Aadhar Housing Finance Ltd.

07 May 2024

Prominent affordable housing player at attractive valuations

IPO Note

Sector: NBFC

SUBSCRIBE

Company data

ISSUE OPENS	8th May 2024
ISSUE CLOSES	10th May 2024
PRICE BAND	Rs 300 - 315
PRE- ISSUE EQUITY SHARES	394mn
POST- ISSUE EQUITY SHARE	426mn
FRESH SHARES TO BE ISSUED	31mn
OFFER FOR SALE	63mn
ISSUE SIZE	Rs 30bn
MKT CAP (at upper band)	Rs 134bn

Financial Snapshot (Rs mn)

Y/E March	FY21	FY22	FY23	FY24P
NII	6,110	7,771	9,771	12,768
PPP	4,875	6,161	7,700	10,148
PAT	3,401	4,449	5,948	7,839
EPS (Rs)	8.0	10.4	13.4	17.8
EPS Gr. (%)	79.6	30.8	33.7	31.8
BV/Sh (Rs)	63	74	87	103
Ratios				
NIM (%)	4.9	5.5	6.1	6.7
C/I ratio (%)	35.8	36.3	38.1	36.4
RoA (%)	2.6	3.2	3.7	4.3
RoE (%)	13.5	15.2	16.6	18.7
Payout (%)	0.0	0.0	0.0	0.0
Valuations				
P/E (x)	39.5	30.2	23.6	17.7
P/BV (x) *	5.0	4.3	3.6	3.1

*Note: FY24P based on 9MFY24; *P/BV at ~2.5x (post capital raise)*

Shareholding pattern (%)

	Pre-Issue	Post-Issue
BCP Topco VII Pte. Ltd.	98.7	76.7
ICICI Bank	1.3	1.3
Public	0.0	22.0
Total	**100.0**	**100.0**

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Aadhar Housing Finance Limited (AHFL) is a leading player (with ~4% market share in overall HFC group) in affordable housing finance space with AUM of Rs 198bn. The company is majorly owned by BCP Topco VII Pte. ltd (Blackstone Group) and benefits from its strong parentage and expertise and have access to funding at competitive rates. The company mainly focuses on low income housing segment (< Rs 1.5mn loans) serving low to mid income segment. The average ticket size of loans are Rs 1 mn with average LTV of ~58%. Salaried segment comprises ~57% of total AUM while self employed segment comprises of ~43% as of Dec'23. As of Dec'23, Aadhar has presence in 20 states through a network of 487 branches and offices. The distribution network is widely spread with no single state contributing more than 14% AUM as of Dec'23. Top 5 states Maharashtra (14%), Uttar Pradesh (13%), Rajasthan (13%), Gujarat (11%) and Madhya Pradesh (10%) together constitutes >62% of AUM. NII grew at 32% CAGR over FY20-23, led by 15% CAGR in AUM and healthy NIMs. Aided by lower credit cost (< 50bps), earnings grew at 46% CAGR over FY20-23. As a result, the company made a healthy RoA / RoE of 3.6% / 16.5% in FY23 and 4.2% / 18.4% in 9MFY24. A seasoned & experienced management team with strong corporate governance enhance confidence. Recommend – SUBSCRIBE.

Favourable demographics + low mortgage penetration = Huge growth opportunity
India's housing loan industry is in a sweet spot and should continue to benefit from the country's favourable demographics. Rising urbanisation (from 17.6% in 1955 to 35.0% in FY20), b) increasing number of households (2% CAGR) due to nuclearisation and c) higher share of earning population in India (~60% are in the age bracket of 18 to 59 years) will likely continue to drive demand for housing loans. Individual housing loans now constitute ~16% share in the overall systemic credit (Rs 180trn), having meaningfully improved from ~11% a decade ago. Despite healthy pace of growth, mortgage penetration (mortgage to GDP ratio) in India remains sub optimal at ~11%, presenting a huge growth opportunity for HFCs.

AHFCs strong business model is a cocktail of high pricing power and low credit cost
Affordable Housing Finance Companies (AHFCs) cater to a relatively riskier customer profile which leads them to charge a premium on interest. This is why they have higher yields compared to normal housing finance players. Despite their riskier segment focus, AHFCs' asset quality was healthy even during the COVID period bearing testimony to their robust underwriting practices. This explains why these companies' RoA profile ranges at a healthy 3%-7% (Ex CANF), which in our view should stay largely intact over FY23-26E. As these companies scale up their businesses, their leverage should improve and boost their RoE profiles.

Significant player in AHF segment; well placed to capture market share

Aadhar Housing Finance Limited (AHFL) is a leading player (with ~4% market share in overall HFC group) in affordable housing finance space with AUM of Rs198bn. It has diversified presence with 487 branches spread across 533 districts in 20 states. The branches are evenly spread across states which reduces geographic concentration risk as no single state contributes >14% of AUM. Loan growth and subsequently improvement in market share to be aided by a) rising urbanization and continued expansion of its physical and digital presence across India b) increasing customer base.

Strong promoter, experienced & seasoned management team enhance confidence

The company is backed by Blackstone Group (global investment firm) through BCP Topco VII Pte. Ltd and will continue to hold ~77% stake post offer. Hence, benefits from blackstone's resources, relationships and expertise. The company also has a strong, experienced and dedicated management team, having an average experience of more than two decades in the financial services industry.

Valuation: Affordable Housing Finance Players have managed to maintain/ improve their return profiles through higher yields, lower cost of funds and well managed asset quality. Continued branch expansion in existing and newer geographies coupled with government focus would continue to support their growth. Aadhar Housing Finance (AHFL) is a bet on low ticket size affordable housing segment. Given the current size of AHFL, the company is well positioned to capture the huge untapped opportunity in <Rs1.5mn ticket size segment, via deeper penetration in new geographies. In addition, experienced management team with strong track record along with backing of Blackstone boost confidence. At the upper end of the price band (Rs 300-315), the issue is valued at ~2.5x Dec'23 BV (including capital raise) with RoA of ~4% and RoE of ~18%, which looks attractive. Hence, we recommend investors to subscribe this issue.

Snapshot of key players in the affordable housing segment

Exhibit 1: Business profile

Particulars (FY23)	AADHAR		APTUS		HFFC		AAVAS		India Shelter Finance	
	FY23	9MFY24	FY23	FY24	FY23	9MFY24	FY23	FY24	FY23	9MFY24
AUM (Rs mn)	172,230	198,650	67,380	87,220	71,980	90,137	141,667	173,126	43,594	56,090
1-year growth (%)	16.5	19.9	30.1	29.4	33.8	33.5	24.8	22.2	41.8	41.9
3-year CAGR (%)	14.6	-	28.4	29.0	25.8	-	22.0	22.3	42.1	-
5-year CAGR (%)	16.7	-	36.7	31.2	39.6	-	28.3	23.8	40.3	-
AUM mix - by product (%)										
Housing loan	78	76	58	60	87	86	70	69	57	58
Non - housing loan	22	24	42	40	13	14	30	31	43	42
AUM mix - by customer (%)										
Salaried and professionals	59	57	29	26	70	68	40	40	30	29
Self-employed	41	43	71	74	30	32	60	60	70	71
AUM mix - on book/ off book (%)										
On book	100	100	100	100	85	-	100	100	100	100
Off book	0	0	0	0	15	-	0	0	0	0
Network details										
Branch (Nos.)	479	487	231	262	111	123	346	367	183	215
Employee (Nos.)	3,663	3,885	2,405	2,918	993	1236	6,034	-	2,709	3,319
Customers (Nos.)	172,228	198,625	107,000	133,499	77,512	90,851	187,149	-	58,552	-
No. of States	20	20	5	6	13	13	12	13		
Key States as % of AUM	Uttar Pradesh – 14% Maharashatra – 14% Gujarat – 11% Madhya Pradesh – 10%	Uttar Pradesh – 14% Maharashatra – 14% Gujarat – 11% Madhya Pradesh – 10%	Tamil Nadu – 43% Andhra Pradesh – 35%	Tamil Nadu – 37% Andhra Pradesh – 40%	Gujarat – 33% Maharashtra – 14% Tamil Nadu – 14% Telangana – 9%	Gujarat – 33% Maharashtra – 13% Tamil Nadu – 14% Telangana – 9%	Rajasthan – 30-35% Maharashtra – ~15% Madhya Pradesh – ~15% Gujarat – ~15%	Rajasthan, Maharashtra, Gujarat & Delhi contribute ~80-82%	Rajasthan – 31% Maharashtra – 18% Madhya Pradesh – 15%	Rajasthan – 31% Maharashtra – 17% Madhya Pradesh – 13%
Product details										
ATS (Rsmn)	0.9	1	0.8	1	1	1.14	0.8	1.02	1.1	1
Portfolio yield (%)	12.8	14	17	17.3	13.1	13.5	13.1	13.1	14.9	14.8
Company details										
Year of incorporation	2010 *		2009		2010		2011		1998	
Year of listing	-		2021		2021		2018		2023	
Promoter stake	**Total Stake: 100%** BCP Topco VII Pte.Ltd (an affiliate of Blackstone) – 98.7% ICICI Bank – 1.3%	**Total Stake: 100%** BCP Topco VII Pte.Ltd (an affiliate of Blackstone) – 98.7% ICICI Bank – 1.3%	**Total stake: 62.2%** Munuswamy Anandan – 19.3% Padma Anandan – 4.5% Westbridge crossover fund LLC – 34.5% JIH LLC – 2.2%	**Total stake: 61.1%** Munuswamy Anandan – 19.3% Padma Anandan – 3.2% Westbridge crossover fund LLC – 34.5% JIH LLC – 2.0%	**Total stake: 30.2%** True north fund VLLP – 18.2% Aether (Mauritius) Limited – 12.0%	**Total stake: 23.6%** True north fund VLLP – 14.2% Aether (Mauritius) Limited – 9.4%	**Total stake: 39.1** Kedaara capital – 23.0% Partner group – 16.1%	**Total stake: ~27** Kedaara capital – 16.0% Partner group – 10.9%	- - -	**Total stake: 48.3** Anil Mehta – 1.5% West Bridge – 20.1% Aravali Investment Holding – 26.6%
Auditor	Walker Chandiok & Co LLP		T R Chadha & Co LLP		Deloitte Haskins & Sells		Walker Chandiok & Co LLP		T R Chadha & Co LLP	
Credit Rating	CARE: AA/Stable ICRA: AA/Stable BRICKWORKS: AA/Stable	CARE: AA/Stable ICRA: AA/Stable	ICRA: AA-/Stable CARE: AA-/Stable	ICRA: AA/Stable CARE: AA-/Stable	IND RA: AA-/Stable CARE: AA-/Stable ICRA: AA-/Stable	IND RA: AA-/Stable CARE: AA-/Stable ICRA: AA-/Stable	ICRA: AA/Stable CARE: AA/Stable	ICRA: AA/Stable CARE: AA/Stable	CARE: A+ ICRA: A+	CARE: A+ ICRA: A+

Source: Company, Systematix Institutional Research, Note: Aadhar Housing Finance Private Ltd was incorporated in 2010

Company Background

- Aadhar Housing Finance Private Limited was incorporated in 2010 and later amalgamated with DHFL Vysya in 2017 and subsequently its name changed to Aadhar Housing Finance Limited (AHFL). In June 2019, BCP Topco VII Pte. ltd (which is controlled by a private equity fund managed by Blackstone Group) acquired majority stake by infusing Rs ~13bn and currently holds 98.7% in AHFL.
- Aadhar Housing Finance Ltd (Aadhar) is the largest (in terms of AUM & Networth) affordable housing finance player focused on low ticket size loans (Rs < 1.5mn) primarily housing loans and LAP. Aadhar offer loans for residential property purchase and construction; home improvement & extension loans; and loans for commercial property construction & acquisition.
- Aadhar has ~4% market share in overall HFC group with AUM of Rs 198bn as of Dec'23. The company mainly focuses on low income housing segment serving low to mid income segment. The average ticket size of loans are Rs 1 mn with average LTV of ~58% (as of Dec'23). Salaried segment comprises ~57% of total AUM while self employed segment comprises of ~43% as of Dec'23.
- As of Dec'23, Aadhar has presence in 20 states through a network of 487 branches and offices. The distribution network is widely spread and no single state contributes more than 14% AUM as of Dec'23. Top 5 states Maharashtra (14%), Uttar Pradesh (13%), Rajasthan (13%), Gujarat (11%) and Madhya Pradesh (10%) together constitutes >62% of AUM.

Exhibit 2: Key Milestones of Aadhar Housing Finance

Year	Particulars
FY11	Incorporation of Pre-merger AHFPL
FY12	Pre-merger AHFPL Crossed 1,000 home loan disbursements
FY14	AUM of pre-merger AHFPL crossed Rs 5bn
FY15	AUM of pre-merger AHFPL reached Rs 10bn
FY17	Pre-merger AHFPL opened 100th branch customer base reached 49,000
FY18	Merger of DHFL Vysya Housing Finance Ltd with Pre-merger AHFPL
FY19	AUM crossed Rs 100 bn raised Rs 7 bn through a maiden public offering of NCDs
FY20	Customer base crossed 1,50,000; acquired by the Blackstone Group in June 2019
FY22	Customer base crossed 2,00,000; reached Rs 148bn AUM
Dec-23	AUM Reached Rs 199bn AUM

Source: RHP, Company, Systematix Institutional Research

Exhibit 3: Key financial parameters

Particulars	FY21	FY22	FY23	9MFY23
Live Accounts (including assigned and co-lent loans) (nos)	182,471	204,135	233,228	255,683
Number of branches and sales offices (nos)	310	332	469	487
Average ticket size (Rs mn)	0.9	0.9	0.9	1.0
AUM (Rs mn)	**133,270**	**147,780**	**172,230**	**198,650**
- Retail AUM (Rs mn)	133,252	147,767	172,230	1,98,650
- Retail AUM as % of total AUM (%)	85	82	78	76
Gross Retail NPA (%)	1.1%	1.5%	1.2%	1.4%
Net Retail NPA to Retail AUM (%)	0.7%	1.1%	0.8%	1.0%
Net Worth (Rs mn)	26,928	31,466	36,976	42,491
Profit after tax before exceptional item (Rs mn)	3,401	4,449	5,643	5,479
Profit after tax (Rs mn)	3,401	4,449	5,448	5,479
Return before exceptional item on Average Total Assets (%)	2.6%	3.2%	3.5%	4.2%
Return before exceptional item on Equity (%)	13.5%	15.2%	16.5%	18.4%
Debt to Total Equity ratio (x)	3.9	3.4	3.3	3.1
CRAR (%)	44.1%	45.4%	42.7%	39.7%
Average yield on Gross Loan Book (%)	13.2%	12.8%	12.8%	14.0%
Average cost of Borrowing (%)	8.2%	7.2%	7.0%	7.6%
Net Interest Margin (%)	5.8%	6.9%	8.0%	9.0%
Cost to Income Ratio (%)	35.8%	36.3%	38.1%	36.2%

Source: RHP, Company, Systematix Institutional Research

Exhibit 4: Key Management

Name	Designation	Profile
Mr Deo Shankar Tripathi	Executive Vice Chairman	• Bachelor’s and master’s degree in Science and cleared the examination for a diploma in Public Administration. • He has been associated with the company since January 17, 2015 and prior to joining Aadhar he was associated with pre-merger Aadhar Housing Finance Private Ltd. (AHFPL) • Earlier he held the position of MD & CEO Aadhar Housing Finance Ltd.
Mr Rishi Anand	MD & CEO	• Post Graduate Certification in Business Management • He has over 25 years of work experience in financial services. Earlier he was associated with Aadhar as COO. • Prior to joining Aadhar, he has worked with ICICI Bank , GE Countrywide Consumer Financial Services Ltd, BHW Birla Home Finance Ltd, Reliance Capital & AIG Home Finance India Ltd.
Mr Rajesh Viswanathan	Chief Financial Officer	• Bachelor’s degree in commerce and he is a qualified chartered accountant cost and works accountant. • He has several years of experience in accounting, finance, strategy, planning, taxation, treasury, audit, and managing investor relations. • Prior to joining Aadhar, he was associated with A F Ferguson & Co, Mahindra & Mahindra Limited, DSP Financial Consultants Limited, KPMG Bahrain, Bajaj Allianz Life Insurance Corporation Limited, Bajaj Finance Limited & Capital Float.
Mr Sreekanth V N	Chief Compliance Officer	• Bachelor’s degree in commerce and law. He is a qualified CS and has several years of experience in handling secretarial functions. • Before Aadhar he was associated with ICICI Bank, Firestone International Private Ltd. He has also worked for Bureau of Police Research & Development, Ministry of Home Affairs and Department of Supply, Ministry of Commerce
Mr Anmol Gupta	Chief Treasury Officer	• Bachelor’s degree in commerce (Hons.) and is a qualified chartered accountant. • Prior to Aadhar he worked with BHW Birla Home Finance Limited and as the Accounts Officer.
Mr Nirav Shah	Chief Risk Officer	• Bachelor’s degree in commerce and qualified Chartered Accountant. He has cleared the exam of Certified Information Systems Audit. • He has worked with Deloitte Haskins & Sells, ICICI Prudential Life Insurance Company Limited and Tata Capital Housing Finance Limited.
Mr Hayyaksha Ghosh	Chief Data Officer	• Master’s of science degree in physics and post graduate diploma in management • He has earlier worked with various organizations like Infosys Technologies Ltd, Mindwave Solutions Pte. Limited (Singapore) etc.
Mr Anil Nair	Chief Business Officer	• Master’s degree in commerce and business administration • He has previously worked with Bata India Ltd, MIRC Electronics Ltd, ICICI Bank , DHFL, Aspire Home Finance.

Source: RHP, Company, Systematix Institutional Research

Offer details

- **The issue:** Fresh issue of 31.7mn shares (Rs 10bn) and Offer for Sale of 63.5 mn shares (Rs 20bn).
- **Primary objective:** Augmenting equity capital base to meet future capital requirements towards onward lending and general corporate purpose.

Exhibit 5: Shareholding pattern

Shareholding	Pre Issue	Post Issue
BCP Topco VII Pte. Ltd.	98.7	76.7
ICICI Bank	1.3	1.3
Public	0	22.0
Total	**100.0%**	**100.0%**

Source: RHP, Company, Systematix Institutional Research

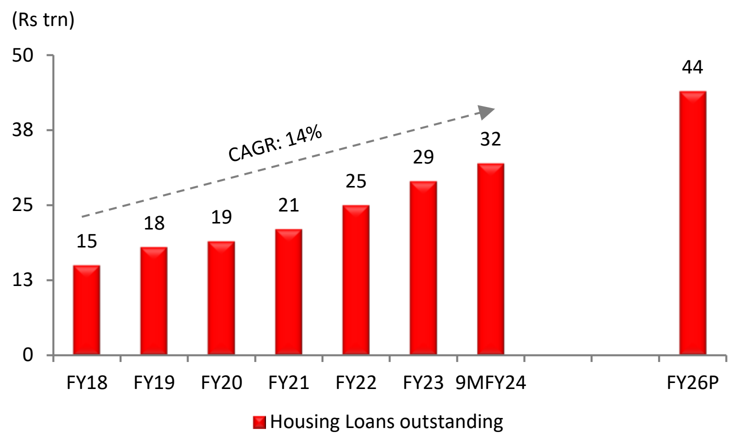
Industry overview

Housing scenario in India

Housing Finance segment to clock 13-15% CAGR over FY23 to FY26

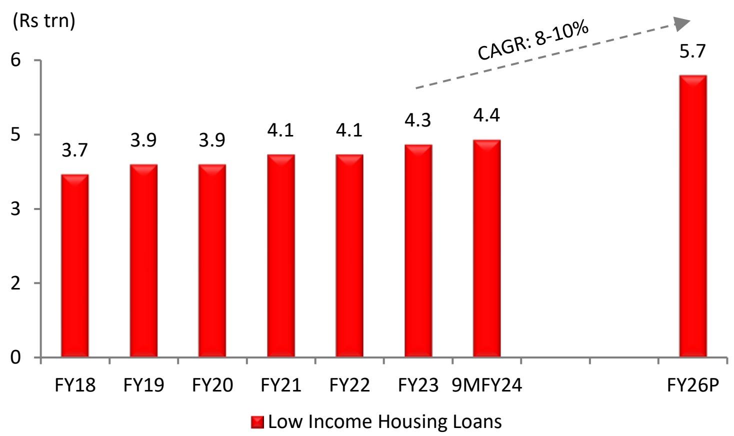
The Indian housing finance market grew at a healthy ~14% CAGR over FY18-FY23 led by rise in disposable income, healthy demand coming from smaller cities markets, attractive interest rates and government impetus on housing. Despite a healthy pace of growth, mortgage penetration (mortgage to GDP ratio) in India still remains sub optimal at ~11%, presenting a huge growth opportunity for bank and HFCs. Schedule commercial banks (SCBs) command the highest market share in the housing loan market at ~68%, followed by HFCs at 31%, and NBFCs having miniscule 1% share. As per CRISIL, Housing Finance segment to clock 13-15% CAGR over FY23 to FY26.

Exhibit 6: Size of India's housing loan industry



Source: RHP, Company, Systematix Institutional Research

Exhibit 7: Housing Finance market of loans upto Rs 1.5mn



Source: RHP, Company, Systematix Institutional Research

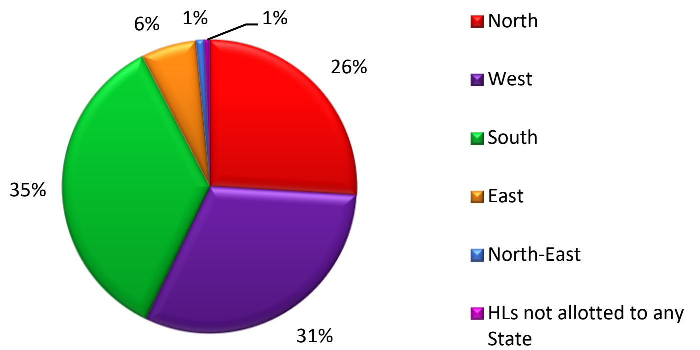
Growth in low income housing segment to bounce back in long run

During FY18-FY23, the growth in the low income housing segment was subdued at ~3% (CAGR), compared with overall housing loans, which has grown by 14%. This was primarily due to slowdown in economic activity, funding challenges due to NBFC crisis and the pandemic. Further, the increasing hybrid work model and working from home led to an increase in demand for bigger residential homes (large ticket size). Hence, sale in affordable housing segment was subdued while high-end and mid-segment housing gained the maximum in past couple of years. As per CRISIL, the growth in low income segment to bounce back strongly going ahead driven by 1) Economic recovery post pandemic and return to office initiated by employers 2) Government focus on housing and incentives 3) Rising demand for affordable homes as consumers increasingly work out of Tier 3/4 cities. Further, this segment is expected to pick up gradually and reach Rs 5.4-5.7 trn by FY26 resulting in 8-10% CAGR during FY23-FY26 (As per CRISIL).

High regional concentration with greater skewness at the state level

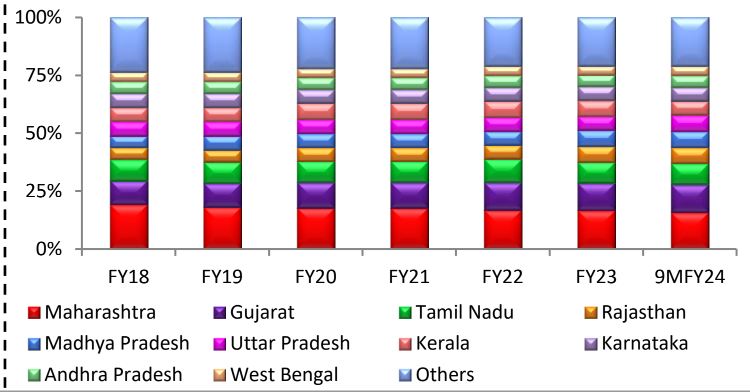
Geographically, housing loan market is relatively skewed towards South and Western region with share of 35% and 31% respectively. North region has ~26% share while Eastern region accounts for balance 6% share in outstanding housing loans. Based on home loans outstanding in the low income housing segment, top 10 states account for ~80% of the market size as of Dec'23. Maharashtra tops the list with the highest share of 16%, followed by Gujarat (12%), Tamil Nadu (9%), Rajasthan (7%) and Madhya Pradesh (7%).

Exhibit 8: Region-wise AUM breakup



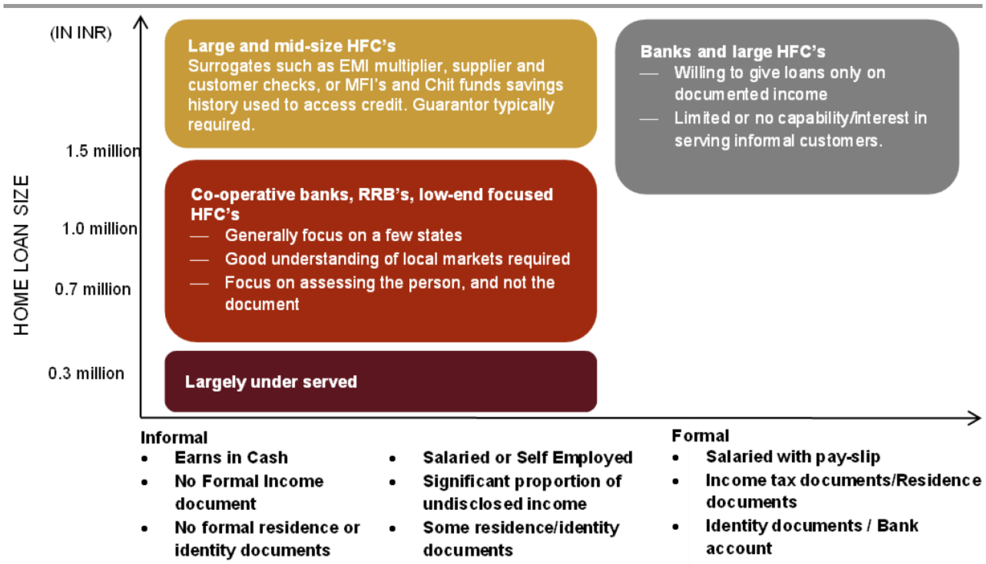
Source: RHP, Company, NHB, Systematix Institutional Research

Exhibit 9: Share of top 10 states in housing loans



Source: RHP, Company, Systematix Institutional Research

Exhibit 10: Low income housing segment typically comprise of underserved customers



Source: RHP, Company, Systematix Institutional Research

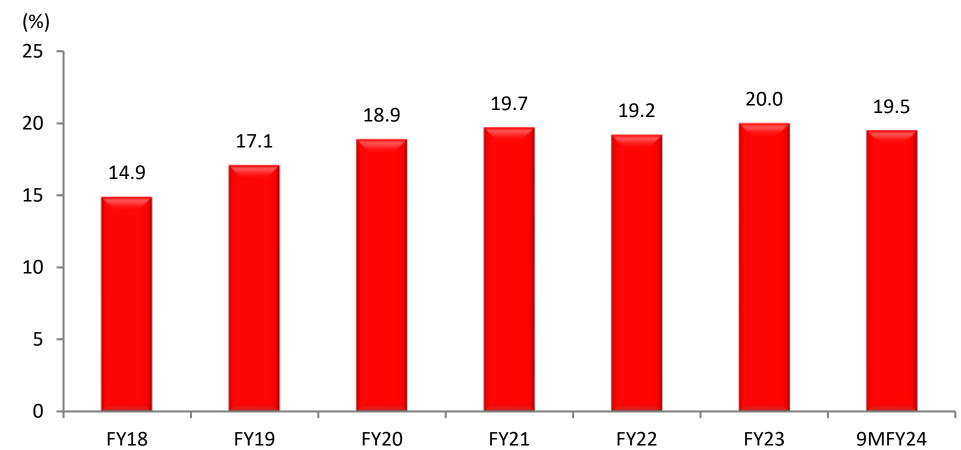
Exhibit 11: Large HFCs continue to have dominant share, however mini HFCs have increased their market share

Market share of HFC groups	Disbursement Mix						AUM Mix					
	FY19	FY20	FY21	FY22	FY23	9MFY24	FY19	FY20	FY21	FY22	FY23	9MFY24
Large HFCs	66%	62%	67%	65%	55%	66%	66%	69%	68%	70%	65% *	63%
Medium HFCs	12%	16%	12%	16%	20%	12%	15%	12%	12%	10%	14% *	15%
Small HFCs	15%	15%	13%	10%	12%	15%	15%	14%	15%	14%	14%	13%
Mini HFCs	7%	7%	8%	8%	14%	7%	5%	5%	6%	6%	8%	9%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

*Source: RHP, Company, Systematix Institutional Research; Note: Large HFCs - Avg AUM for FY22 and FY23 more than Rs 500 bn (LICHF, PNBHF, Indiabulls Housing, Bajaj Housing, Piramal Capital etc), Medium HFCs - Avg AUM for FY22 and FY23 between Rs 175 bn and Rs 500 bn (CANF, ICICI Homes, IIFL Housing, TATA Capital Housing etc), Small HFCs - Avg AUM for FY22 and FY23 between Rs 70 bn and Rs 175 bn (Aadhar, Aavas, Repco, Aditya Birla Housing, Sundaram Housing etc) Mini HFCs - Avg AUM for FY22 and FY23 less than Rs 70 bn (Aptus, Capri Global Housing, India Shelter, HFFC etc); Note: * the significant change in market share of large HFCs and Medium HFCs in FY23 was due to merger of HDFC Ltd into HDFC bank.*

The HFC focused on low income housing segment consists primarily of small and mini HFCs. They were able to increase their market share from 14.9% as of March 2018 to 19.5% as of December 2023 in terms of home loan outstanding. The defining characteristic of these HFCs is their strong focus on their target segment (i.e., housing loans lower than Rs 1.5 million ticket size to low-income customers), deep understanding of the micro- markets they operate in, and relatively lower focus on other products such as loans against property (LAP) and developer loans. Their credit assessment processes are finetuned to serve their target segment. According to CRISIL MI&A estimates, direct sales teams as a sourcing channel account for 65-70% of the loans of these HFCs. Aadhar has a diversified origination mix with DSTs, Aadhar Mitra (12,451) and DSAs (5,152), contributing 33.5%, 20.8%, 45.7% to disbursements in 9MFY24. Aadhar Mitras are individuals engaged by the company who are in non-allied industries (hardware stores, for example) and act as lead providers to its DSTs.

Exhibit 12: Market share of HFC focused on low income segment is at ~20%

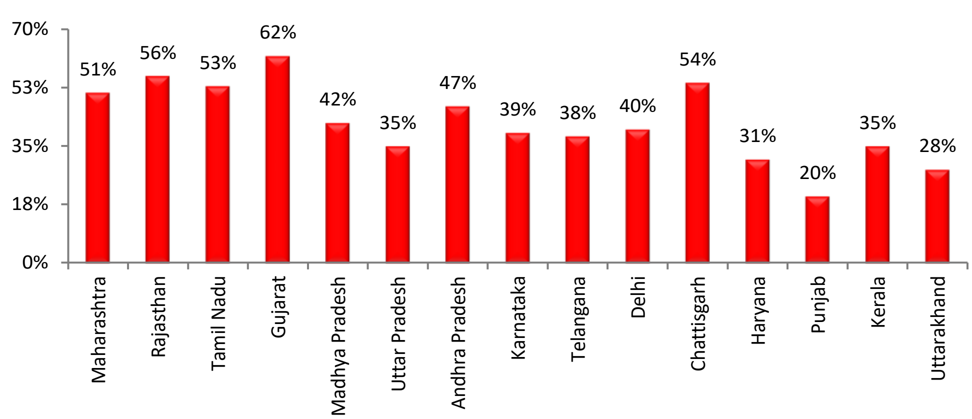


Source: RHP, Systematix Institutional Research

State wise market share in low income segment

States like Gujarat, Rajasthan, Tamil Nadu, Maharashtra & chattisgarh have more than 50% market share within their respective states in low income housing segment. Gujarat is at the top with 62% market share followed by Rajasthan (56%) and Chhattisgarh (54%) for 9MFY24.

Exhibit 13: State wise market share in low income segment



Source: RHP, Company, Systematix Institutional Research

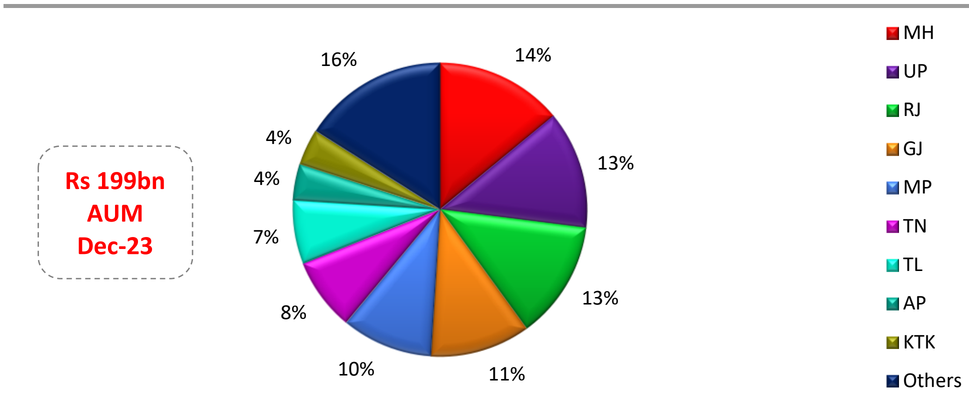
Investment Rationale

Well placed to capture growth led by deeper penetration in key states and expanding customer base

Aadhar Housing Finance Limited (AHFL) is a leading player (with ~4% market share in overall HFC group) in affordable housing finance space with AUM of Rs198bn. It has diversified presence with 487 branches spread across 533 districts in 20 states. The branches are evenly spread across states which reduces geographic concentration risk as no single state contributes >14% of AUM. Loan growth and subsequently improvement in market share to be aided by a) rising urbanization and continued expansion of its physical and digital presence across India b) increasing customer base.There is an immense potential in the housing market, driven by significant shortage of housing loans. As per CRISIL, ~95% of housing shortage expected to be driven by EWS / LIG segments.

Aadhar is primarily focused on the low income housing segment (ticket size less than Rs 1.5mn), and target first-time home buyers in economically weaker and low-to-middle income segments. The salaried segment constitute 57% while self-employed segment constitute 43% of gross AUM respectively as of Dec'23. The company offers, home loans, loan against property, loans for renovation and property extension and loans for purchase of commercial property. Home loans constitute ~76%, while non-home loans constitute ~24% of gross AUM respectively as of Dec'23. As Aadhar cater to low income segment, the loans also classify for various affordable housing schemes promoted by the Government of India, such as the Pradhan Mantri Awas Yojana (PMAY). These loans constitute ~24% of live accounts and ~20% of Gross AUM as of Dec'23. Out of total Disbursements, ~12% are new to credit customers and average ticket size of loan is Rs 1mn with Avg LTV of 58%. As of Dec'23, the branch network stood at 487 branches spread across 533 districts in 20 states. The branches are evenly spread across states which reduces the geographic concentration risk with no single state contributes >14% of AUM.

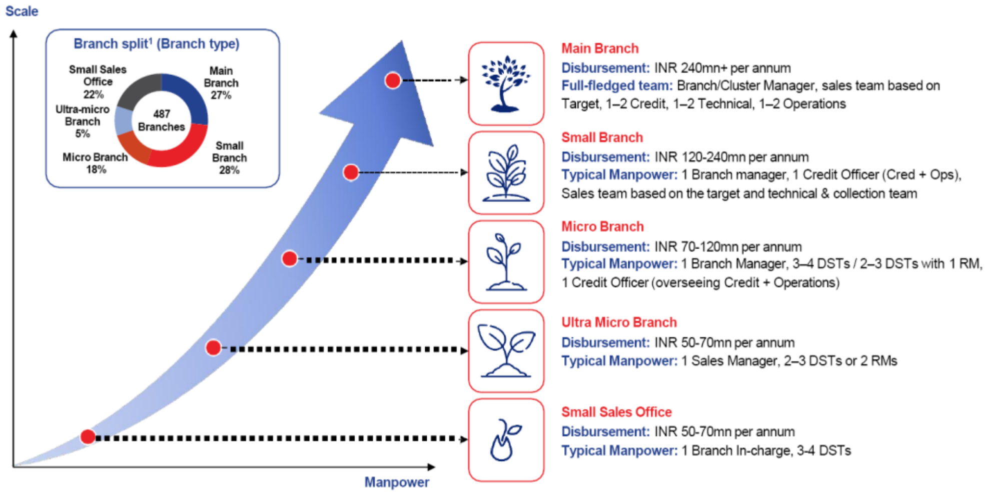
Exhibit 14: State wise AUM mix



Source: RHP, Company, Systematix Institutional Research

The branch expansion is done in a calibrated and systematic manner by reviewing factors like demographics and competitive landscape before establishing a branch. Thus, Aadhar has strategically expanded to geographies where there is substantial demand for housing finance in low income segment. Going ahead, rising urbanization and continued expansion of physical and digital presence across India expected to drive the growth. The current operating model, which Aadhar is following is scalable and it will assist in expanding the operations with lower incremental costs to drive efficiency and profitability.

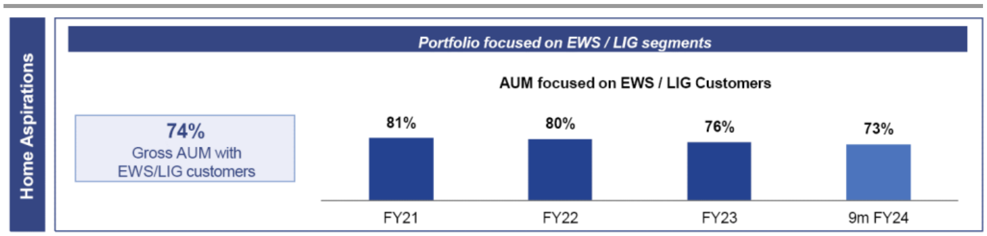
Exhibit 15: Size of the branch is linked to disbursement potential



Source: RHP, Company, Systematix Institutional Research

In addition with deeper penetration, Aadhar aims to focus on increasing its share of low income housing segment and economically weaker and low-to-middle income group segment and expand its customer base with the help of co-lending arrangements with banks (2 PSUs and 1 private). As of Dec'23, Aadhar has more than 255000 live accounts.

Exhibit 16: Majority of housing shortfall expected to be driven by EWS / LIG segment

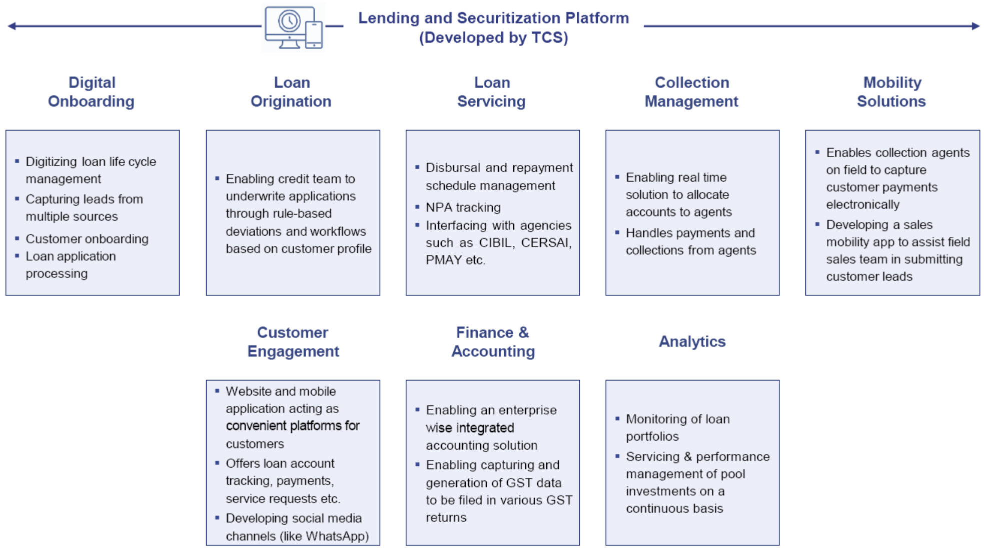


Source: RHP, Company, Systematix Institutional Research

Tech enabled solutions to improve cost efficiency in long run

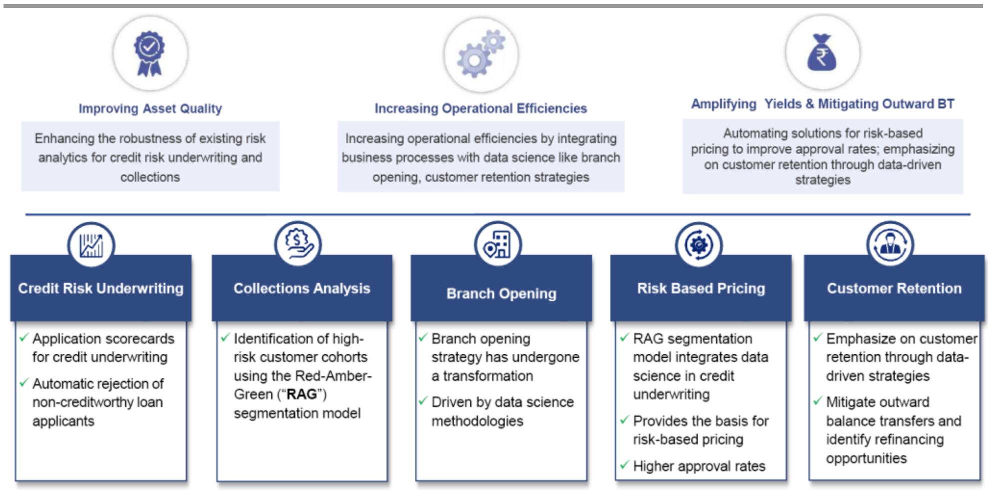
In FY20, Aadhar invested in an integrated loan platform by TCS and launched a digital transformation program which provides a more integrated digital platform for various stages of a loan cycle onboarding, loan origination, accounting and reporting. These tech enabled solutions are further expected to improve systems, processes and controls. Operationally, tech solutions / digitization benefits through improved underwriting processes, increased productivity, cost reduction and improved collections through data-driven early warning systems. Its fully built distribution and collections infrastructure is a key source of operating leverage and will help reduce the operating expenses and credit cost in long run.

Exhibit 17: Scalable tech & digital platform



Source: RHP, Company, Systematix Institutional Research

Exhibit 18: Focus on business transformation through data science…



Source: RHP, Company, Systematix Institutional Research

Exhibit 19: Branch efficciency comparison

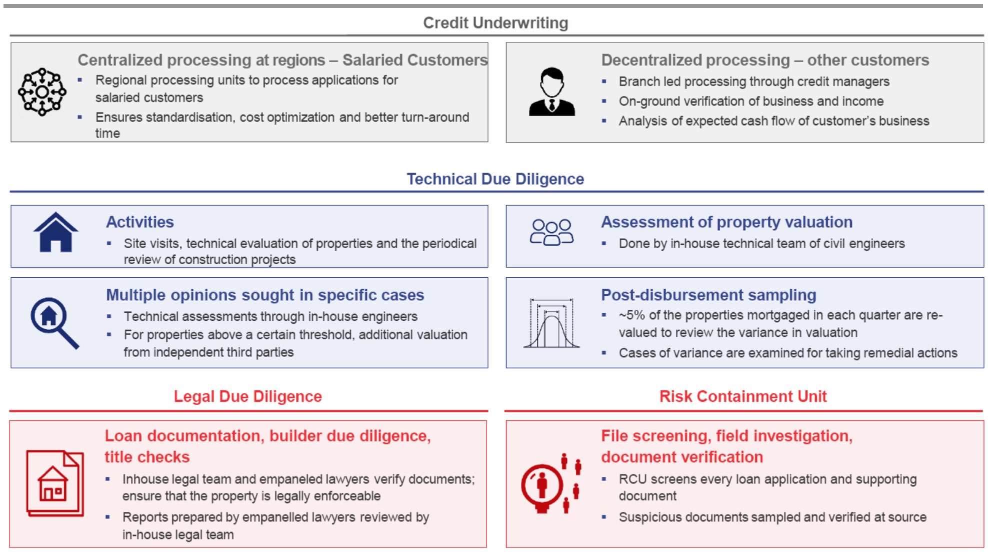
Branch Efficiency (3QFY24)	AADHAR	AAVAS	APTUS	HFFC	INDIA SHELTER
AUM per branch (mn)	408	458	308	733	261
Disbursement/ Branch (mn)*	143	155	117	328	126
Employee per branch (no.)	8	18	11	10	15
Opex per Branch (mn)*	12	15	8	20	11
Employee cost/ branch (mn)*	8	10	6	13	9
Other Opex/ branch (mn)*	3	5	2	6	2
Profit per branch (mn)*	17	13	24	26	12

*Source: RHP, Company, Systematix Institutional Research,; Note: * Annualised*

Extensive underwriting and healthy collections leading to robust asset quality

Aadhar has implemented a robust and comprehensive credit assessment, risk management and collections framework to identify, monitor and manage risks in operations. The company primarily caters to retail segment, a majority of whom are salaried individuals purchasing residential properties. Thus, asset quality has been largely maintained healthy. The company has streamlined its sanction, pre-disbursement and post disbursement processes on 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. Its in-house technical team comprises of civil engineers which assess property valuation which enables Aadhar to make accurate valuations of the properties that they are financing. In addition, it has in-house collection team which ensures timely collections. During pandemic, management changed its strategy and focused more on salaried customers and conducted additional due diligence on customers to assess the impact on their employment. Such measures helped in the improvement of their collection efficiencies. Aadhar's effective credit risk management policies and framework is reflected in its portfolio quality indicators such as high repayment rates (20-22%) and low rates of GNPAs and NNPAs across cycles. As of Dec'23, its gross stage 3 and net stage 3 stood at 1.4% and 0.9% respectively and all the outstanding loans are secured by mortgage over property or other security. Since past three years, credit cost was maintained at < 50bps.

Exhibit 20: Credit assessment by in-house team…



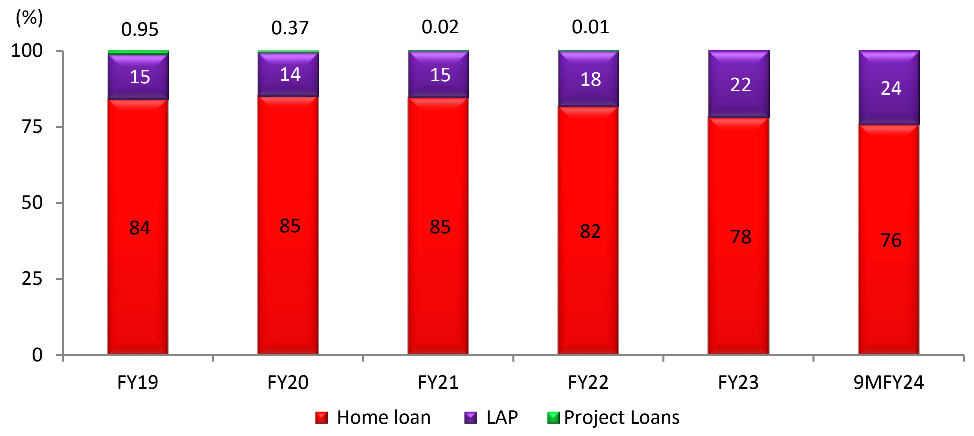
Source: RHP, Company, Systematix Institutional Research

Improved share of non housing loans supported NIM expansion

AHFL's funding profile is fairly diversified and comprises of loans from banks (55%), refinance from NHB (27%), NCDs (18%), and others (2%) as of Dec'23. In terms of fund raising, post the change in ownership, its has been able to raise funds regularly from diversified funding sources and relatively at low-cost rates from NHB. Despite the systemic hardening of interest rates, its cost of borrowing has been steadily declining due to its proactive and flexible fundraising strategy. With an aim to expand its NIMs, managenment aim to diversify its funding sources, identify new sources and pools of capital, and implement robust asset liability management policies. The share of home loan segment (yields at ~12-13%) declined to 76% in 9MFY24 from 84% in FY19, while share of non-home loan segment (yields at 15-17%)

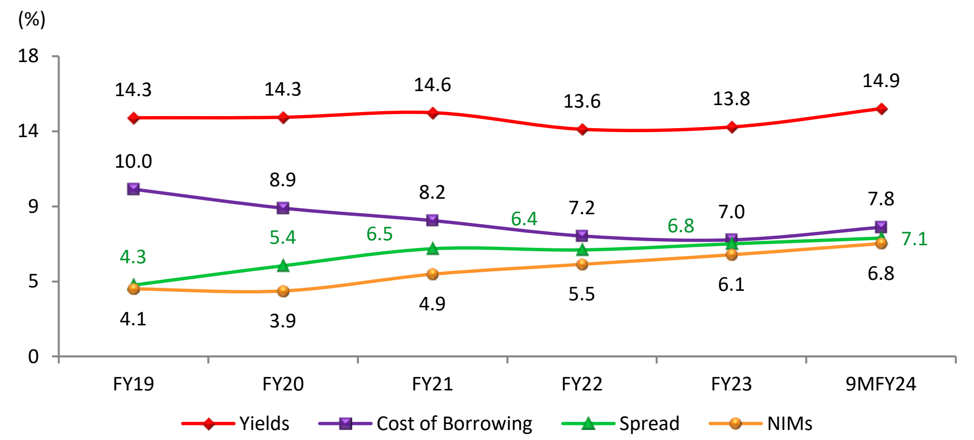
gone up to 24% in 9MFY24 from 15% in FY19 thereby maintaining spreads. Hence going ahead, with increasing share of relatively higher-yielding non-home loan portfolio and increase in lending rates, AHFL expected to protect its spreads, resulting in healthy NIMs (~7% in 9MFY24).

Exhibit 21: Share of high yield non-housing book is increasing



Source: RHP, Company, Systematix Institutional Research

Exhibit 22: Higher yields and lower cost has been aiding NIM expansion



Source: RHP, Company, Systematix Institutional Research

Strong parentage provides access to diversified and cost efficient borrowings

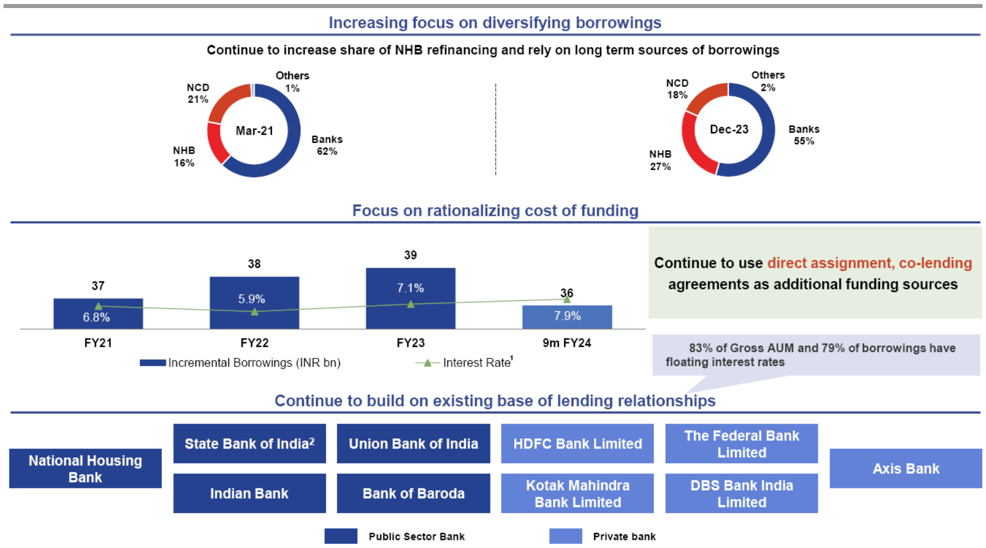
AHFL is backed by BCP Topco (managed and advised by Blackstone Group Inc) which currently holds 98.7% and hence benefit from blackstone's resources, relationships and expertise. Over the years, AHFL have secured funding from various sources including term loans; proceeds from loans assigned; proceeds 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.

AHFL's funding profile is fairly diversified and comprises of loans from banks (55%), refinance from NHB (27%), NCDs (18%), and others (2%) as of Dec'23. In terms of fund raising, post the change in ownership, Aadhar Housing Finance has been able to raise funds regularly from diversified funding sources and relatively at low-cost rates from NHB.

Its cost of borrowing has steadily declined (from 10% in FY19 to 7% in FY23) led by proactive and flexible fundraising strategy. The Company intends to continue to diversify its funding sources, identify new sources and pools of capital, and implement robust asset liability management policies with the aim of optimising its cost of borrowings and aid its NIMs. It also intends to further increase the share of NHB refinancing in its total borrowings and access international sources of funding to reduce its overall cost of borrowing.

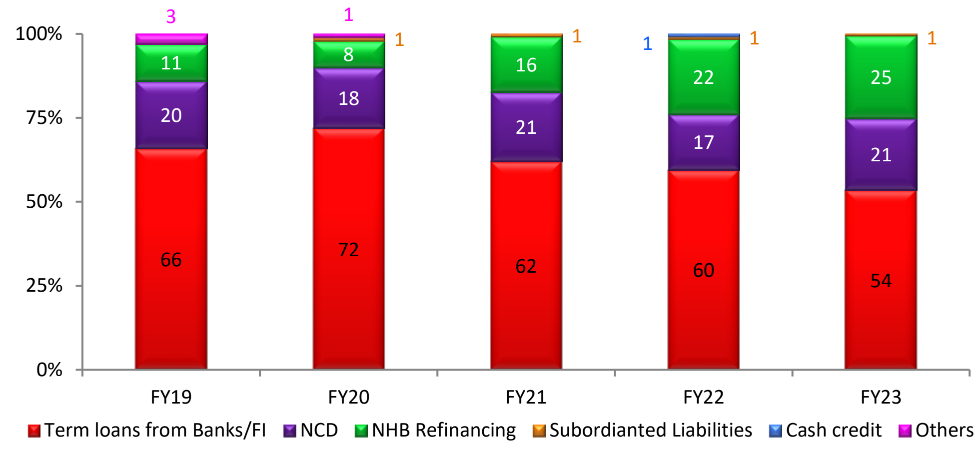
Its average cost of borrowings reduced from 8.2% in FY21 to 7.0% in FY23 and increased slightly to 7.6% for 9MFY24.

Exhibit 23: Diverse funding mix with low short term exposure



Source: RHP, Company, Systematix Institutional Research

Exhibit 24: Borrowing mix…



Source: RHP, Company, Systematix Institutional Research

Experienced and seasoned management team enhance confidence

Aadhar has a strong, experienced and dedicated management team, with senior management team together having an average experience of more than two decades in the financial services industry. The management is headed by Mr Rishi Anand (MD & CEO) who has a vast experience of more than 27 years in the financial services sector. Prior to this he held position of the COO of AHFL. Mr. Rajesh Viswanathan is a Chief Financial Officer (CFO) of AHFL and he is a Chartered

Accountant with overall experience of over 25 years. Mr. Anmol Gupta is Chief Treasury Officer (CTO), has over 20 years of experience in Planning & Control. Its promoter, BCP Topco (managed and advised by Blackstone Group Inc) currently holds ~98.7% and it will sale ~22% stake, but continue to hold majority in the company. Hence, AHFL strengthened its corporate governance framework, with the induction of three independent directors, one of whom serves as Non-Executive Chairman. Operational oversight has been reflected through the undertaking of various measures such as overhaul of the IT systems and technology and consolidation of branches to bring in operational efficiencies.

Key risks

Geographic concentration in certain states: ~50% of AUM and ~45% of branches are concentrated in four states viz. Uttar Pradesh, Maharashtra, Madhya Pradesh and Gujarat. Any significant social, political or economic disruption, or natural calamities could disrupt their business operwations, which will require the company to make a significant expenditure and change in business strategies. The occurrence or inability to effectively respond to any such event, could have an adverse effect on the business and results of operations.

Highly competitive market: The housing finance industry in India is highly competitive and Aadhar competes other HFCs, small finance banks and NBFCs in each of the geographies in which it operates. Competitors may have more resources, a wider branch and distribution network, access to cheaper funding, superior technology and may have a better understanding of and relationships with customers in these markets. The ability to compete effectively will depend on ability to maintain or increase margins.

Higher dependency on direct selling agents (DSAs): Over past few years, Aadhar's dependency on DSAs for sourcing of loans has been increased from 28.7% (contribution to total disbursements) in FY21 to 45.7% in 9MFY24. Higher dependency on DSAs could lead to increase in balance transfers (currently at 6-6.5%)

Valuation

Aadhar Housing Finance (AHFL) is a bet on low ticket size affordable housing segment. Given the current size of AHFL, the company is well positioned to capture the huge untapped opportunity in ticket size below Rs 1.5mn via deeper penetration in new geographies and increase in potential customer base. Wide distribution network and strong underwriting practices bodes well for growth and asset quality. In addition, experienced management team with strong track record along with backing of Blackstone boost confidence. At the upper end of the price band (Rs 300-315), the issue is valued at ~2.5x Dec'23 BV (including capital raise) with RoA of ~4% and RoE of ~18%, which looks attractive vs peers which are trading at ~3.5x BV (Avg.). Hence, we recommend investors to subscribe this issue.

Exhibit 25: HFCs peer valuations

	Loan Book (Rs bn)			RoA (%)			RoE (%)			BV (Rs)			P/BV (x)		
	FY22	FY23	FY24E	FY22	FY23	FY24E	FY22	FY23	FY24E	FY22	FY23	FY24E	FY22	FY23	FY24E
AADHAR *	133	147	172	2.6	3.2	3.7	13.5	15.2	16.6	63	74	87	5.0	4.3	3.6
AAVAS	113	141	173	3.6	3.5	3.3	13.6	14.1	13.9	355	413	476	4.5	3.8	3.3
HFFC	53	71	96	3.9	3.9	3.7	12.6	13.5	15.7	179	206	236	5.0	4.3	3.8
APTUS	51	67	87	7.3	7.8	7.6	15.1	16.1	17.2	59	66	75	5.5	4.8	4.3
INDIA SHELTER	31	43	60	4.5	4.1	4.5	12.8	13.4	13.2	100	116	211	5.7	5.0	2.7

*Source: RHP, Company, Systematix Institutional Group, Note: # P/BV at ~2.5x (post capital raise); * FY24 figures for Aadhar are Projected based on 9MFY24*

Peer comparison

Exhibit 26: Peer Comparison - Key Financial parameters

Particulars (Rs mn)	Aadhar		Aavas		HFFC		Aptus	
	FY23	9MFY24	FY23	9MFY24	FY23	9MFY24	FY23	9MFY24
Asset Under Management (AUM)	172,228	198,652	141,667	160,795	71,980	90,137	67,383	80,717
Disbursements	59,026	49,041	50,245	36,891	30,129	28,615	23,950	21,590
Profit After Tax	5,643	5,479	4,296	3,482	2,283	2,223	5,030	4,479
Average yield on Loan Book (%)	12.8%	14.0%	12.6%	14.0% *	13.3%	13.8%	17.7%	17.8% *
Average cost of borrowings (%)	7.0%	7.6%	6.6%	7.5% *	7.3%	8.1%	8.5%	8.8%
Spread (%)	5.8%	6.4%	6.0%	6.5% *	5.9%	5.7%	9.2%	8.9% *
Operating Expenses / Average Total Assets (%)	3.1%	3.3%	3.8%	3.6% *	2.9%	2.9%	2.6%	2.5%
Cost to Income Ratio (%)	38.1%	36.2%	45.0%	46.1%	35.5%	35.7%	19.4%	20.0%
Return on Total Assets (%)	3.6%	4.2%	3.5%	3.2% *	3.9%	3.8%	7.8%	7.7%
Return on Equity (%)	16.5%	18.4%	14.1%	13.5% *	13.5%	15.4%	16.1%	17.0%
Gross NPA to AUM (%)	1.2%	1.4%	0.9%	1.1%	1.6%	1.7%	1.2%	1.2% *
Net NPA to AUM (%)	0.8%	1.0%	0.7%	0.8% *	1.1%	1.2%	0.9%	0.9%
Net worth	36,976	42,491	32,697	36,314	18,173	20,318	33,393	37,014
Debt to Net worth ratio	3.3	3.1	3.0	3.3 *	2.6	3.4	1.1	1.2
CRAR (%)	42.7%	39.7%	47.0%	45.0%	49.4%	40.9%	77.4%	70.5%
Number of branches	469	487	346	351	111	123	231	262
Number of States	20	20	13	13	13	13	5	6

*Source: RHP, Company, Systematix Institutional Group, Note: * Average figures*

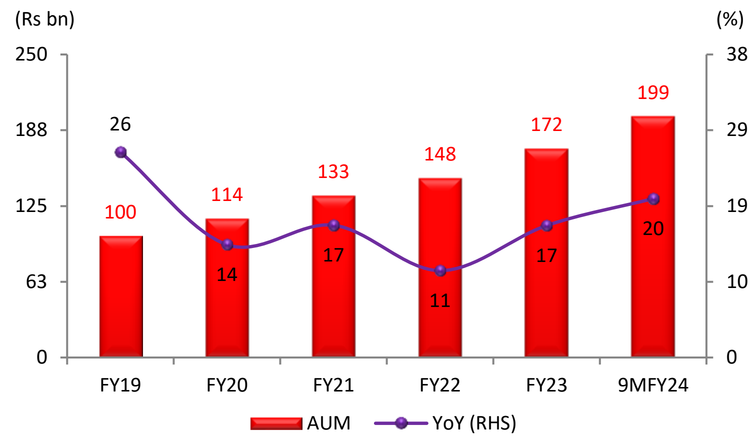
Exhibit 27: DuPont Analysis

Particulars (FY23)	Aadhar	Aavas	HFFC	Aptus
Interest Income	11.5	11.4	12.2	16.5
Interest Expense	5.2	4.8	5.1	4.3
Net Interest Income	6.3	6.5	7.1	12.2
Other income	1.7	1.8	1.2	1.1
Total Net Income	8.0	8.3	8.3	13.3
Total operating expenses	3.1	3.8	2.9	2.6
Pre-provision profit	5.0	4.6	5.3	10.7
Provisions	0.3	0.1	0.4	0.5
Profit before tax and exceptional items	4.7	4.5	5.0	10.2
Profit before tax	4.8	4.5	5.0	10.2
Tax total	1.0	1.0	1.1	2.3
Reported Profit after tax	3.8	3.5	3.9	7.8
RoAE	16.6	14.1	13.5	16.1

Source: RHP, Company, Systematix Institutional Research

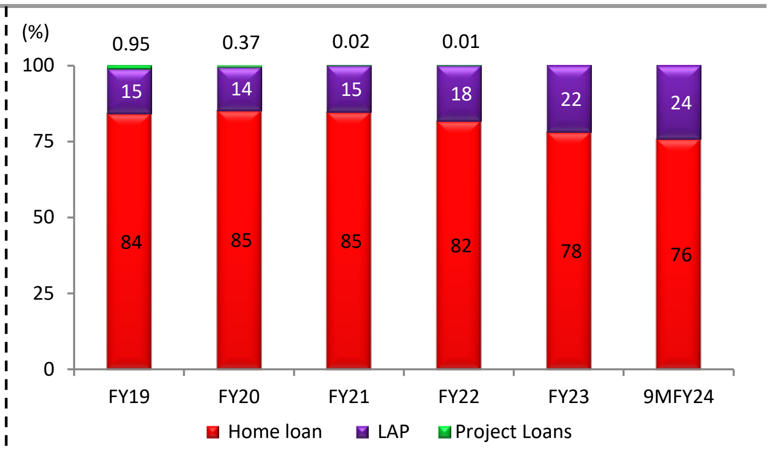
Key charts

Exhibit 28: AUM growth gained momentum over last 3 years



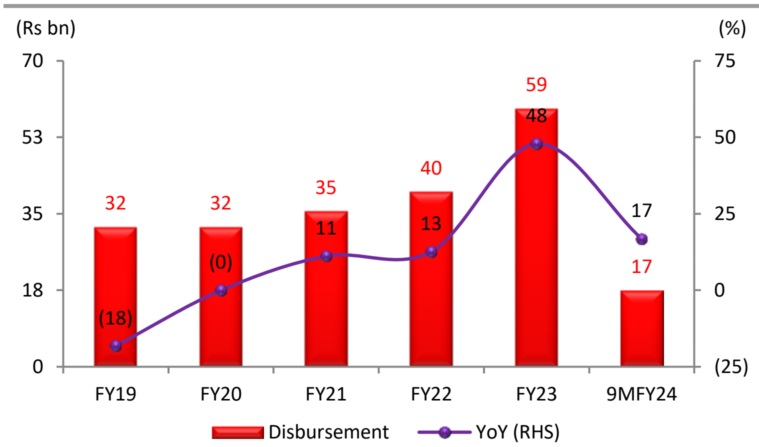
Source: RHP, Company

Exhibit 29: Non Home loan share has risen since FY21



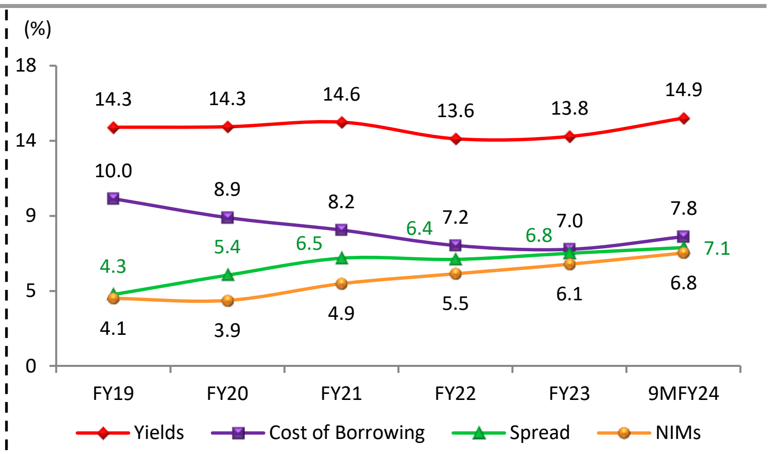
Source: RHP, Company

Exhibit 30: Disbursements growth has been strong



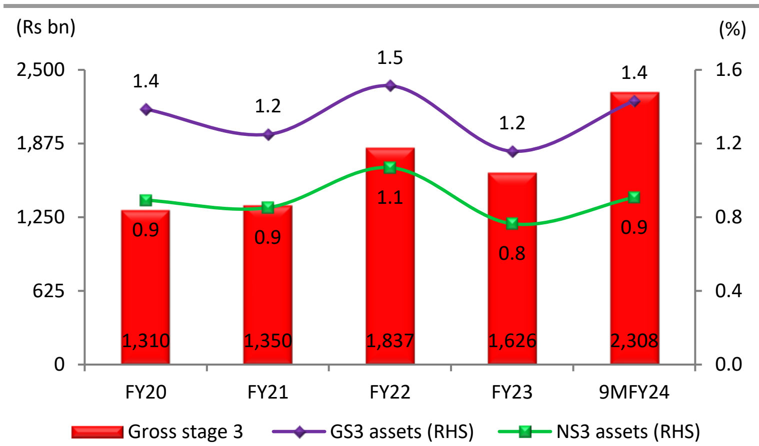
Source: RHP, Company

Exhibit 31: Yield, cost of borrowing, NIMs



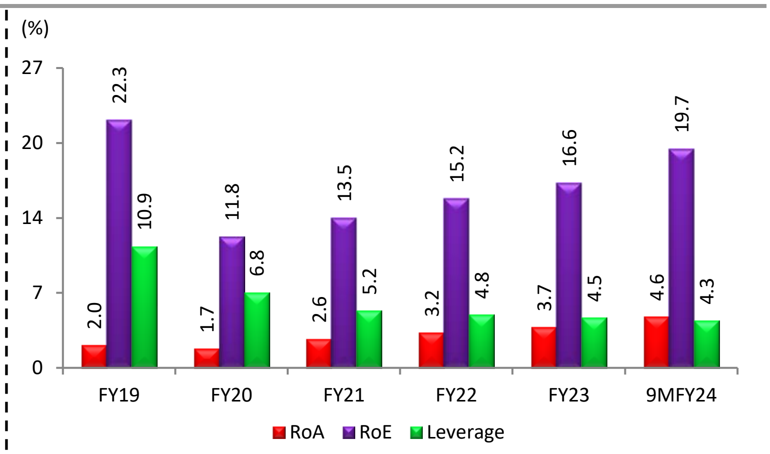
Source: RHP, Company

Exhibit 32: Asset quality healthy and stable



Source: RHP, Company

Exhibit 33: Healthy RoA profile



Source: RHP, Company

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24P
Net interest income	6,110	7,771	9,771	12,768
Other income	1,486	1,903	2,672	3,177
Net Income	7,596	9,674	12,443	15,944
Operating expenses	2,721	3,513	4,743	5,796
Preprovision profit	4,875	6,161	7,700	10,148
Provisions	549	487	492	568
Profit before tax	4,325	5,674	7,458	9,830
Tax	924	1,225	1,511	1,991
Tax rate	21.4	21.6	20.3	20.3
Reported Profit after tax	3,401	4,449	5,948	7,839

Source: Company, Systematix Institutional Research, Note: FY24P based on 9MFY24

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24P
Equity	3,948	3,948	3,948	3,948
Reserves	22,981	27,519	33,029	40,084
Net worth	26,928	31,467	36,977	44,032
Borrowings	103,745	106,746	121,535	137,091
Others	5,630	5,545	7,668	8,018
Total liabilities	136,303	143,758	166,179	189,141
Cash	21,713	17,102	19,180	14,473
Investments	4,971	3,380	4,594	4,962
Loans	106,133	119,603	138,515	165,223
Others	2,956	3,122	3,257	3,722
Total assets	136,303	143,758	166,179	189,141

Source: Company, Systematix Institutional Research, Note: FY24P based on 9MFY24

Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24P
Interest Income	11.0	11.0	11.5	12.8
Interest Expense	6.3	5.4	5.2	5.6
Net Interest Income	4.7	5.5	6.3	7.2
Other income total	1.1	1.4	1.7	1.8
Net Income total	5.8	6.9	8.0	9.0
Operating expenses total	2.1	2.5	3.1	3.3
Preprovision profit	3.8	4.4	5.0	5.7
Provisions	0.4	0.3	0.3	0.3
Profit before tax and exce. items	3.3	4.1	4.7	5.4
Profit after tax	2.6	3.2	3.8	4.4

Source: Company, Systematix Institutional Research, Note: FY24P based on 9MFY24

Key Ratios

YE: Mar	FY21	FY22	FY23	FY24P
Yield on portfolio	14.6	13.6	13.8	15.0
cost of borrowings	8.2	7.2	7.0	7.7
Interest Spread	6.5	6.4	6.8	7.3
NIM (on AUM)	4.9	5.5	6.1	6.7
Cost/ Income (%)	35.8	36.3	38.1	36.4
Credit cost (%)	0.4	0.3	0.3	0.3
RoA(%)	2.6	3.2	3.7	4.3
RoE(%)	13.5	15.2	16.6	18.7
Leverage (x)	5.2	4.8	4.5	4.4
Gross NPA (%)	1.2	1.5	1.2	1.4
Net NPA (%)	0.9	1.1	0.8	0.9
Provision coverage (%)	32.1	29.7	34.2	37.0

Source: Company, Systematix Institutional Research, Note: FY24P based on 9MFY24

Growth

YE: Mar (%)	FY21	FY22	FY23	FY24P
Net interest income	45.1	27.2	25.7	30.7
Net Income total	27.7	27.4	28.6	28.1
Preprovision profit	43.1	26.4	25.0	31.8
Profit before tax	87.3	31.2	31.5	31.8
Profit after tax	79.6	30.8	33.7	31.8
Loan	19.1	12.7	15.8	19.3
Disbursement	11.1	12.6	47.9	22.0
AUM	16.6	10.9	16.5	20.0

Source: Company, Systematix Institutional Research, Note: FY24P based on 9MFY24

Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24P
FDEPS (Rs)	8.0	10.4	13.4	17.8
PER (x)	39.5	30.2	23.6	17.7
Book value (Rs)	63.1	73.8	86.7	103.2
P/BV (Rs)	5.0	4.3	3.6	3.1
Adjusted book value (Rs)	61.0	70.8	84.2	99.7
P/ABV (Rs)	5.2	4.5	3.7	3.2
P/PPP (x)	27.6	21.8	17.4	13.2
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company, Systematix Institutional Research, Note: FY24P based on 9MFY24, P/BV at ~2.5x (post capital raise)

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