,651.6 million as of December 31, 2023, and grew at a CAGR of 17.3% between FY2021 to December 31, 2023. Their branch and sales office network is widely dispersed with no state accounting for more than 14.0% in terms of Gross AUM and the top two states accounting for 27.6% of their Gross AUM as of December 31, 2023. Their cumulative share of the top 5 states in terms of AUM is much lower than other players in the peer set as of March 2023. As of December 31, 2022, and December 31, 2023, no state accounted for more than 14.3% and 14.0% in terms of Gross AUM and the top two states accounted for 28.6% and 27.6% of their Gross AUM, respectively.

They believe that due to their scale and diversified reach, they are well positioned to meet the specific needs of their target customers across geographies, in urban and semi-urban areas. Housing financiers focused on the low-income housing segment typically serve the underserved category of low-income or mid-income customers who may be salaried, working in the informal sector, or self-employed running a small business. This presents a unique opportunity for them to leverage their position as the leading HFC focused on the low-income housing segment in terms of AUM and net worth to be the lender of choice for customers from this segment. Further, the low-income housing segment also benefits from various government and regulator initiatives to promote the construction of affordable housing projects as well as enabling financing for the customers of such projects. The Government's PMAY scheme provided credit-linked subsidies to stimulate demand. Various other initiatives such as special financing window (for stalled housing projects), tax benefits to home loan borrowers and developers, the NHB refinancing schemes to help lower the cost of borrowing of HFCs and risk weight rationalization on housing loans to improve sentiment for the real estate sector have also been undertaken to act as an enabler to the segment.

- **Seasoned business model with strong resilience through business cycles**

Through various business cycles, they have been able to leverage the (i) inherent strength of their customer-centric business model, (ii) their extensive branch and sales office network, and (iii) the expertise of their professional management team, to maintain their status as the HFC focused on the low-income housing segment (ticket size less than ₹1.5 million) in India with the highest AUM and net worth among their analyzed peers in Fiscal 2021, Fiscal 2022, Fiscal 2023, and nine months ended December 31, 2022, and December 31, 2023. Their financial performance has remained consistent and resilient through various external events in the Indian economy. During these periods, the Indian economy and the banking and finance industry in India were adversely impacted by various events such as demonetization and the introduction and rollout of a nationwide GST; defaults involving large non-bank finance companies; and the various waves of the COVID-19 pandemic. Their overall growth, performance of their portfolio, asset quality, and continued profitability during these periods despite these negative events demonstrate the strengths of their business and their management team.

Their resilience in the low-income housing segment is based on their customer-centric business model, whereby they offer their products with practices and policies that are developed and implemented to address the specific issues faced in the low-income housing segment and to address their customers' need to access funds, while ensuring robust credit, underwriting, and collections policies. Their resilience in the low-income housing segment is also based on their credit evaluation capabilities, which are distinguished by their credit underwriting, risk management, and fraud detection teams that utilize an objective cognitive rule-based policy to make credit decisions and are supported by their internally developed a four-pronged credit assessment model. Their loan products are designed to meet the capital need of their target customers. Within the salaried customer segment, the formal segment (customers who have a documented monthly salary typically credited directly in their bank accounts) contributed 81.6% and 81.5% to their Gross AUM as of March 31, 2023, and December 31, 2023, respectively, while the remaining 18.4% and 18.5% of their Gross AUM as of the same periods are derived from the informal segment (customers that receive a monthly salary that is not supported by documentation and may be paid in cash). In the self-employed customer segment, 25.4% and 20.1% as of March 31, 2023, and December 31, 2023, respectively, of their customers belonged to the formal segment (customers that have income tax returns or bank accounts), and 74.6% and 79.9% as of the same periods belonged to the informal segment (customers that do not have formal income documentation).

The following table sets forth, for the period ends indicated, their Gross AUM:

(₹ in million)

Metric	As of the financial year ended March 31,			As of and for the nine months ended December 31,	
	2021	2022	2023	2022	2023
Gross AUM	1,33,271.00	1,47,777.90	1,72,228.3	1,65,664.6	1,98,651.6

- **Extensive branch and sales office network, geographical penetration and sales channels which contribute significantly to loan sourcing and servicing.**

Company have a pan-India branch and sales office network. Company believe that a comprehensive on-the-ground presence is essential for their success and growth in the low income housing finance segment. Since their establishment of sales offices in the last quarter of FY2023, as of March 31, 2023 and December 31, 2023, they had 469 and 487 branches (including 94 and 109 sales offices, respectively) across India covering 20 states and union territories of India, respectively. Their branch and sales office network is widely dispersed across various states and geographies with 56.3% and 55.9% of their branches and sales offices spread across five states and the remaining 43.7% and 44.1% spread across 15 states, as of March 31, 2023 and December 31, 2023, respectively. Company have actively expanded their branch and sales office network and have increased the number of their branches (including sales offices) from 310 branches as of March 31, 2021 to 332 branches as of March 31, 2022 to 469 branches (including sales offices) as of March 31, 2023 and further to 487 branches (including sales offices) as of December 31, 2023. Their Gross AUM is spread across India with only 28.3% and 27.6% of their Gross AUM being contributed by the top two states as of March 31, 2023 and December 31, 2023, respectively.

They also have regional and corporate offices that are not counted as branches. They have modeled their branches to meet the local requirements of the location they are set up in. On a regional level, they have categorized branches as main and small branches which are hubs and they further penetrate deeper through micro or ultra-micro branches under the ambit of main or small branches. Usually they establish their presence in a new location with an ultra-micro branch based on the geography, potential, and low delinquency trends, and once the ultra-micro branch becomes profitable, they upgrade it to a small or main branch to cater to a larger pool of customers.

Their sales offices (also known as deep impact branches) are opened in remote locations with an aim to cater to the housing needs of customers in tier 4 and tier 5 towns in India. They also engage local channel partners in various locations that complement their branch and sales office network and allow them to be present in and serve additional locations in India on top of their branch and sales office network with a team of sales personnel that includes sales managers and direct sales teams. To cater to the housing needs of customers in semi-urban areas and to expand their business presence in these areas, they have implemented a separate strategy tailored to the funding needs of customers in these locations. They formulated a separate product, Aadhar Gram Unnati ("AGU"), considering the local needs and challenges of their customers in such semi-urban markets. Their AGU product provides them with a platform to test the market demand in new geographies they wish to expand into, particularly semi-urban locations. Depending on market demand in such locations, they may then establish their business presence by setting up their branches to leverage on local demand. This allows them to cover a wider geographical area and increase customer access.

- **Robust, comprehensive systems and processes for underwriting, collections and monitoring asset quality**

Company have implemented a robust and comprehensive credit assessment, risk management, and collections framework to identify, monitor, and manage risks inherent in their operations. They exclusively finance retail customers, a majority of whom are salaried individuals purchasing residential properties. Company have also adopted an internal 'risk appetite statement' that sets out the aggregate level and types of risk they are willing to accept while achieving their business objectives. Under this policy, they have adopted a benchmark for business decisions that are based on balancing risk and return and making the best use of their capital. They routinely monitor their performance against various qualitative and quantitative metrics under this policy, including capital, profitability, asset quality, credit, operational, liquidity, and compliance risk. As of March 31, 2023, and December 31, 2023, their loan-to-value on Gross AUM on an outstanding basis was 57.8% and 58.3%, respectively, with a moderate level of loan-to-value ratios across various buckets at the time of the sanctioning of the loan. As of December 31, 2023, all of their outstanding loans are secured in their favor by a mortgage over property or other security. Company have split their underwriting process such that underwriting for salaried customers is undertaken at their RPUs for quick turnaround and processing. For all other customer segments at the branch level, they have specialized teams for credit underwriting, technical and legal due diligence, and fraud control.

Company have an experienced team of credit managers across their branches to undertake credit assessment. Their well-defined systems and processes along with proper checks and balances enable credit approvals to be done by appropriate underwriting authority. They have streamlined sanction, pre-disbursement, and post-disbursement processes on their IT platform, which cover the entire lifecycle of the customer from lead generation, credit underwriting, legal and technical processes to loan disbursement and monitoring and collections. Their in-house technical team comprises a team of civil engineers deployed to assess property valuation, enabling them to make accurate valuations of the properties they are financing. They have implemented digital solutions across their business to efficiently undertake various aspects of their business.

Their credit underwriting, risk management, and fraud detection teams utilize technology to process loan applications, analyze credit risks, identify fraud, and utilize an objective cognitive rule-based policy to make credit decisions. Their analytics-backed platform shortens the turnaround time to process loan applications and to make credit decisions. They have an in-house collections team to ensure timely collections. Further, between March to August 2020, pursuant to RBI's directions, they granted moratorium on payment of installments in the period to all eligible customers who requested the moratorium. In this period, they continued to regularly engage with their customers to inform them about the features of the moratorium and other aspects relating to their loans.

- **Access to diversified and cost-effective long-term financing with a disciplined approach to asset liability and liquidity management**

  Their treasury department is responsible for ensuring that their capital requirements are met alongside asset liability management, managing the cost of their borrowings, liquidity management and control, diversifying fund-raising sources, and investing surplus funds in accordance with the criteria set forth in their investment policy. Over the years, company have secured financing from a variety of sources including term loans; proceeds from loans assigned; proceeds from the issuance of NCDs; refinancing from the NHB; and subordinated debt borrowings from banks, mutual funds, insurance companies and other domestic and foreign financial and development finance institutions to meet their capital requirements. Companies assign loans through direct assignment to banks and financial institutions, which enables them to optimize their cost of borrowings, funding and liquidity requirements, capital management and asset liability management. As of December 31, 2023, they had borrowing relationships with the NHB, 23 banks, nine mutual funds, three insurance companies, one development finance institution and one NBFC (that have invested in their NCDs). The diverse sources of funds allow them to maintain more cost-effective long-term financing.

The following table sets forth, for the period ends indicated, a breakdown of their tenure and weighted average tenure of funds:

Particulars	As of				
	March 31, 2021	March 31, 2022	March 31, 2023	December 31, 2022	December 31, 2023
Composition of Total Borrowings					
Percentage of short-term borrowings	1.80%	0.70%	0.0%#	-	-
Percentage of long-term borrowings	98.20%	99.30%	100.00%	100.00%	100.00%
Weighted average tenure of outstanding borrowings (including securitization and assignment)	104 months	105 months	107 months	107 months	116 months

<u>**Key Strategies:**</u>

- **Expand their Distribution Network to Achieve Deeper Penetration in key states.**

  Company has a comprehensive pan-India presence covering their target customers. With increased urbanization across India, they believe that the continuing expansion of their physical and digital presence across India will be a key enabler for their growth. The company believes that their current operating model is scalable, which will assist them in expanding their operations with lower incremental costs to drive efficiency and profitability. Their branch expansion is done in a calibrated and systematic manner. They review a few factors including demographics and competitive landscape before establishing a branch. They have modeled their branches into categories to manage costs and risks while expanding their presence. To drive their geographical expansion, they employ their AGU product which allows them to test the market demand in new geographies, particularly semi-urban locations, after which they set up branches that commensurate with the local demand. They also have sales offices (also known as deep impact branches) that are opened in remote locations with a limited number of officers, and they provide a small office space for customer meetings and collection of documentation at these sales offices. They have ultra-micro and micro branches that are minimally staffed but could source customers for certain locations. For other locations, they have small branches and main branches to provide higher levels of disbursements and cater to a larger pool of customers. This approach allows them to gauge the potential of a particular location without incurring the costs of opening a branch location and provides the flexibility of expanding from sales offices to ultra-micro branches and further to small or main branches where there is a business potential for expansion. They are constantly evaluating locations using the above criteria and expect to continue to add branches to grow their network in the near term.

- **Continue to focus on their target customers and grow their customer base.**

  In FY2023, their customers reached 233,000 accounts and they have more than 255,000 Live Accounts as of December 31, 2023. Most of their customers are from the economically weaker and low-to-middle income segment of the Indian economy. As of March 31, 2023, and December 31, 2023, 58.6% and 57.2% of their customers are salaried individuals and 41.4% and 42.8% are self-employed individuals, respectively. Most of the household shortage is for LIG and EWS with a small proportion of shortage (5.0-7.0%) of the shortage coming from MIG or above. Further, mortgage penetration in India is far lower than other emerging economies owing to lower per capital income and higher proportion of informal employment in India. They intend to focus on growing their share of the low-income housing segment mortgage market in India and continuing to focus on the salaried and self-employed categories from the economically weaker and low-to-middle income group segment of the Indian economy. The company believes their objective of financial inclusion for these categories of customers coupled with their digitally enabled customer centric approach will allow them to continue to grow their customer base and their loan portfolio.

- **Continuing to invest in and roll out digital and technology enabled solutions across their business to improve customer experience and improve cost efficiency.**

  In October 2021, they implemented an enterprise-wide technology upgrade of their systems and processes. These investments are aimed at modernizing their technological backbone and digitizing operating processes. They believe that these initiatives will assist in streamlining existing processes and the introduction of enhanced features. Further, they aim to make the process of buying a house for their customers seamless by building a digitally driven and enabled HFC focused on the low-income housing segment. The key components of this are the simplification of processes, increasing their reach, efficient and comprehensive risk management combined with superior customer experience. Their credit underwriting, risk management, and fraud detection teams utilize technology to process loan applications, analyze credit risks, identify fraud, and utilize an objective cognitive rule-based policy to make credit decisions.

These technology-enabled initiatives allow them to increase their customer penetration by enabling third parties to source customers while keeping credit appraisals in-house. Operationally, digitization benefits them through improved underwriting processes, increased productivity, cost reduction, and improved collections through data-driven early warning systems. These measures are intended to improve their customers' experience while transacting with them. At the back end, they automated various processes and rolled out a lending management system with different technologies. In FY2020, they appointed Tata Consultancy Services Limited ("TCS") to implement their Lending and Securitization Platform across their systems and launched a Digital Transformation program which provides a more integrated digital platform for various stages of a loan cycle onboarding, loan origination, accounting, and reporting. These technologies will further enable their shift to an analytics-based approach across their business. These technological systems and enhancements will also help them further improve their systems, processes, and controls. Their technology initiative coupled with their physical branch and location expansion will allow them to continue to expand and grow their business, while improving their cost efficiency.

- **Optimize borrowing costs and reduce operating expenses further.**

Cost of borrowing declined from FY2021 to FY2022 and thereafter increased at a slower pace in the nine months ended December 31, 2023 as compared to the increase in the India repo rate during the same period, which they believe is due to their proactive and flexible fundraising strategy.

The following table sets forth details of their average cost of borrowings for the periods indicated:

Metric	As of the financial year ended March 31,			As of and for the nine months ended December 31,	
	2021	2022	2023	2022	2023
Average cost of borrowings	8.20%	7.20%	7.00%	7.00%	7.60%

They intend to continue to diversify their funding sources, identify new sources and pools of capital, and implement robust asset liability management policies with the aim of further optimizing their borrowing costs and helping sustain their NIM. In line with their strategy, they have increased the share of NHB refinancing in their Total Borrowings and have also availed international sources of funding in the past to reduce their overall cost of borrowings and diversify the funding mix. They intend to continue maintaining a healthy mix of NHB refinance in their Total Borrowings and expanding their lender base. For instance, they have received sanction letters from NHB in December 2020, December 2021, October 2022, and October 2023 for loans up to ₹ 10.0 billion, ₹ 12.5 billion, ₹ 15.0 billion, and ₹ 10.0 billion, respectively. Their fully built-out distribution and collections infrastructure are a key source of operating leverage and will help reduce their operating expenses. Further, they expect that their strategic investments in technology and digitization across their business will further reduce their operating expenses and credit costs over time. They will continue to review and identify means to improve their revenue to operating expenses ratio and improve their overall NIM from current levels. They believe that because of these various initiatives they would be able to continue to maintain their low NPA levels and reduce them further, improve their credit ratings for new fundraising, borrow at competitive rates, and hence sustainably deliver superior return ratios.

- **Industry Snapshot:**

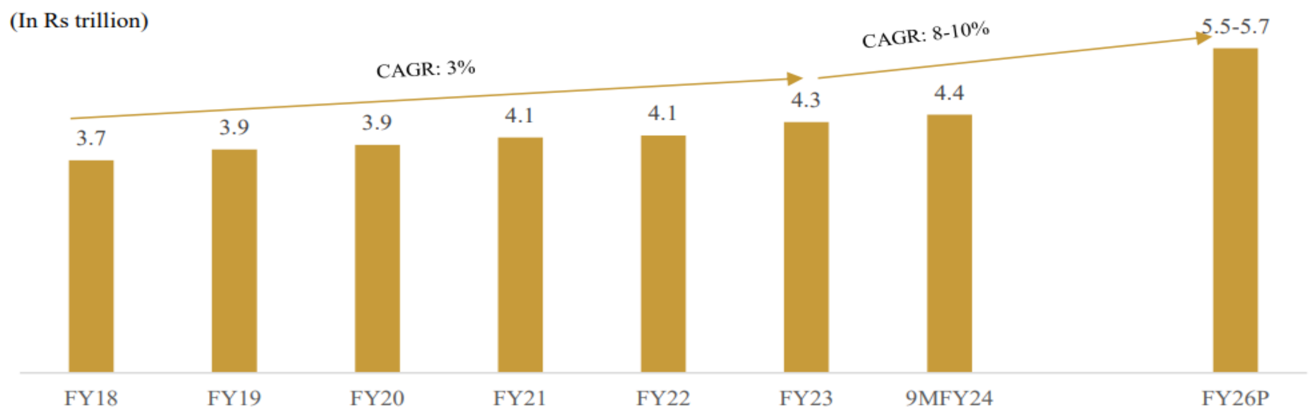
Overview of housing finance market focusing on low-income housing segment

India's mortgage market can broadly be divided into two segments by ticket size of the housing loan at the time of disbursement - loans with ticket size of more than ₹ 1.5 million, and loans with ticket size of ₹ 1.5 million and below. The former can be called normal mortgage market, which is prominent in the metro/urban areas, and the latter which generally includes houses in the outskirts of these areas and semi-urban and rural areas can be defined as housing finance market focusing on low-income housing segment. According to CRISIL, housing loans with ticket size greater than ₹ 1.5 million are referred to as normal housing loans ("Normal housing loans"), and loans with ticket size lower than ₹ 1.5 million are referred to as housing loans focusing on low-income housing segment ("Low-income housing loans"). This segment is also the focus of government schemes such as affordable housing in partnership and Credit Linked Subsidy Scheme ("CLSS") under PMAY, and refinance under the National Housing Bank's ("NHB") affordable housing fund.1 As per RBI Report of the Committee on the development of Housing Finance Securitization Market published in September 2019, the housing shortage is also largely in the EWS and LIG segment with shortage of 45 million houses in the EWS segment and 50 million houses in LIG segment, which put together accounts for 95% of the estimated housing shortage in India

Encouraging trends in the housing finance market focused on low-income housing segment (loans up to ₹ 1.5 million); market to bounce back more strongly in long term.

The overall size of the housing finance market focusing on low-income housing loans in India was around ₹ 4.4 trillion as of December 2023, constituting for around 14% of the overall housing finance market, as per CIBIL data. With outstanding loans of ₹ 1.7 trillion as of December 2023, PSBs have the highest market share of 38% in the Low-income housing loans market. HFCs accounted for 29% of the market (outstanding loans of ₹ 1.3 trillion as of December 2023) followed by private banks which had a market share of 22% (outstanding loans of ₹ 1.0 trillion as of March 2023). All other player groups (MNCs and small finance banks) had a cumulative market share of 8% in Low-income housing loans as of December 2023. Between Fiscals 2018 and 2023, the growth in the low-income housing segment has remained subdued, with the segment having witnessed a CAGR of 3% after growing between Fiscals 2015 and 2018 and as compared to overall housing loans, which has grown by 14% during the same time. This can be primarily attributed to a slowdown in economic activity, funding challenges due to the NBFC crisis and the COVID-19 pandemic. Further, rise of hybrid work models and working from home led to an increase in demand for bigger residential homes. As a result, the sale in affordable housing took a beating whereas high-end and mid segment housing gained the maximum in the last couple of years. The industry is expected to see a moderate growth with a CAGR of 8-10% between Fiscals 2023 and 2026.

Projected growth in outstanding loans of low-income housing loan segment



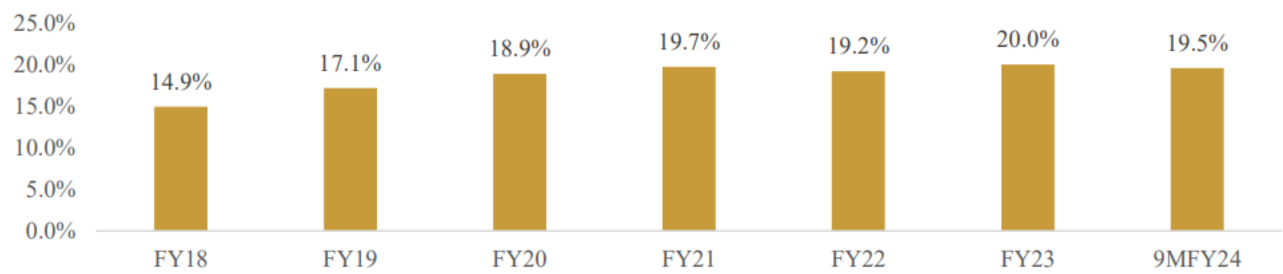
HFCs have the highest share in housing finance disbursement focused on low-income housing segment

HFCs have 38% market share in terms of housing finance disbursement and 29% market share in term of outstanding focused on low-income housing segment in the nine months ended December 31, 2023. They have been able to cultivate a strong market position in this segment due to the following:

- Strong origination skills and focused approach
- Creation of niches in catering to categories of customers
- Strong understanding of customer segment, excellent customer service and diverse channels of business sourcing
- Non salaried customer profile – around 50-55% of customers
- Focus and presence in smaller cities as well.

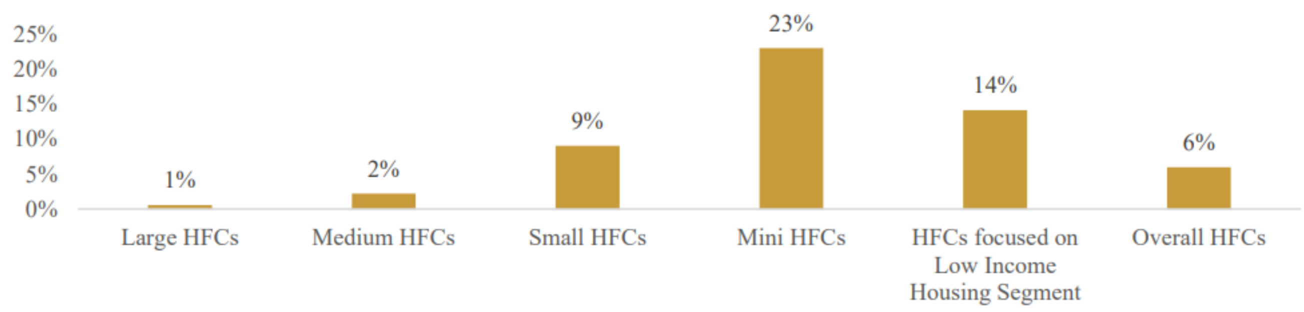
These factors are expected to help them maintain market share in the future as banks have become risk averse and are focusing on high ticket customers with good credit profiles. By virtue of being largely focused on metros and urban areas, ticket sizes of banks and large HFCs have followed rising property prices. A focus on the urban salaried segment by banks and large HFCs has left non-salaried as well as Tier 3, and rural market open to anyone with the capability to operate in that segment.

The market share of HFCs focused on low-income housing segment in overall housing loans outstanding of HFCs.



Not surprisingly, mini HFCs, most of whom have a larger focus on home loans focused on low-income housing segment, have outperformed the other player groups, clocking 23% CAGR in loans in this category over the last five years ending Fiscal 2023. As against this, the overall market for HFCs in this segment clocked 6% CAGR from March 2018 to March 2023. Even the HFCs focused on low-income housing segment have grown at a high pace of 14% in this category.

Five-year CAGR (Mar-2018 to Mar-2023) of HFC groups in housing finance focused on low-income housing segment.



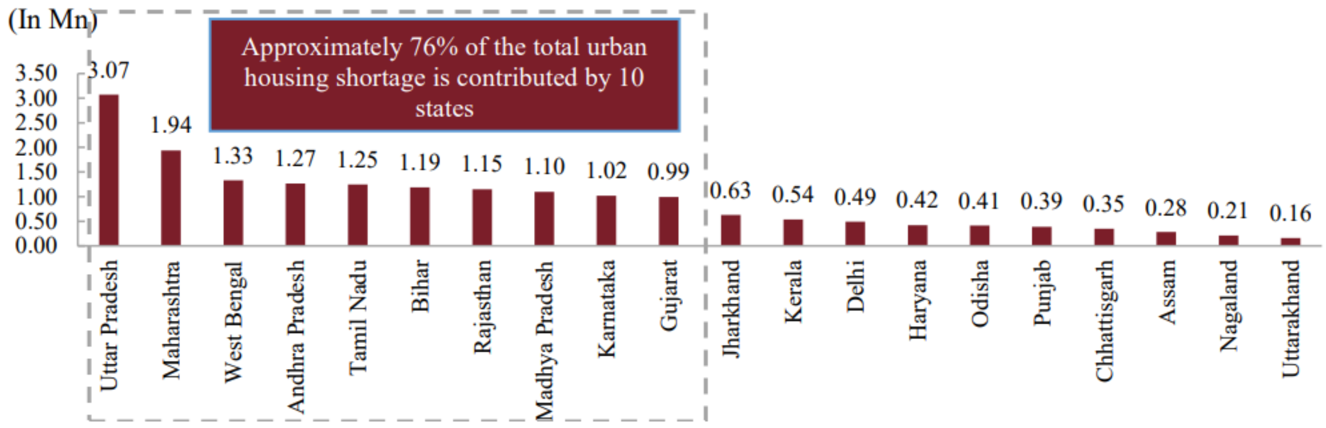
Housing scenario in India

Indian household investment in real estate

As per household finance committee report issued by the RBI in 2017, the average Indian household holds 77% of its total asset in real estate which includes residential buildings, buildings used for farm and non-farm activities, constructions such as recreational facilities, and rural and urban land.

76% of total urban housing shortage is contributed by top 10 states (2012)

State-wise housing shortage



Estimated shortage and requirement of approximately 100 million houses in 2022.

The housing shortage in India has only increased since the estimates at the time of the twelfth five-year plan. As per the report of RBI-appointed Committee on the Development of housing finance securitization market (September 2019), the housing shortage in India was estimated to increase to 100 million units by 2022. Most of the household shortage is for LIG and EWS with a small proportion of shortage (5-7%) of the shortage coming from MIG or above. Total incremental housing loans demand, if this entire shortage is to be addressed, is estimated to be in the region of ₹ 50 trillion to ₹ 60 trillion, as per the Committee report. In comparison, the overall housing loans outstanding (excluding Pradhan Mantri Awas Yojana ("PMAY") loans) as of March 2023 was around ₹ 31.1 trillion. This indicates the immense latent potential of the market, in case, a concrete action is taken for addressing the shortage of houses in India.

Comparison with listed entity

Name of the company	Revenue from operations (₹ million)	Face Value (₹ per share)	P/E	P/B	EPS (Basic) (₹)	EPS (Diluted) (₹)	Return on net worth (%)	NAV (₹ per share)
Aadhar Housing Finance Limited	20,432	10.00	19.45*	2.85**	12.77***	12.77***	16.50	93.7
Listed peers								
Aptus Value Housing Finance India Limited	10,934	2.00	31.30	4.70	10.10	10.10	16.10	67.1
Aavas Financiers Limited	16,088	10.00	28.10	3.70	54.40	54.30	14.10	413.6
Home First Finance Company India Limited	7,910	2.00	34.90	4.30	26.00	25.20	13.50	206.5
India Shelter Finance Corporation Limited	5,845	5.00	33.10	4.10	17.80	17.50	13.40	141.4

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on April 18, 2024.
2) */**/*** P/E, P/B and EPS of company is calculated based on TTM, and post issue no. of equity shares issued.

Key Risk:

- Erstwhile Promoters are subject to ongoing regulatory investigations by enforcement agencies including the Enforcement Directorate and the outcome of such investigations may adversely impact them and the Equity Shares held by their Promoter, BCP Topco and the market price of the Equity Shares of their company.
- Company is party to certain legal proceedings and any adverse outcome in these, or other proceedings may adversely affect their business.
- They depend on the accuracy and completeness of information provided by their potential borrowers and third-party service providers. Their reliance on any misleading information given by potential borrowers may affect their judgment of credit worthiness of potential borrowers, and the value of and title to the collateral, which may affect their business, results of operations, cash flows and financial condition.
- Company have had negative net cash flows in the past and may continue to have negative cash flows in the future.
- Any increase in the levels of non-performing assets in their AUM would adversely affect their business, results of operations, cash flows and financial condition.
- If company fail to identify, monitor, and manage risks and effectively implement their risk management policies, it could have a material adverse effect on their business, financial condition, results of operations and cash flows.
- Company is vulnerable to the volatility in interest rates, and they may face interest rate and maturity mismatches between their assets and liabilities in the future which may cause liquidity issues.

Valuation:

Aadhar Housing Finance company is a HFC focused on the low-income housing segment in India with the highest AUM and net worth among their analyzed peers with a Seasoned business model with strong resilience through business cycles and Robust, comprehensive systems and processes for underwriting, collections and monitoring asset quality and Access to diversified and cost-effective long-term financing with a disciplined approach to asset liability and liquidity management.

At the upper price band company is valuing at P/E of 19.45x, with P/B of 2.85 and a market cap of ₹ 1,34,347 million post issue of equity shares and return on net worth of 16.50%.

We believe that the IPO is fairly priced and recommend a "**Subscribe-Long term**" rating to the IPO.

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Mid Caps (101st-250th company)	>20%	0%-20%	Below 0%
Small caps (251st company onwards)	>25%	0%-25%	Below 0%

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