

Company Overview

Aadhar Housing Finance Ltd. (Aadhar) is one of India's largest low-income housing finance companies. It serves the home financing needs of low-income sections of society and endeavours to empower underserved millions to own their first homes. The company has a well-established network of 487 branches, including 109 sales offices across 20 states and union territories. As of December 31, 2023, the company operated in 10,926 pin codes across India, which helped it to reach more than 90% of the country's population and provide credit solutions that make homeownership accessible to everyone. The company secures financing from various sources, including term loans and cash credit/working capital facilities, 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 development financial institutions, to meet capital requirements. The top five states and union territories in terms of contribution to AUM collectively accounted for 62.0% of AUM as of March 2023. According to CRISIL, the cumulative share of top five states in terms of AUM is much lower than other players in the peer set. The company has robust and comprehensive systems and processes for underwriting, collections, and asset quality monitoring. These systems and methods are technology-enabled across the front and back offices to digitize a loan's entire life cycle from origination to closure. The loan applications from salaried customers go through regional processing units ("RPU") which increases efficiency, while those from self-employed customers, which require a close understanding of the customer and their cash flows, are managed regionally.

Objects of the issue

The offer comprises fresh issue and offer for sale. The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Meeting future capital requirements towards onward lending; and
- ⇒ General corporate purposes.

Investment Rationale

Focused on the low-income housing segment in India and has the highest AUM and net worth among peers

Aadhar Housing Finance Limited is a housing finance company primarily focused on providing financial assistance to the low-income housing segment in India. According to CRISIL, the company had the highest AUM and net worth among analyzed peers in the nine months ended December 31, 2023. The company's gross AUM increased from Rs. 133,271.0 million in FY21 to Rs. 147,777.9 million in FY22 and Rs. 172,228.3 million in FY23. With a widely dispersed branch and sales office network, no state accounts for more than 14.0% of gross AUM, while the top two states account for 27.6% of gross AUM as of December 31, 2023. Aadhar Housing Finance believes that its scale and diversified reach makes it well-positioned to cater to the specific needs of target customers across geographies in urban and semi-urban areas. The company primarily serves the underserved category of low-income or mid-income customers who may be salaried, working in the informal sector, or self-employed and 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 and 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 and enable financing for customers of such projects.

Strong systems and processes for underwriting, collections and monitoring asset quality to improve collection efficiency

Aadhar Housing Finance has implemented a robust and comprehensive credit assessment, risk management, and collections framework to identify, monitor, and manage risks inherent in operations. They exclusively finance retail customers, mostly salaried individuals purchasing residential properties. Under this policy, the company routinely monitors performance against qualitative and quantitative metrics. These include capital, profitability, asset quality, credit, operational, liquidity, and compliance risk. They have split the underwriting process so that underwriting for salaried customers is undertaken at RPUs for quick turnaround and processing. All other customer segments at the branch level have specialized teams for credit underwriting, technical and legal due diligence, and fraud control. They have an experienced team of credit managers across branches to undertake credit assessments. The company's well-defined systems and processes, along with proper checks and balances, enable credit approvals to be done by the appropriate underwriting authority. The

Issue Details

Offer Period	08 th May, 2024 - 10 th May, 2024
Price Band	Rs. 300 to Rs. 315
Bid Lot	47
Listing	BSE & NSE
Issue Size (no. of shares in mn)	95.2
Issue Size (Rs. in bn)	30
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	ICICI Securities Ltd, Citigroup Global Markets India Pvt. Ltd, Kotak Mahindra Capital Company Ltd, Nomura Financial Advisory and Securities (India) Pvt. Ltd, SBI Capital Markets Ltd.
Registrar	KFin Technologies Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	98.72%	76.48%
Public - Others	1.28%	23.52%
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Aadhar Housing Finance Ltd.

company also streamlined sanction, pre-disbursement, and post-disbursement processes on the IT platform, which cover the entire customer lifecycle, from lead generation, credit underwriting, legal and technical processes to loan disbursement, monitoring, and collections. This continuous engagement led to gradual improvement in quarterly collection efficiencies.

Valuation and Outlook

Aadhar Housing Finance focuses on the low-income housing segment, serving economically weaker and low-to-middle-income customers requiring small-ticket mortgage loans. The company operates a financially inclusive and customer-centric lending business and believes that its business model contributes significantly to the economic uplift of target customers by improving their standard of living. Housing loans are considered a safer asset class than other asset classes, such as vehicle loans, construction equipment loans and personal loans, as borrowing is usually for a self-occupied residential property of the borrower where the propensity of default is relatively lower. The company's financial performance has remained consistent and resilient through various cycles in the Indian economy. The overall growth, portfolio performance, asset quality, and continued profitability during these periods demonstrate the strengths of the business and management team. On the financial front, Aadhar Housing Finance reported the second-highest return on equity in FY23 at 15.9%, followed by Aavas Financiers (14.1%) and Home First Finance (13.5%). During the same period, it also reported the third lowest employee cost at 2.10% in FY23 among the peers compared. Among the peer sets analyzed, Aadhar Housing Finance reported annualized yield on advance and return on equity at 14.2% and 18.4%, respectively, in nine months ended December 31, 2023. As we advance, we expect operational performance to improve, led by the dominant low-income housing segment, low cost of borrowing, and higher return ratio among peers. **At a higher price band of Rs. 315, the stock is valued at 3.1x P/BVPS on FY23 book value, which we feel is fair compared to its peers. We, therefore, recommend a SUBSCRIBE rating for the issue.**

Key Risks

- ⇒ The company is vulnerable to interest rate volatility and may face interest rate and maturity mismatches between assets and liabilities in the future which may cause liquidity issues.
- ⇒ The company's inability to comply with the financial and other covenants under its debt financing arrangements could adversely affect its business, results of operations, and financial condition.



Aadhar Housing Finance Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
Revenue from Operations				
Interest Income	14,269	15,383	17,763	16,733
Interest Expense	8,160	7,612	7,992	7,248
Net Interest Income	6,110	7,771	9,771	9,485
Fee & commission income	758	736	1,047	1229
Net gain on fair value changes	88	235	318	149
Net gain on recognition	638	930	1,304	839
Net Revenue	7,594	9,671	12,440	11,702
Other income	2	3	3	2
Total income	7,596	9,674	12,443	11,704
Operating expenses	3,271	4,000	5,235	4,240
Employee expenses	1,888	2,482	3,220	2,900
Depreciation and amortization	112	133	165	152
Other expenses	1,271	1,386	1,850	1,188
Operating profit	4,325	5,674	7,208	7,464
Provisions	0	0	0	0
PBT	4,325	5,674	6,958	7,010
Tax	924	1225	1511	1531
PAT	3,401	4,449	5,448	5,479
EPS	8.6	11.3	13.8	13.9

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
Cash Flow from operating activities	-12,023	-9,068	-11,557	-16,582
Cash flow from investing activities	-4,805	8,226	-4,765	4,806
Cash flow from financing activities	7,014	2,749	14,632	9,610
Net increase/(decrease) in cash and cash equivalents	-9,814	1,907	-1,690	-2,167
Cash and cash equivalents at the beginning of the period	13,649	3,835	5,742	4,051
Cash and cash equivalents at the end of the period	3,835	5,742	4,051	1,885

Source: RHP, BP Equities Research



Aadhar Housing Finance Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
CAPITAL & LIABILITIES				
Share capital	3,948	3,948	3,948	3,948
Reserves & surplus	22,981	27,519	33,029	38,544
Net worth	26,928	31,467	36,977	42,492
Borrowings	81,104	88,190	95,427	107,246
Other liability & provisions	28,271	24,102	33,775	30,618
Total Equities and Liabilities	136,303	143,758	166,179	180,356
ASSETS				
Fixed Assets	519	543	630	761
Loans	106,133	119,603	138,515	159,095
Investment	4,971	3,380	4,594	4,707
Cash and bank balance	21,713	17,102	19,180	12,218
Other assets	2,968	3,130	3,260	3,576
Total Assets & Liability	136,303	143,758	166,179	180,356

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392