Aadhar Housing Finance

NBFCs

Largest and most profitable AHFC; pioneering affordable housing space as a category creator

Aadhar Housing Finance (Aadhar) has carved a niche for itself in affordable housing finance, pioneering the space as a category creator, armed with its distinct business-scaling strategy. As the industry chose safer shores of credit-tested markets in south and west India, Aadhar established its inaugural branch in Uttar Pradesh (UP) – uncharted territory for affordable housing finance; and what stands out is its focus on diversification. As on Mar'24, India's largest state, Maharashtra, accounted for only 14% of its AUM vs. peers' single-state contribution of >30%. Aadhar's execution credentials also set it apart; among AHFCs, Aadhar's: 1) INR 211bn AUM (Mar'24), is preeminent; and 2) FY24 RoE, at 18.4%, is notable. We initiate coverage with a **BUY** rating and TP of INR 550, valuing Aadhar at ~3x FY26E BVPS.

Sole AHFC player to reach INR 211bn AUM...

Pre-2010, housing finance was dominated by prime housing within the confines of metros and tier-1/2 cities. Aadhar challenged this and paved the way to create space for low-income housing finance beyond tier-2 cities by commencing operations as an affordable housing finance company (AHFC) in Feb'11. Since then, its unwavering focus on affordable housing has helped it deliver 18% AUM CAGR between FY18–24, gather an AUM of INR 211bn, as of Mar'24, record 23% YoY growth in FY24 – and most notably, become the largest AHFC in the arena. An early entry into under-penetrated markets such as UP, MP, Chhattisgarh and Jharkhand among others, complemented by its focus on diversification, has been the key enabler for Aadhar.

...elevated by impeccable asset quality and profitability credentials

Category creation in the lending business entails a plethora of industry-first initiatives and razor-sharp focus on asset quality. Aadhar has proven to be adept at handling both prerequisites. The company can arguably be credited for its adoption of a differentiated approach, mainly being – 1) its entry into uncharted territory of an untested credit market such as UP, by tapping into the formal salaried segment (peers focused on self-employed); and 2) focus on widening its presence in initial years than deepening (strategy adopted by peers). Average GNPL, at 1.2%, and credit cost at average 40bps with FY21–24 coverage ratio of ~30% despite covid, is testimony of its resilient model. Its superior execution track record is also evident in the FY18–24 37% PAT CAGR.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	11,393	14,257	17,765	20,990
PAT	5,446	7,485	9,629	11,355
EPS (INR)	13.8	19.0	22.6	26.6
% Chg YoY	22.4	37.4	19.1	17.9
BVPS (INR)	94	113	149	176
P/E (x)	31.2	22.7	19.0	16.2
P/BV (x)	4.6	3.8	2.9	2.4
Gross Stage - 3 (%)	1.2	1.1	1.3	1.3
RoA (%)	3.7	4.2	4.6	4.5
RoE (%)	16.7	18.4	17.8	16.4

Renish Bhuva
renish.bhuva@icicisecurities.com
+91 22 6807 7465
Chintan Shah
chintan.shah@icicisecurities.com

Market Data

Market Cap (INR)	182bn
Market Cap (USD)	2,176mn
Bloomberg Code	AADHARHF IN
Reuters Code	AADA.BO
52-week Range (INR)	448 /292
Free Float (%)	16.0
ADTV-3M (mn) (USD)	-

Price Performance (%)	3m	6m	12m
Absolute	-	-	-
Relative to Sensex	-	-	-

Differentiated approach to housing finance

The housing finance market was predominantly dominated by prime housing until 2010/11 with few entities focusing on low-ticket housing loans beyond tier-2 markets. Aadhar was among the early identifiers of the huge white space in low-ticket (affordable) housing and paved the way to build a sustainable and scalable business model.

Given the nature of the affordable housing finance landscape back in 2010/11, there was a dearth of cycle-tested business templates. Hence, naturally lacking reference points and making the terrain even more difficult for new entrants to navigate. Building a business model catering to affordable housing would be no easy feat. Aadhar challenged this and began its journey as an affordable housing financier, laying its cornerstone in May'10 in Mumbai. It commenced operations in Feb'11 with the inauguration of its first branch in Lucknow, UP.

Aadhar has pursued its affordable housing finance journey by adopting the most-preferred lending practises in other asset classes in conjunction with furbishing tailor-made industry-first practises that cater to low-income households (LIH).

Entering highly underpenetrated and underserved credit market

South and west India have always been the preferred geographies to test new lending asset product due to the cycle-tested credit behaviour and better financial literacy. However, Aadhar choose differently, choosing the challenging path of testing a new product in a relatively credit-untested market. Aadhar opened its first branch in UP and, during its initial years, focused on tapping into low-income states of Chhattisgarh, Jharkhand and Odisha among others rather than entering the crowded markets of south and west India. As on Mar'24, Economically Weaker Section (EWS) and Low-Income Group (LIG) customers constitute ~71% of its AUM.

Covering country's breadth, priority over deepening-first approach

Breaking from convention – scaling business in the home state backed by demographic knowledge and tighter operational control – Aadhar adopted a differentiated approach. The company chose to first widen its distribution network (understand the market, instate the right processes, hire right people) and then deepen presence in good markets. This served multiple purposes – 1) amplifying its learning process alongside gaining the first-mover advantage; 2) enabling flexibility in redefining the process, should it warrant changes; and 3) lowering the concentration risk, which in turn protects P&L and business growth in the event of a particular region endures challenges.

Within a short span of five years (FY11–16), Aadhar was already present in total 14 states; the ensuing 5–7 years, it utilised gaining in-depth demographic knowledge and building a strong team. As of Mar'24, the company is present in 20 states and now focuses on deepening its presence in exiting states rather than entering new states. In line with this, it has rolled out **'deep impact branches'** with an aim to cater to the customers in tier-4 and tier-5 towns in India.

Early entry into affordable housing and underpenetrated states provided flexibility in choosing right customers

The most preferred customer segment for NBFCs in any asset class – vehicle, LAP, gold, home loan etc. – is the self-employed segment; within affordable housing too, most players are catering to the self-employed segment. However, Aadhar challenged the *status quo* and targeted formal salaried segment (not white collar), but in underpenetrated markets. While mainstream banks were actively serving the formal salaried segment, their focus was more on high-ticket loans mainly in metro and tier-1/2 cities. Hence, Aadhar choose to serve the salaried segment beyond tier-2 cities;

and it focuses more on low-ticket loans (<INR 1.5mn). Early entry into the underserved markets and affordable housing provides Aadhar the flexibility of choosing its customer segment – the company rightly chooses the less vulnerable formal salaried segment to start its lending journey.

Cycle-tested experienced management team

Aadhar is among the handful of entities in the affordable housing finance space that have crossed the INR 200bn AUM mark, as of Mar'24. The business' success is an outcome of its superior execution of strategies by management despite several headwinds from time to time – demonetisation in FY16, change of promoter in FY19, IL&FS-led liquidity crisis in FY19, covid in FY20–21 and IT transformation (end-to-end migration of existing IT systems in Oct'22). The current middle-senior management has an average industry experience of over 15 years and have been with Aadhar for over five years, which has helped them successfully navigate such events and report exemplary figures such as 37% PAT CAGR, 18% AUM CAGR, average GNPL at 1.1% and credit cost at ~45bps between FY18-24.

Deep distribution network and open market sourcing emphasis via partners to likely ensure >20% near-term AUM growth

Aadhar adopted a *phygital* business approach wherein its entire back-end process is managed by TCS since 2020; but for customer sourcing, the company largely relies on its own branches spread across 20 states. Its branch network of 523, as on Mar'24, is the highest within the AHFC space. For context, its peers Aavas/Aptus/India Shelter/Grihum Housing/Home First each have a branch network 367/262/223/210/133. More importantly, Aadhar's branch network is tailor-made as per market requirement. Aadhar follows a graded branch structure with a perspective of keeping initial cost low, testing the market and then expanding basis potential and performance. Each branch graduates in structure based on performance, i.e., 1) deep impact branch; 2) ultra-micro branch; 3) micro branch; 4) small branch; and 5) main branch.

Similarly, in order to widen the customer acquisition funnel in its catchment area, the company has also accelerated open market customer acquisition via partners like Aadhar Mitra's, connectors, DSA etc. The share of customer sourcing via Aadhar Mitra's, connectors and DSA increased to >60% by Mar'24, from 53% in FY21. Disbursement per branch remained at INR 136mn vs. INR 152mn for Aavas vs. INR 119mn for India Shelter/Aptus during FY24. Highest branch network (~30% higher than the closest peers), diversified presence and lowest cost of funds (CoF) will likely ensure further market share gains for Aadhar in the near term and correspondingly enable >20% growth in the near term.

Traditional HL-focus transitioning to scaling LAP book; leveraging decade-long demographics knowledge

In contrast to other AHFCs who began scaling their LAP books early on in their organisational journeys, Aadhar took longer in scaling its non-HL book. the company has strategically focused on fortifying its HL book first and only after gaining in-depth knowledge about customer behaviour, credit discipline of any particular area, Aadhar chose to scale its non-HL book. Even after a 30% AUM CAGR in LAP, its share in total AUM, at 25%, is still one of the lowest in the AHFC space. Under the non-HL category, it mainly focuses in micro-LAP (low ticket) product and caters to the self-employed segment. Higher growth in the LAP book in the year ahead would also help improve profitability given disbursement yield in LAP stands at 16.8% vs. 12.5% in HL during FY24.

[This is errata note]

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Valuation

Aadhar is a seasoned AHFC and a category creator in the affordable housing space. It commands lion share in the affordable housing finance (within listed peers) and has delivered industry-leading profitability between FY20–24. Aadhar has demonstrated superior execution by delivering robust 37% PAT CAGR during FY20-24 vs <35% for peers. The company's AUM CAGR, at 23% and RoA >3% between FY20–24 stand on the pillars of: 1) steady improvement in risk-adjusted yields to 13.6% by FY24 from 12.5% in FY22, the same was largely driven by 100bps improvement in asset yields; 2) deep distribution network – it has one of the extensive branch network of >500 branches; the same has enabled the company in sustaining >20% growth in disbursements between FY20–24; 3) increased focus on scaling LAP book given much higher yields at 16.5% vs. HL yields at 12.5%; and 4) pristine asset quality – average credit cost at 33bps between FY21–24. Aadhar strives to sustain current growth run-rate as it expects AUM growth at ~20% in near term driven by better productivity at newly opened branch and its plans to add 70–75 branches in FY25. Credit cost is likely to remain at 20bps in near term. Combination of steady growth, operating leverage and stable credit coat at ~20bps to keep RoA robust at >4% over FY24–26E.

Aadhar's early entry into business, thereby enjoying first mover advantage, coupled with its in-house processes and focus on asset quality has helped it achieve an optimal balance of risk and profitability as reflect in Industry-leading 37% PAT CAGR and 18% AUM CAGR between FY18-24. Its average RoA between FY21-24 at 3.4% is one of the highest within affordable housing finance space. The same was largely driven by higher spread at >6%, which in-turn was supported by 1) an increasing share of informal self-employed segment within LAP book (25% of AUM in FY24 vs. 15% in FY21); 2) strong pricing power (EWS + LIG segment contributes >70% of AUM) given its focus on low-ticket loans and first-time home buyers; and 3) effective liability management, as reflected in CoF remaining lowest among peers at 7.6% in FY24 vs. 7.2% in FY22 despite >200bps repo rate increase.

We believe pan-India distribution with one of the most extensive branch network of >500 branches would help it sustaining >20% AUM growth in the near term, increased proportion of informal self-employed segment in overall mortgage portfolio is likely to result in better spreads than peers, levers for cost of fund reduction, >70% floating rate asset and liability to insulate spread from interest rate cycles, and steady credit cost at ~20bps over FY24–26E would help it in sustaining better RoE than peers.

We model 21% AUM CAGR over FY24–26E and 23% PAT CAGR during the period. We initiate coverage on the stock with a **BUY** rating and TP of INR 550, valuing it at ~3x on FY26E BVPS vs. industry current average of ~2.8x for FY26E. Aadhar being an industry leader with better RoEs could deserve premium and hence there is an upside risk to the current multiple.

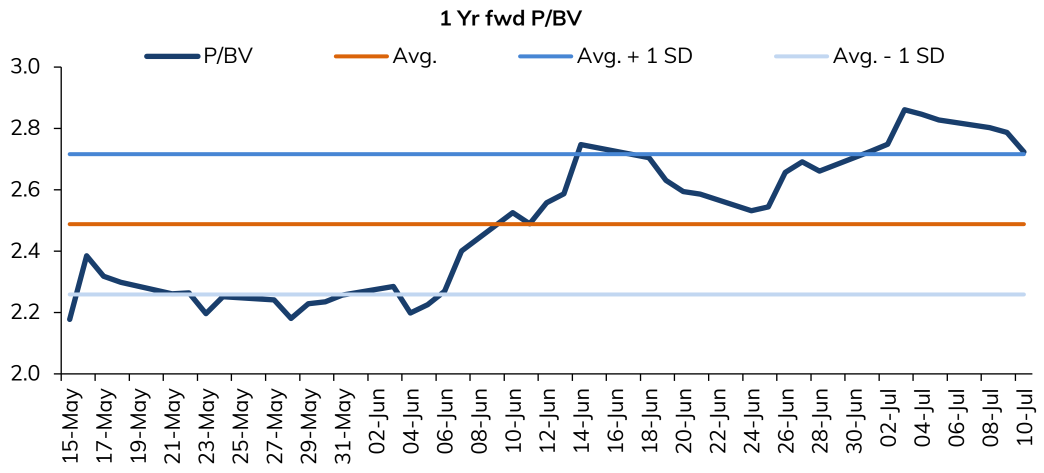
Exhibit 1: Valuation sheet

Particular	CMP (INR)	PE (x)				P/BV (x)				EPS (INR)				BV (INR)				RoA (%)				RoE (%)			
		FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
HFCs/NBFCs																									
Aadhar	**426**	**31**	**22**	**19**	**16**	**4.6**	**3.8**	**2.9**	**2.4**	**14**	**19**	**23**	**27**	**94**	**113**	**149**	**176**	**3.5**	**4.2**	**4.6**	**4.5**	**15.9**	**18.4**	**17.8**	**16.4**
Aptus	330	33	27	22	17	4.9	4.4	3.8	3.2	10	12	15	19	67	76	87	102	7.8	7.6	7.4	7.4	16.1	17.2	18.6	20.4
Aavas	1,790	33	29	25	22	4.4	3.8	3.3	2.9	54	62	70	82	411	475	545	627	3.5	3.3	3.2	3.1	14.2	13.9	13.8	13.9
HomeFirst	1,055	41	30	25	20	5.3	4.5	3.8	3.2	26	35	42	52	199	233	281	332	3.9	3.8	3.5	3.5	13.5	15.5	16.2	16.9
India Shelter	712	40	31	23	18	5.1	3.3	2.9	2.5	18	23	31	41	139	215	246	287	4.1	4.9	4.9	4.8	13.4	14.0	13.6	15.3
PNB HF	800	13	14	12	11	1.2	1.4	1.2	1.1	62	58	65	74	649	577	642	716	1.5	2.2	2.2	2.2	10.0	11.6	10.7	11.0
LIC HF	791	15	9	8	7	1.6	1.4	1.2	1.0	53	86	99	111	492	579	678	789	1.1	1.7	1.8	1.7	11.2	16.1	15.8	15.1
Fedfina	128	23	17	13	10	3.0	1.8	1.6	1.4	6	8	10	13	42	70	80	94	2.3	2.4	2.6	2.7	14.4	13.5	13.6	15.4
SBFC	82	48	37	28	22	4.4	3.2	2.8	2.5	2	2	3	4	19	26	29	33	2.9	3.7	3.9	4.0	9.9	10.5	10.6	12.2
Five Star	824	40	29	22	18	5.5	4.6	3.8	3.1	21	29	38	46	150	178	216	262	8.0	8.2	8.2	7.9	15.0	17.6	19.1	19.3

Source: Company data, Bloomberg, I-Sec research

Note: Closing price as of 11th July 2024

Exhibit 2: Stock currently trades at 2.4x FY26E PBV; 20–40% discount to peers



Source: Company data, Bloomberg, I-Sec research

Most profitable HFC with highest RoE among peers

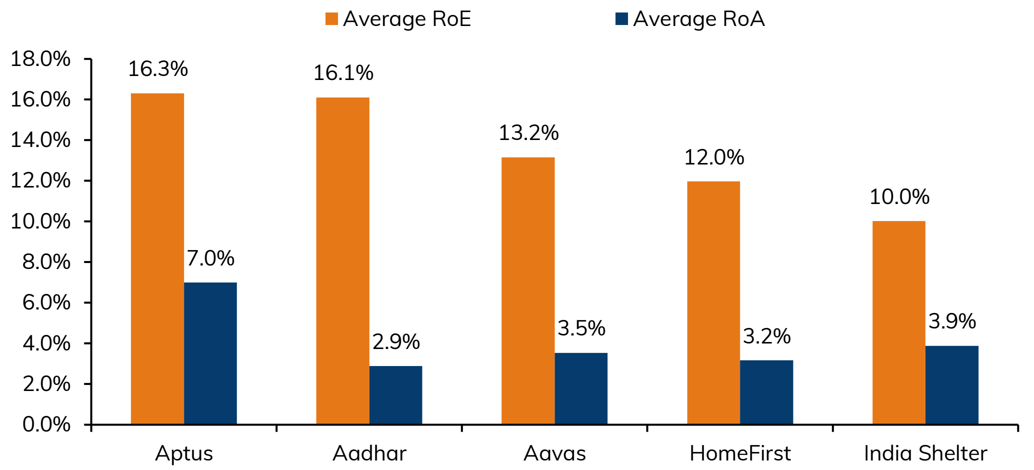
Among the most profitable AHFCs; benefiting from scale and changing customer mix

Aadhar while not only is a category creator in the affordable housing finance space, its focus on cost efficiency, credit underwriting, customer selection, and risk management has been a key differentiator. Clear focus on prioritising balance sheet quality over growth and better risk-adjusted yields have been the bedrock of all its business strategies since inception. Its superior execution of business strategies across cycles is testimony of management quality and in-depth understanding of business cycles in the space. This has enabled Aadhar to sustain industry-leading profitability, irrespective of challenging times, and remain ahead of competition in pre-empting the upheavals of business cycles.

While Aadhar's average RoA (FY19–24) remained lowest at 2.9%, effective utilisation of capital and cost efficiency helped it deliver average RoE of ~16% – second to Aptus. Better-than-peers leverage ratio (driving RoEs) is evident in its undisrupted AUM growth across cycles; and the same was driven by its differentiated approach of focussing on – geographical diversification, formal salaried segment, kick-starting its lending journey in low-income states such as UP, Jharkhand, Chhattisgarh etc. when industry was focusing on south and west.

Further, its RoA has consistently improved, from 1.9% in FY19 to 4.2% by FY24 – higher than Aavas/Home First.

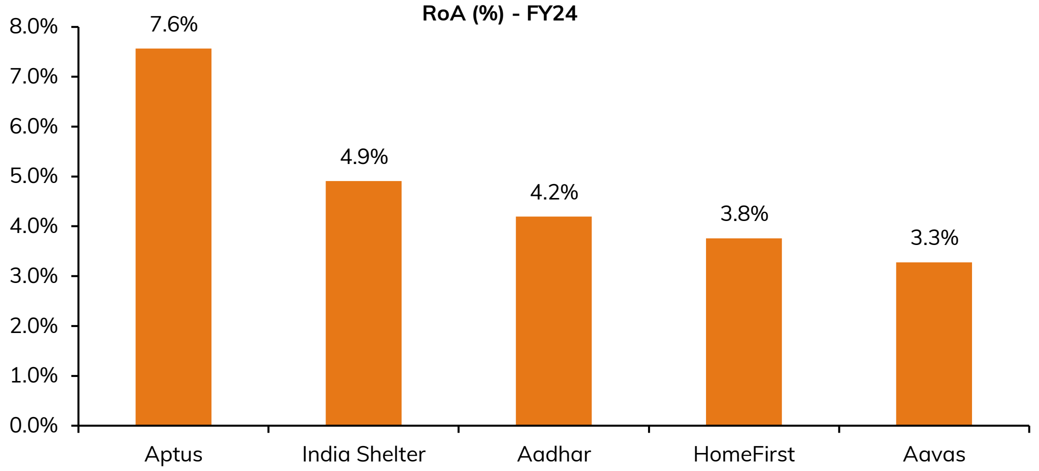
Exhibit 3: Aadhar's RoE (FY19-24) among the highest vs. peers; wider market opportunities due to pan-India distribution – key enabler for steady growth



Source: Company data, I-Sec research

Note: Average RoA / RoE is for period between FY19-24

Exhibit 4: Aadhar's RoA at >4%, despite higher leverage – result of its strong pricing power in deeper geographies and focus on scaling self-employed segment



Source: Company data, I-Sec research

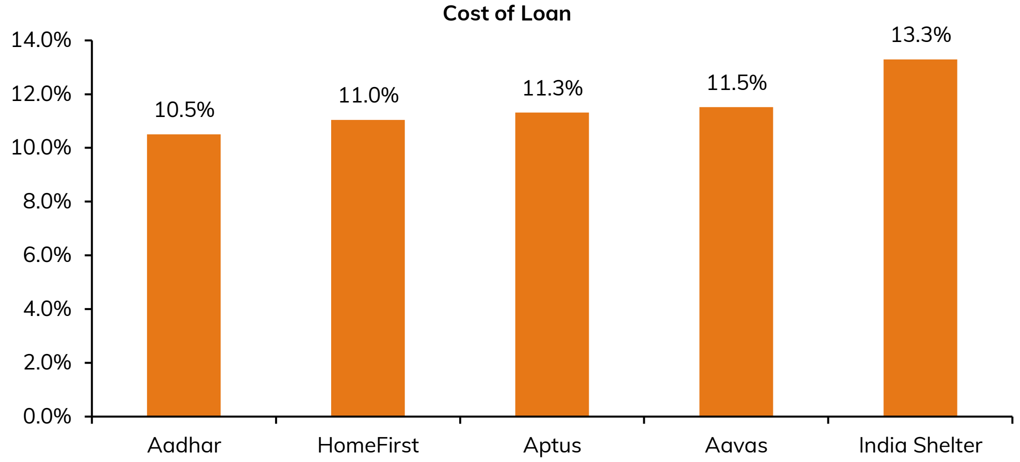
We dig deeper into analysing the key reasons for Aadhar's industry-leading profitability. We arrive at the following as prime factors driving its superior financial performance: 1) Lowest Cost of Loans (cost of fund + cost of operations). 2) Management's continued efforts on improving asset yields. 3) Pristine asset quality.

- **Lowest cost of loans:** In any lending business, a key competitive moat is how a lending institution manages its cost of delivery i.e., blended cost of disbursing loans to customers (excluding credit loss). On this parameter, Aadhar is the most competitive AHFC with blended cost of loan at 10.6%, as on Mar'24 vs. peers' 11–13%.

  Its CoF, at 7.7% as on Mar'24, is the lowest among counterparts. Successful execution of business strategies across cycles and pristine balance sheet quality provide Aadhar a vantage while raising fresh funds. Not only does Aadhar have the CoF advantage, it has also created quite a diverse liability profile with a proper mix from banks, NCD, NHB, DA and co-lending sources.

  Aadhar's pan-India presence – breadth and depth – has helped the company manage risks from its micro-markets better; hence, it has been able to scale its loan book faster than peers. Unlike competition, which focused on scaling book in their home states and expand contiguously, Aadhar opted to build a diversified presence to ensure growth sustainability by mitigating region/state-specific local credit demand conditions. Steady growth also enabled better productivity, and allowed for lower cost of operation than peers. Its cost of operation, as on FY24, stood at 2.8% vs. 3.4% for Aavas vs. 4.5% for India Shelter and 2.7% for Aptus and Home First.

Exhibit 5: Aadhar, most competitive AHFC; lowest cost of loans at <11% vs. >11% for peers as of Mar'24



Source: Company data, I-Sec research

Exhibit 6: Strong bargaining power while raising fresh funds, evident in lowest CoF, coupled with cost efficient operation is its key competitive moat

As on Mar'24	Aadhar	HomeFirst	Aptus	Aavas	India Shelter
Cost of Funds (CoF)	7.7%	8.3%	8.6%	8.1%	8.8%
Cost of Operation (on average)	2.8%	2.7%	2.7%	3.4%	4.5%
Cost of Loan	**10.5%**	**11.0%**	**11.3%**	**11.5%**	**13.3%**

Source: Company data, I-Sec research

Note – CoF is as on Q4FY24 and Cost of operation is for FY24.

Exhibit 7: Productivity – AUM and disbursement per employee is second to Home First

FY24 (INR mn)	HomeFirst	Aadhar	Aptus	Aavas	India Shelter
AUM/Branch	729	403	333	472	273
Disbursement/Branch	298	135	119	152	119
AUM/Employee	78	35	30	28	18
Disbursement/Employee	32	12	11	9	8
Cost/Income (%)	35	35	20	46	41

Source: Company data, I-Sec research

Note: Aadhar AUM/Branch is 551 if recently opened 140 sales offices are excluded

Note: Aadhar Disbursement/Branch is 185 if recently opened 140 sales office are excluded

Note: Aadhar AUM/Employee is 54 if only on-roll employees are considered

Note: Aadhar Disbursal/employee is 18 if only on-roll employees are considered

Exhibit 8: Main branch disbursements/branch among the best in the lot

Disbursements / branch type (INR mn)	FY20	FY21	FY22	FY23	FY24
Main Branch	215	235	214	295	340
Small Branch	33	52	104	129	132
Micro Branch	57	65	49	57	57
Ultra-Micro Branch	53	29	11	12	39
Sales Offices	-	-	-	3	12
Total	**109**	**114**	**120**	**126**	**135**

Source: Company data, I-Sec research

- **Better risk adjusted yields:** Aadhar's clear focus on maintaining superior yields reflects in the steady increase in risk-adjusted yields to 13.6%, as of FY24, from 12.5% in FY22. Constant reassessment of its target market/customer segment and coordinated actions to scale in the chosen market have been the corner-stone of its growth strategy historically. Scaling self-employed since FY21 – within self-employed, Aadhar's greater focus on the informal self-employed segment and opening deep impact branches since FY24 (less competition, thus higher pricing power) are the company's recent key strategic initiatives to improve yields.

Exhibit 9: Steady increase in risk-adjusted to 13.6% by FY24 (12.5% in FY22)...

Aadhar	FY22	FY23	FY24
Yields (%)	12.8%	12.8%	13.8%
Credit cost (%)	0.3%	0.3%	0.2%
Risk Adj yields (%)	12.5%	12.5%	13.6%

Source: Company data, I-Sec research

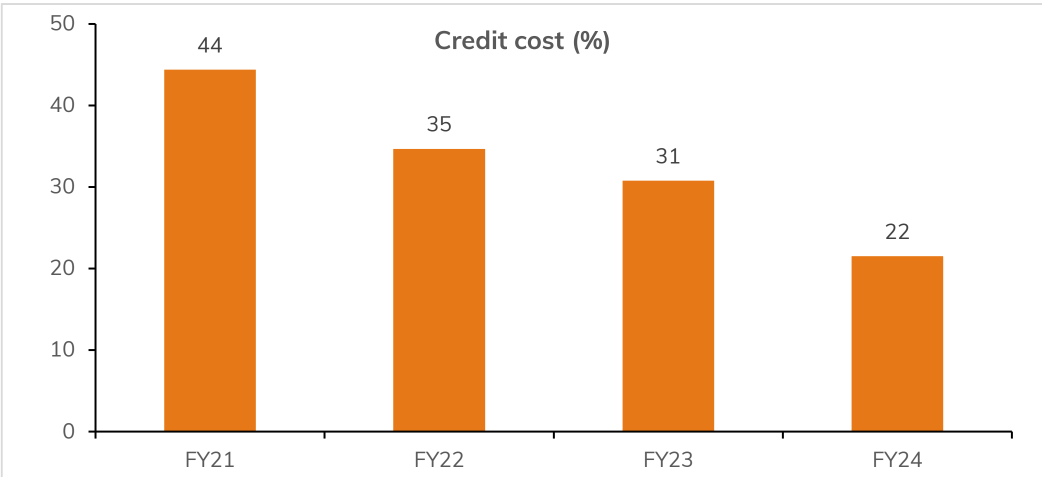
Exhibit 10: ...driven by tight control on asset quality (one of the lowest credit costs) and focus on self-employed segment (high yields)

FY24 (%)	Yields	Credit cost	Risk adjusted yields
Aptus	17.3%	0.4%	16.9%
India Shelter	14.9%	0.4%	14.5%
Aadhar	13.8%	0.2%	13.6%
HomeFirst	13.6%	0.4%	13.2%
Aavas	13.1%	0.2%	12.9%

Source: Company data, I-Sec research

- **Pristine asset quality:** Aadhar is the only affordable housing finance player that has gone through landmark events such as demonetisation, IL&FS crisis, Covid-19 etc. with a sizable portfolio. Average credit cost at ~33bps (on most seasoned book) between FY21–24, despite covid, speaks for its quality underwriting, ability to assess risk even in untested credit markets and robust collection mechanism.

Exhibit 11: Steady decline in credit cost



Source: Company data, I-Sec research

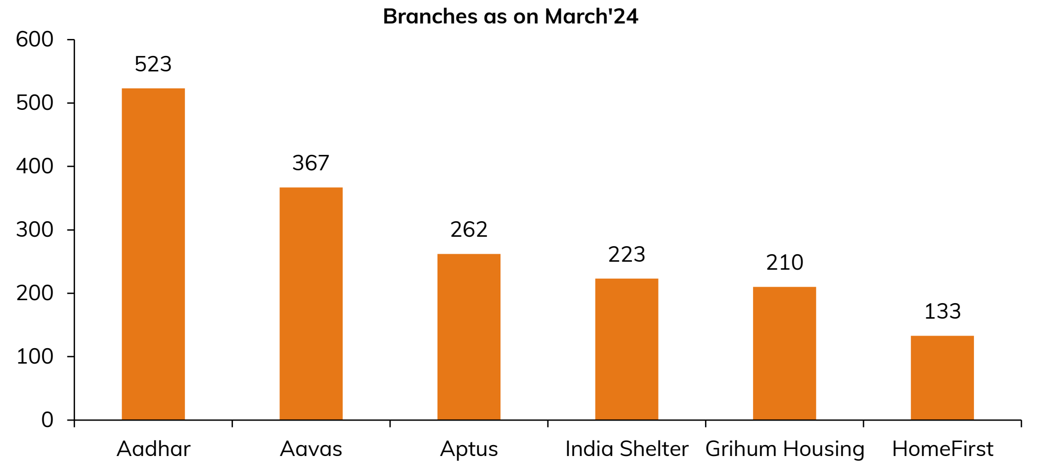
Extensive distribution – low concentration and largest branch network

Well-diversified and branch network spread across 20 states–largest among peers

Departing from convention – the practice of scaling the business in the home state given better demographic knowledge and tighter operational control – Aadhar adopted a differentiated approach of first widening its distribution network and then deepening presence in favourable markets. Soon after – a short span of five years (FY11-16) – Aadhar was already present in a total of 14 states; the ensuing eight years, Aadhaar gained in-depth demographic knowledge and built a strong team.

As of Mar'24, Aadhar has a comprehensive network of 523 branches, spread across 20 states. Its branch and sales office network are dispersed across various states and geographies; 56% of its branches and sales offices are spread across five states and the remaining spread across 15 states. This will likely help Aadhar scale its existing business model with relative ease as compared to peers. Moreover, scaling up with lower incremental costs will also allow better operational efficiency with the passage of time.

Exhibit 12: Aadhar has the most extensive branch network among peers

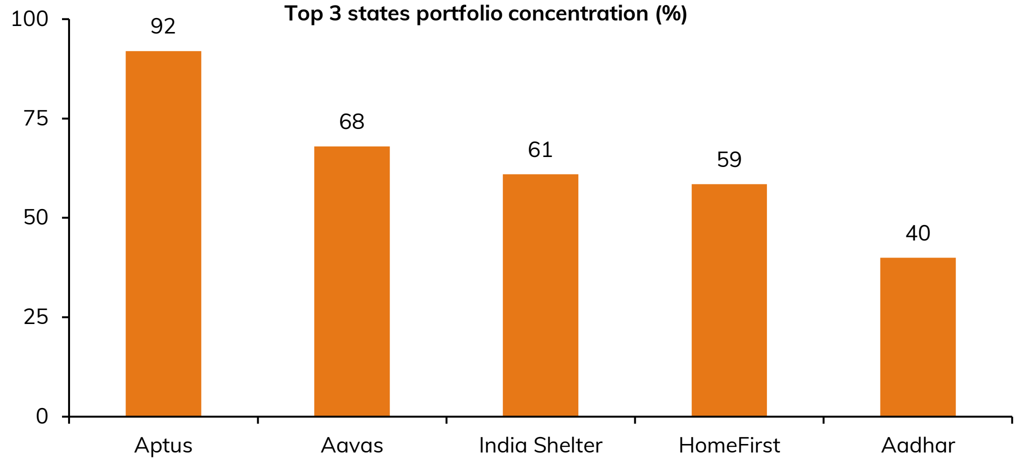


Source: Company data, I-Sec research

We believe, in any lending business geographical diversification is of prime importance to sustain growth momentum by mitigating state-level saturation and region-specific nuances and maintain risk-adjusted yields. Aadhar is among the few entities that reflects this and acted in this direction – none of its single state contributes more than 15% of its AUM and the top three states' portfolio concentration stands lowest at 40% vs. >50% for peers, as on Mar'24.

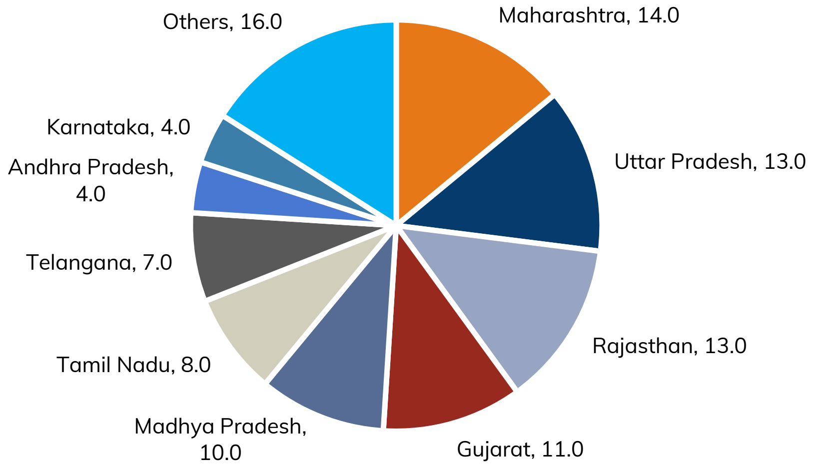
Especially, in the mortgage business, geographical diversification is all the more important given state-level legal system diversity (land records, property titles etc.). For Aadhar, it would always enjoy first-mover advantage in many states, having entered ahead of competition and built tailor-made templates as per state-specific requirements. So, by the time competition enters the state and spends time on understanding legal frameworks, Aadhar would already be ahead capturing wider growth markets.

Exhibit 13: Aadhar has the lowest AUM concentration risk among peers (as of Mar'24)



Source: Company data, I-Sec research

Exhibit 14: AUM well-diversified across the country



Source: Company data, I-Sec research

Exhibit 15: Reach of its branch and sales office, as of Q4FY24

State	No. of branches (including sales offices)	No. of sales offices	No. of districts with a point of presence	No. of districts in the state	District penetration %
Uttar Pradesh	69	25	67	74	91%
Maharashtra	63	11	35	36	97%
Gujarat	63	26	33	33	100%
Tamil Nadu	50	10	38	38	100%
Rajasthan	48	19	48	51	94%
Andhra Pradesh	40	17	23	25	92%
Madhya Pradesh	39	-	55	56	98%
Karnataka	24	-	31	31	100%
Telangana	5	17	33	33	100%
Others	122	15	171	424	40%
Total	**523**	**140**	**534**	**801**	**67%**

Source: Company data, I-Sec research

Note: The number of branches does not include regional offices and corporate offices.

Methodical evolution of branch from deep impact to main branch

Aadhar has focused on cost-efficient and methodical systemic branch expansion. Strategically, it enters a new state by opening a deep impact branch / ultra-micro branch (only two-three people) and gathers information about potential market size, credit behaviour, business cycles etc. Only after testing the market, does the company gradually start capturing a larger radius before graduating the branch across various categories such as ultra-micro to micro, followed by small branch and eventually onto main branch.

Aadhar generally starts with introducing ultra-micro or sales offices (also known as deep impact branches) in remote locations, with a single branch in-charge and three–four direct selling teams (DSTs). Typically, this would be a small space set-up, whereby they can facilitate customer meetings and collection of documentation. Deep impact branch would benefit Aadhar in two ways – first being in a remote location, will have lesser competition, therefore, relatively higher yield; and secondly, will help Aadhar gauge demand. From an industry perspective, this initiative will help Aadhar understand the markets' dynamics, customer profile and credit demand.

Using this strategy, Aadhar assesses the potential of a particular location at a minimal cost. Moreover, it gives the company the flexibility to gradually migrate from a deep impact branch to micro branches and then further to small or main branches, as and when the opportunity arises.

In order to widen the customer acquisition funnel in its catchment area, Aadhar has also accelerated open market customer acquisition via partners like connectors, DSA etc. apart from its strong in-house sourcing channel. The company also launched the 'Aadhar Mitra Program' in 2018, wherein individuals from a non-allied industry can direct share leads with its DSTs and earn a referral fee for the same. The share of customer sourcing via DSA and connectors increased to >60%, as of Mar'24 from 53% in FY21.

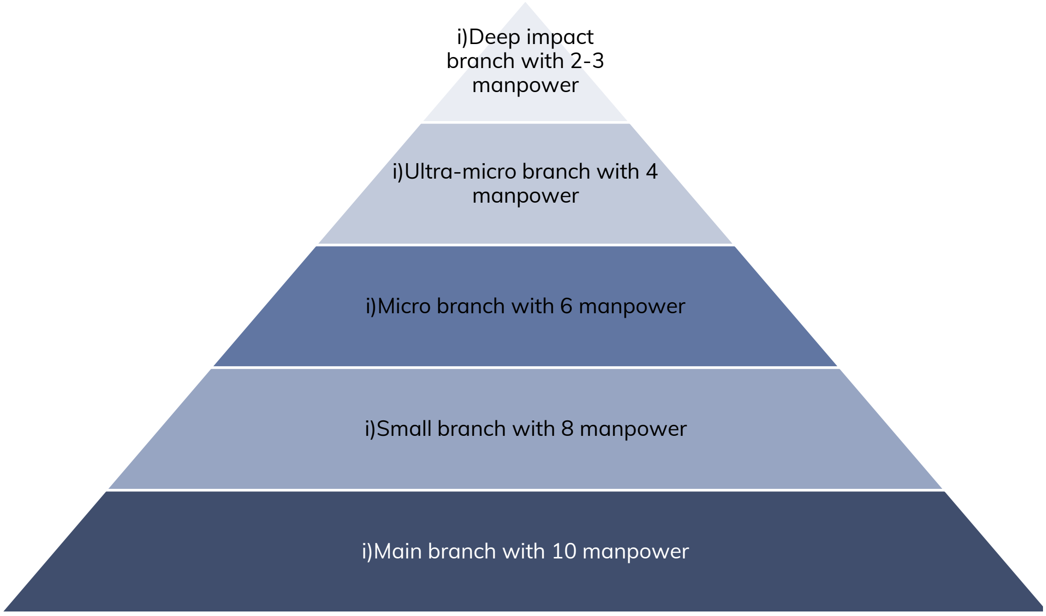
Exhibit 16: Split and description of its branches and sales offices as of Q4F24

Type	Loan disbursement per annum	Typical manpower	Number	Percentage
Main branch	>INR240mn	A team consisting of (i) a branch or cluster manager, (ii) sales team based on target, and (iii) one to two staff from each of the credit team, technical team and operations team.	131	25%
Small branch	INR 120mn-240mn	A team consisting of (i) a branch manager, (ii) a credit officer overseeing credit and operations, (iii) a sales team based on the target, and (iv) a technical and collection team.	141	27%
Micro branch	INR 70mn-120mn	A team consisting of (i) a branch manager, with either (a) three to four DSTs or (b) two to three DSTs, with (ii) one relationship manager, and (iii) one credit officer overseeing credit and operations.	88	17%
Ultra-micro branch	INR 50mn-70mn	A team consisting of a (i) sales managers, and (ii) two to three DSTs or two relationship managers.	23	4%
Sales Offices (also known as deep impact branches)	INR 50mn-70mn	(i) One branch in-charge, and (ii) three to four DSTs.	140	27%
Total			**523**	**100%**

Source: Company data, I-Sec research

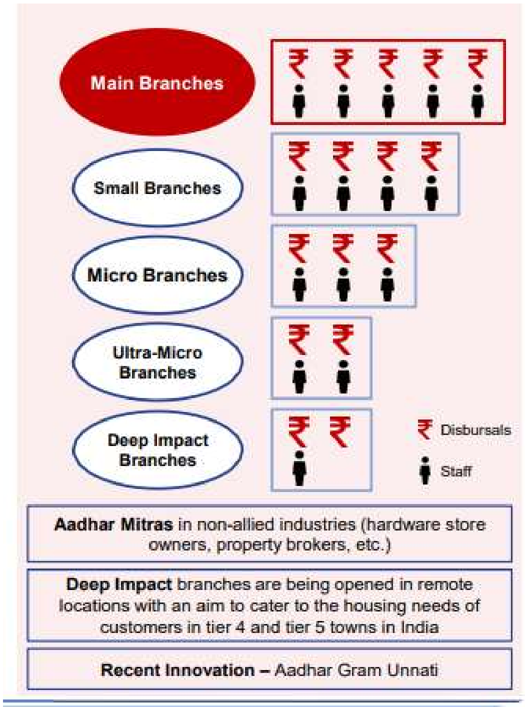
Note: The number of branches does not include regional offices and corporate offices.

Exhibit 17: Progression of branch from deep impact to main branch



Source: Company data, I-Sec research

Exhibit 18: Evolution of branch network

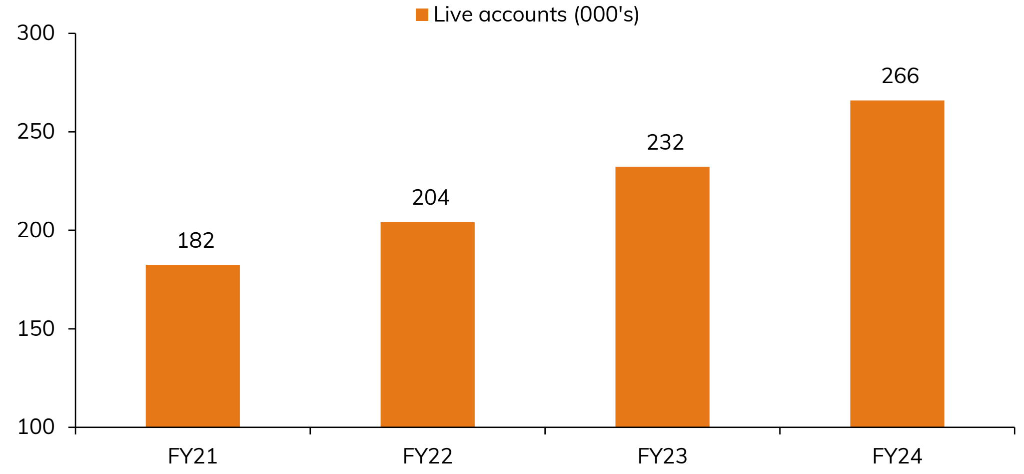


Source: Company data, I-Sec research

Highest AUM, exemplary productivity – superior execution

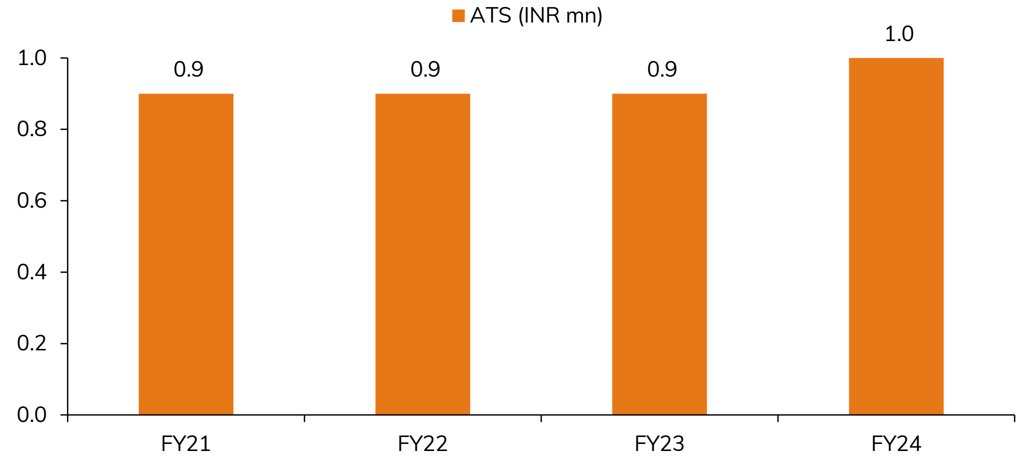
Aadhar commenced operations in 2010, almost concurrently with Home First and India Shelter in the same year. Aavas followed close on its heels, kicking off in 2011. Aptus was the first to test the waters in the affordable housing space in 2009. However, Aadhar is the only player to have emerged as the key winner with its AUM surpassing the INR 200bn mark and commanding ~2% market share in affordable housing as on Dec'23. Being an early market entrant and with its extensive distribution network, Aadhar focused on customer acquisition and kept its ticket size under check.

Exhibit 19: Focused on customer acquisition, evident in 13% CAGR in live accounts between FY21–24…



Source: Company data, I-Sec research

Exhibit 20: …while average ticket size (ATS) remained flat at INR 0.9–1mn



Source: Company data, I-Sec research

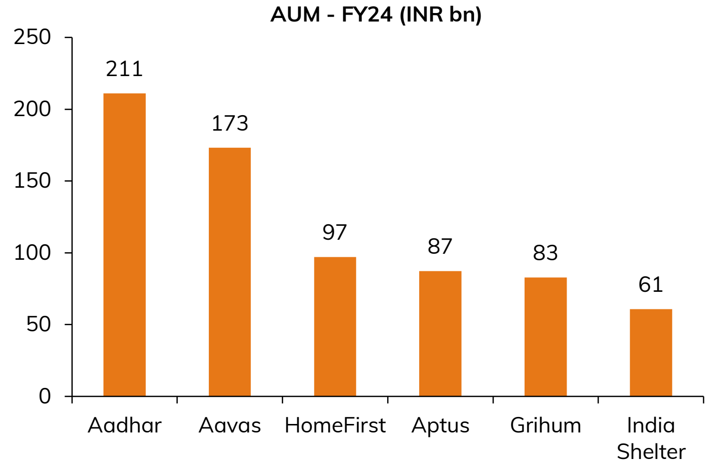
AUM at INR 211bn ranks much higher vs. Aavas at INR 173bn. Home First is at INR 97bn while Aptus at INR 87bn, and India Shelter at INR 61bn, as on Mar'24. Going ahead, we believe that an extensive branch and sales office network is essential for growth as well as to maintain its leadership position in the low-income housing finance segment. We expect Aadhar to grow its AUM at a CAGR of 21% over FY24-26E.

Exhibit 21: All the players have started operations around 2010–11

	Commenced operations in the year
Aptus	2009
Aadhar	2010
HomeFirst	2010
India Shelter	2010
Aavas	2011

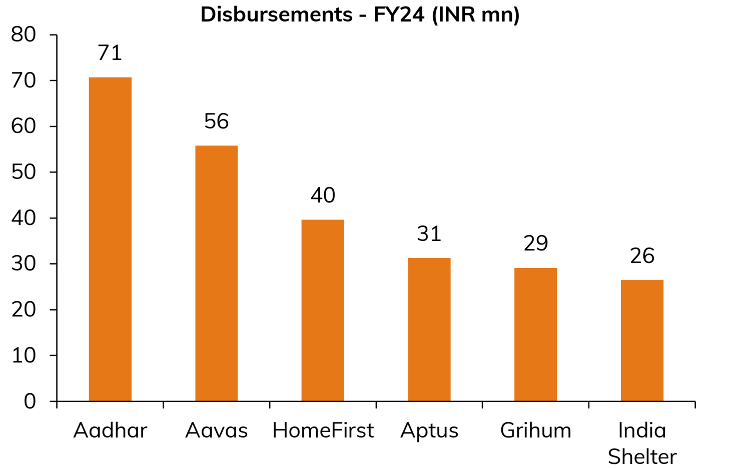
Source: Company data, I-Sec research

Exhibit 22: Highest AUM amongst peers



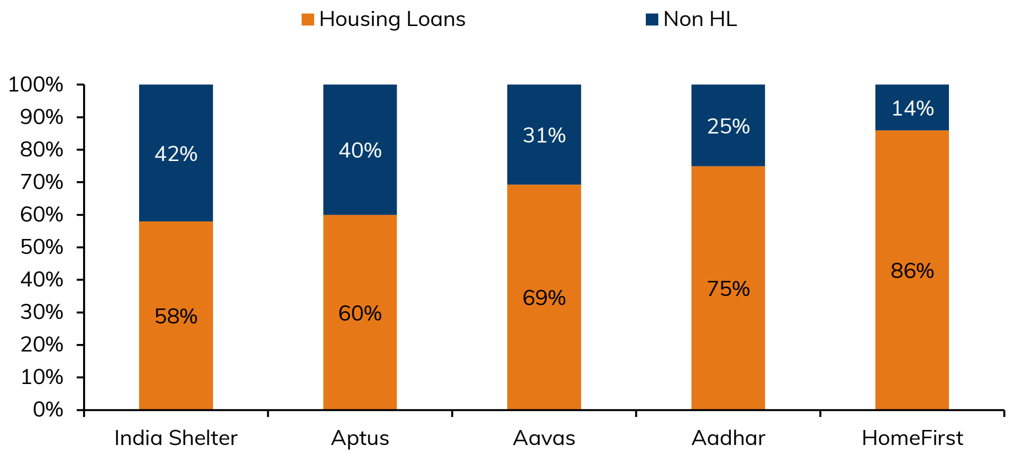
Source: Company data, I-Sec research

Exhibit 23: Disbursements average ~INR 6bn per month



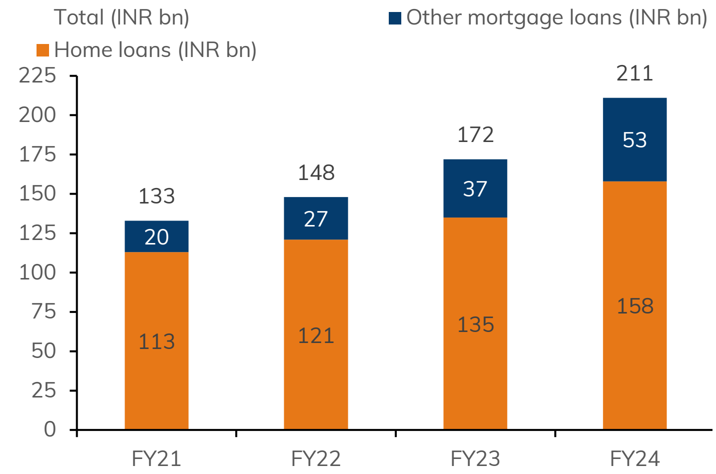
Source: Company data, I-Sec research

Exhibit 24: Lowest share of non-housing loans in overall portfolio after Home First



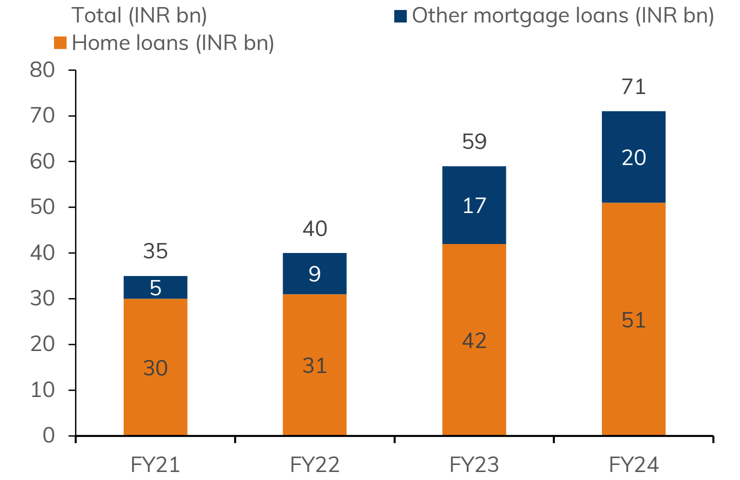
Source: Company data, I-Sec research

Exhibit 25: Remained focused on scaling home loans



Source: Company data, I-Sec research

Exhibit 26: Non-housing loans share increasing in overall disbursements

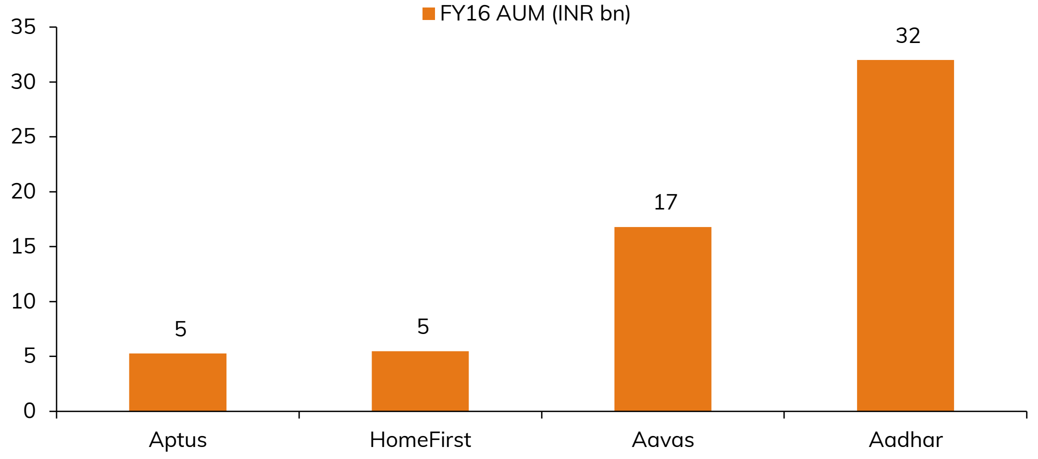


Source: Company data, I-Sec research

A seasoned player with cycle-tested resilient business model

Aadhar is the only affordable housing finance player which has demonstrated cross-cycle performance as evident from weathering all major crisis like Demonetization (2016), IL&FS crisis (2019) and Covid (FY20-21) with sizeable portfolio.

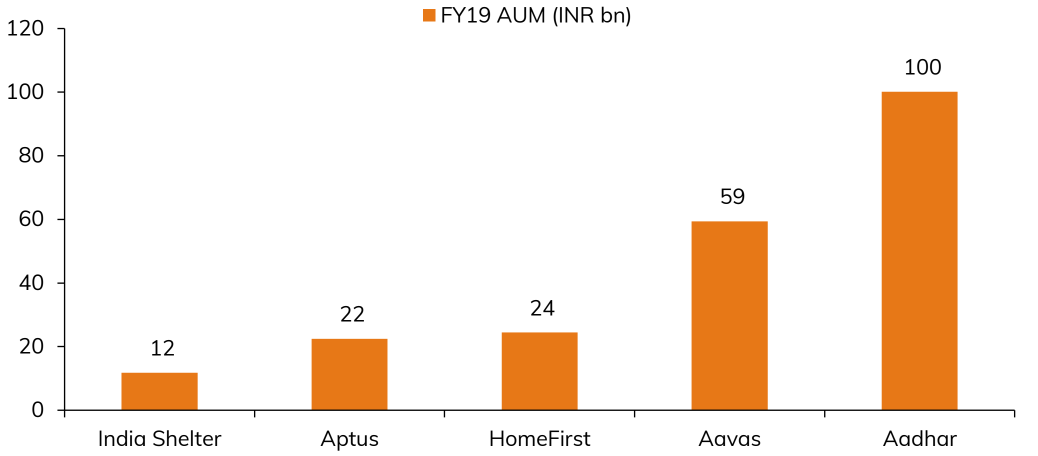
Exhibit 27: Aadhar's portfolio was almost doubled of closest competitor during demonization



Source: Company data, I-Sec research

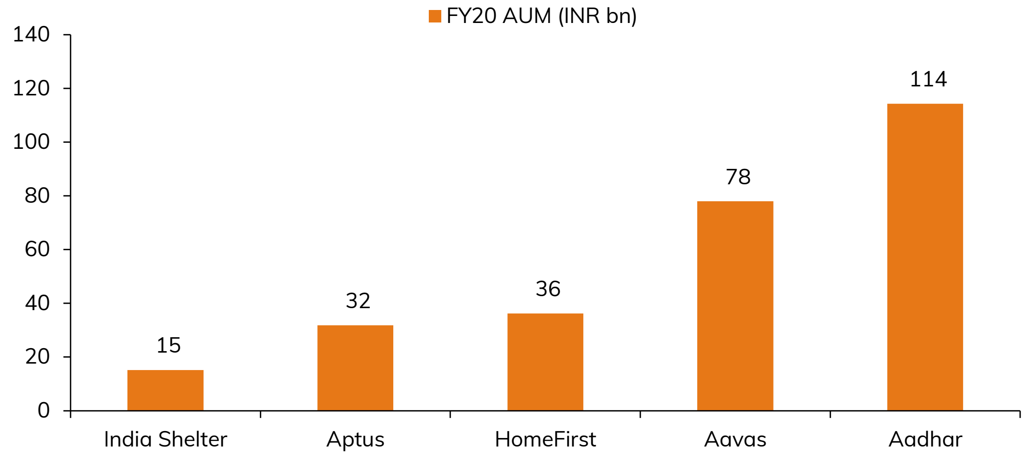
Note: Aadhar FY16 AUM is calculated

Exhibit 28: Aadhar's navigated the most challenging liquidity crisis with book size of INR100bn



Source: Company data, I-Sec research

Exhibit 29: During Covid, Aadhar was the most seasoned AHFC player



Source: Company data, I-Sec research

Aadhar's ATS remained broadly stable at ~INR 0.9mn between FY21 to FY23, while it rose to ~INR 1mn, as of FY24-end. LTV has also remained largely stable in the range of 57–59% over the past four years, suggesting that AUM growth of 17% CAGR over the same period is largely driven by new customer acquisition rather than LTV or ATS inching-up. Aadhar tops peers in terms of customer base with ~266k live accounts vs. ~133k for Aptus, 96k for Home First and 81k for India Shelter.

Exhibit 30: Customer base of ~266k, highest among peers

Customer base	FY24 (in 000's)	
India Shelter	81	live accounts
HomeFirst	96	customers
Aptus	133	customers
Aavas	218	customers
Aadhar	266	live accounts

Source: Company data, I-Sec research

Exhibit 31: LTV has been largely range-bound; hence, growth is driven by new customers rather than increasing LTV

Product wise LTV on gross AUM on o/s basis (%)	As of			
	FY21	FY22	FY23	FY24
Home loan	59.5	60.5	61.5	62.6
Other property loan	43.3	44.3	44.4	46.4
Loans to developers	48.7	47.3	-	
Total	**57.0**	**57.5**	**57.8**	**58.5**

Source: Company data, I-Sec research

Exhibit 32: Broadly stable loan tenure over the years

Product wise tenure of AUM (in months, on origination)	As of			
	FY21	FY22	FY23	FY24
Home loan	211	213	214	216
Other property loan	170	170	167	166
Loans to developers	48	48	-	-
Home loan	211	213	214	216

Source: Company data, I-Sec research

Investing in tech to improve customer experience and bring in more cost efficiency

Aadhar continues to invest on the digital front, aiming to enhance its customer experience and improve productivity. Aadhar appointed TCS in FY20 to integrate the various stages of its loan cycle – onboarding to loan origination, including accounting and reporting. Furthermore, in Oct'21, Aadhar implemented an enterprise-wide technology upgrade of its processes and systems with the intention of rationalising its existing processes and introducing enhanced features. A cohesive blend of tech as well as physical presence is likely to allow Aadhar to continue expanding and growing its business while improving overall operational efficiency.

In terms of productivity, AUM per employee is at INR 35mn, only behind Home First (INR 78mn). Consequently, its cost to income also stands at 35%, only behind Aptus (20%) and at par with Home First at 35%; however, lower than Aavas (46%) and India Shelter (41%). Disbursement per branch remained at INR 136mn vs. INR 152 for Aavas vs. INR 119 for India Shelter/Aptus during FY24, while Home First is far ahead due to lean branch structure and dependence on connectors. Moreover, scaling up the business with lower incremental costs will also lead to improvement in operational efficiency with the passage of time.

Exhibit 33: Productivity – AUM and disbursement per employee is second to Home First

FY24	HomeFirst	Aadhar	Aptus	Aavas	India Shelter
AUM/Branch (INR mn)	729	403	333	472	273
Disbursement/Branch (INR mn)	298	135	119	152	119
AUM/Employee (INR mn)	78	35	30	28	18
Disbursement/Employee (INR mn)	32	12	11	9	8
Cost/Income (%)	35	35	20	46	41
AUM (INR bn)	97	211	87	173	61
Disbursements (INR bn)	40	71	31	56	26
Branches	133	523	262	367	223
Employees	1,249	5,985	2,918	6,075	3,323

Source: Company data, I-Sec research

Note: Aadhar AUM/Branch is 551 if recently opened 140 sales offices are excluded

Note: Aadhar Disbursement/Branch is 185 if recently opened 140 sales office are excluded

Note: Aadhar AUM/Employee is 54 if only on-roll employees are considered

Note: Aadhar Disbursal/employee is 18 if only on-roll employees are considered

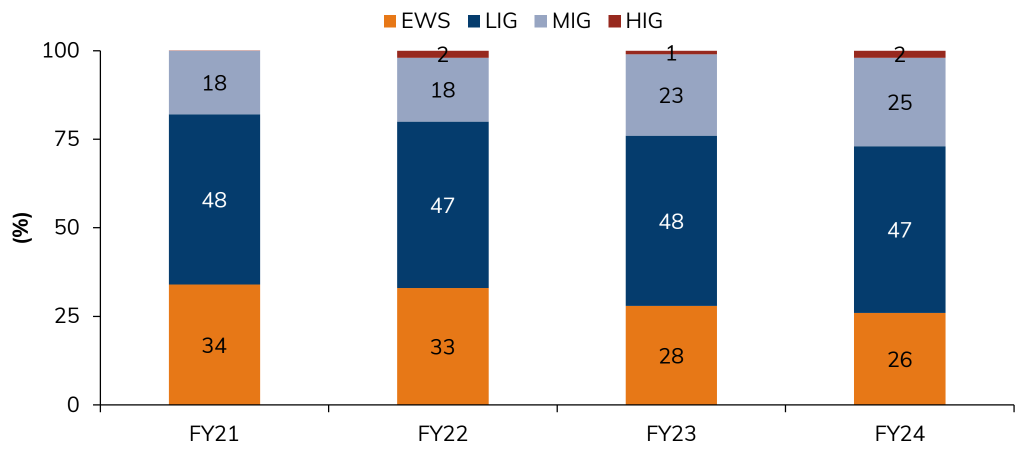
Quality customer segment – formal salaried customers

Catering to formal salaried segment in low-ticket HL, among the few

Aadhar entered the affordable housing finance space with the key objective of providing financial solution to the LIG and EWS segment (LIH + EWS), thereby, differentiating itself from competition back then. Most importantly, during its more than decade-long lending journey, it stuck to its social agenda and continued to serve LIH + EWS. As on Mar'24, its exposure to these two segments at ~73% (of its gross AUM) is one of the highest amongst peers.

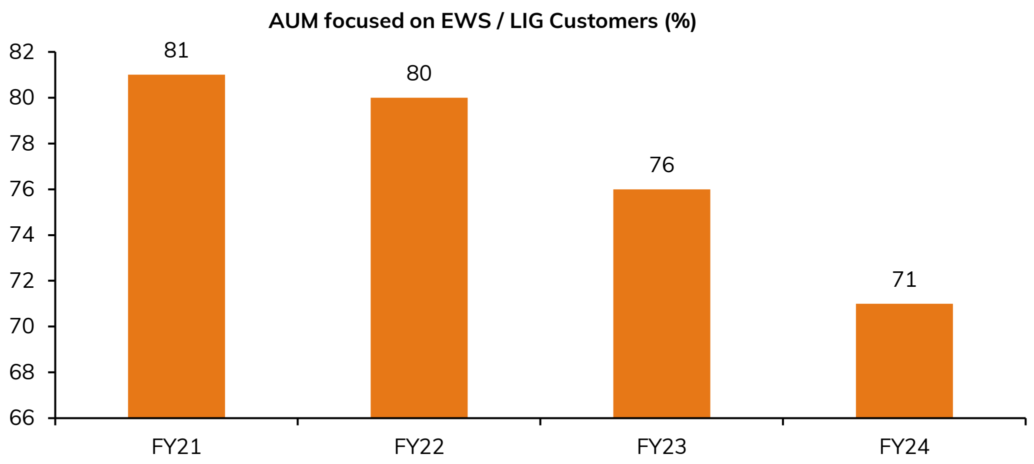
While the overall share of LIG + EWS has slipped marginally to 73%, as of Mar'24, from 81% in FY21, the same was largely due to natural migration of household from one level in the pyramid to the next. Its focus continued to be on catering to LIG + EWS and this reflects in the share of LIG remaining static at 47–48% of the total customer base during the past four years with share of high-income household also remaining static at 1–2% during the period.

Exhibit 34: Share of non-EWS inching up in overall portfolio



Source: Company data, I-Sec research

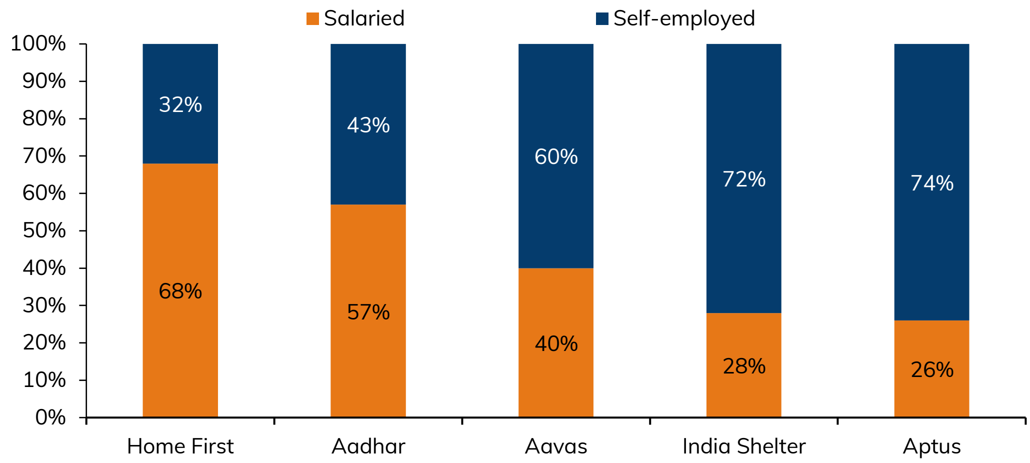
Exhibit 35: Share of EW/LIG customers declining gradually due to natural migration of household



Source: Company data, I-Sec research

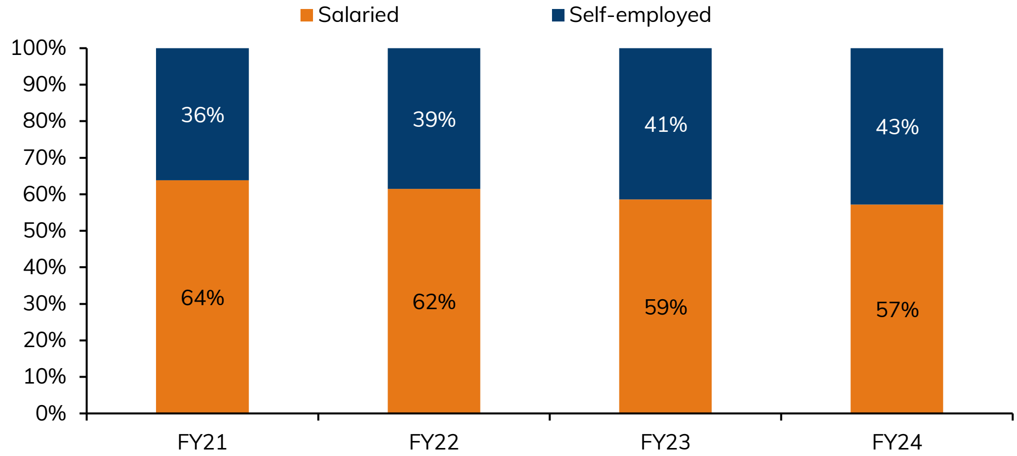
Another key differentiator, apart from target market (LIG and EWS), has been its decision to cater to formal salaried customer segment (but for small ticket loans), which was not-served by main stream banks and larger HFCs due to operational intensity and high-cost. Early entry into affordable housing finance and untouched credit markets such as UP, Chhattisgarh, Jharkhand etc. provided flexibility in choosing the right customer segment. Given it was entering untested credit markets, it chooses salaried customer segment, which is less vulnerable to economic cycles.

Exhibit 36: Salaried customer base is highest for Aadhar, after HomeFirst



Source: Company data, I-Sec research

Exhibit 37: Self-employed customer base share has increased over the years, but salaried customer base still dominates



Source: Company data, I-Sec research

Incremental focus on scaling informal self-employed customer segment to improve yields

While Aadhar started its affordable housing finance journey by targeting the formal salaried segment, it is incrementally focusing on scaling its informal self-employed segment to improve yields.

We believe the existing customer mix serves a dual purpose: 1) The >80% share of formal salaried within salaried customer share of 57% provides stability to its balance sheet quality given salaried customers are less vulnerable to economic cycles. 2) Increasing the share of informal self-employed segment to 80%, as of Mar'24, from 57% in FY21, within the self-employed customer segment of 43% helps it in improving asset yields. Currently, it offers salaried HL at 12.5% and LAP at 16.5% (mostly to informal self-employed segment).

The share of formal salaried segment (customers who receives monthly salary directly in their bank accounts) remained static at 82% during the past four years despite overall salaried customers' share falling to 57%, as of Mar'24, from 64% in Mar'21. However, within the affordable housing finance space, Aadhar is the only player catering to the formal salaried segment.

Exhibit 38: Formal (salaried + self-employed) comprises 56% of total portfolio, which is relatively resilient to business cycles

As on March'24	FY21	FY22	FY23	FY24
Salaried	**64%**	**62%**	**59%**	**57%**
Formal Salaried	82%	82%	82%	82%
Informal Salaried	18%	18%	18%	18%
Self-employed	**36%**	**39%**	**41%**	**43%**
Formal Self-employed	43%	34%	25%	18%
Informal Self-employed	57%	66%	75%	82%

Source: Company data, I-Sec research

Similarly, in order to widen the customer acquisition funnel in its catchment area, it has accelerated the open market customer acquisition via partners like connectors, DSA etc. The share of customer sourcing via DSA and Connectors increased to >60%, as of Mar'24, from 53% in FY21. Disbursement per branch remained at INR 136mn vs. INR 152 for Aavas vs. INR 119 for India Shelter/Aptus during FY24. Highest branch network (~30% higher than the closest peers), diversified presence and lowest CoF to ensure further market share gain for Aadhar in near term and the same would ensure >20% growth in near term.

Accretive spreads at par with peers despite formal salaried segment – helped by lowest incremental cost of borrowings

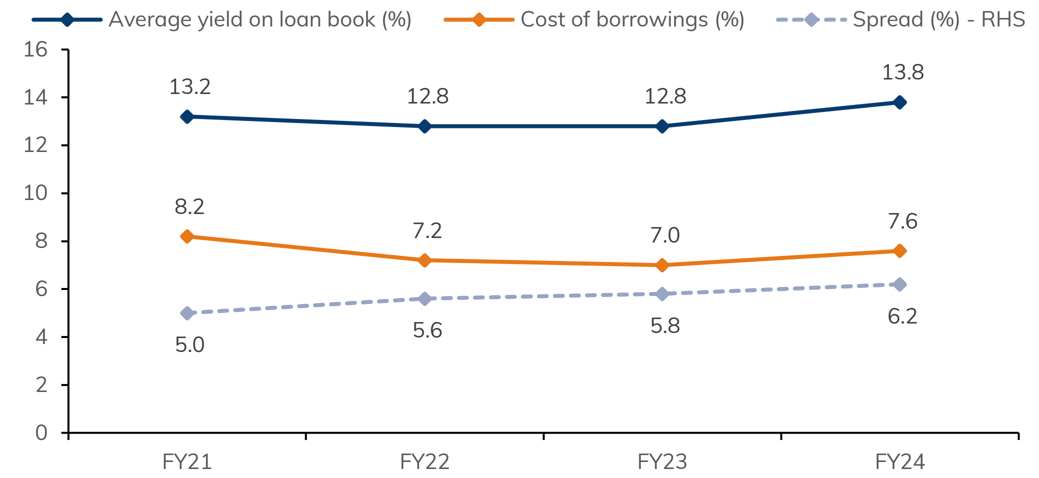
Effective liability management and incremental growth in the high-yielding informal self-employed segment helped Aadhar maintain a higher spread at 6.2% vs. 6.1% for India Shelter and >5.5% for Aavas and Home First during FY24.

Aadhar's well-diversified borrowing base, which includes 23 Banks, 9 MFs, 3 insurance companies, 1 development finance institution (DFI), NHB and 1 NBFC, is key reason for its lower CoF. In-line with its strategy, Aadhar has increased the share of NHB refinancing in its total borrowings, from 16%, as of FY21, to 25%, as of FY24. It has also accessed international sources of funding to maintain its diversified funding sources. Its average cost of borrowings reduced from 8.2% in FY21 to 7.2% in FY22, 7.0% in FY23, but increased slightly to 7.6% in FY24 due to repo rate hike transmission by lenders. The same is still lower than 8.1% for Aavas, 8.2% for Home First, 8.5% for Aptus and 8.8% for India Shelter.

Aadhar has also equally balanced its ALM, in terms of fixed vs. floating mix with 79% of its Gross AUM and 79% of its borrowings keeping under floating rate; thereby, minimizing the risk of cyclicality on spreads due to interest rate cycles. Despite serving the formal salaried segment, Aadhar's incremental spreads remained at par or higher with its closest peers, which is largely on account of its lowest cost of borrowing for FY24.

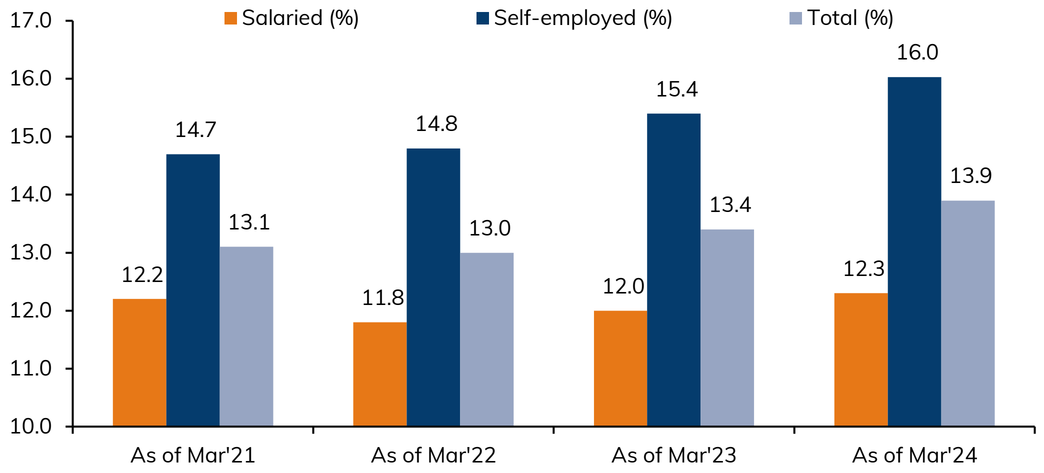
On the yields front, with ~45% of the overall customer profile (10% from salaried + 35% from self-employed) belonging to the informal segment and vast geographical reach (monopoly in few states), the company is able to command relatively higher yields. The company's blended AUM yield stood at 13.8% for FY24, which was higher than Aavas (13.1%) and Home First (13.6%), but lower than Aptus (17.3%) and India Shelter (14.9%).

Exhibit 39: Steady improvement in spreads largely driven by…



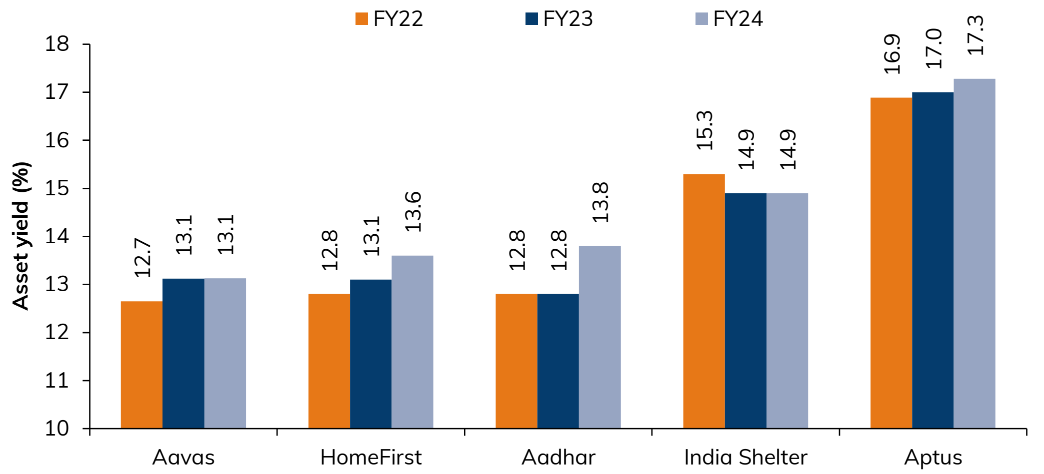
Source: Company data, I-Sec research

Exhibit 40: ...increase in asset yields since FY21 in both salaried as well as self-employed segments



Source: Company data, I-Sec research

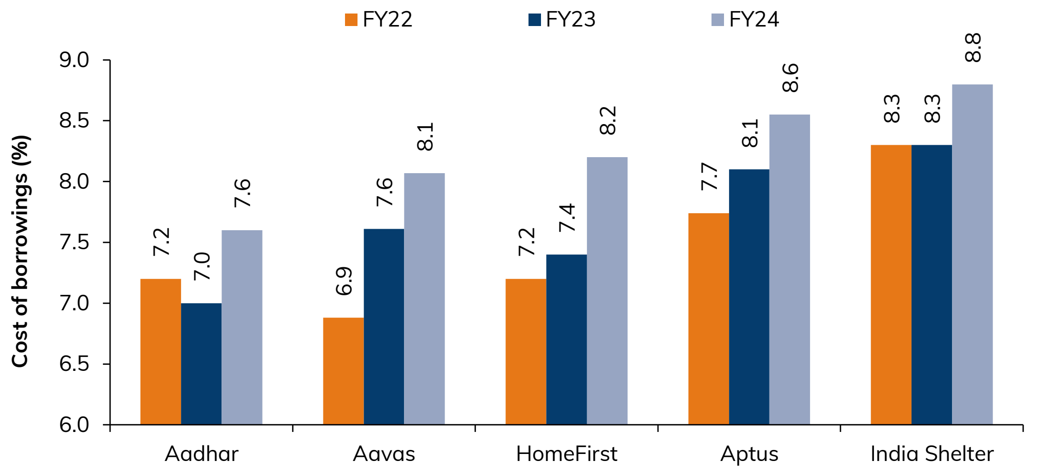
Exhibit 41: Aadhar's asset yield is one of the highest among peers despite higher exposure to formal salaried segment (less vulnerable) ...



Source: Company data, I-Sec research

Note: Asset yield is reported yield on advances

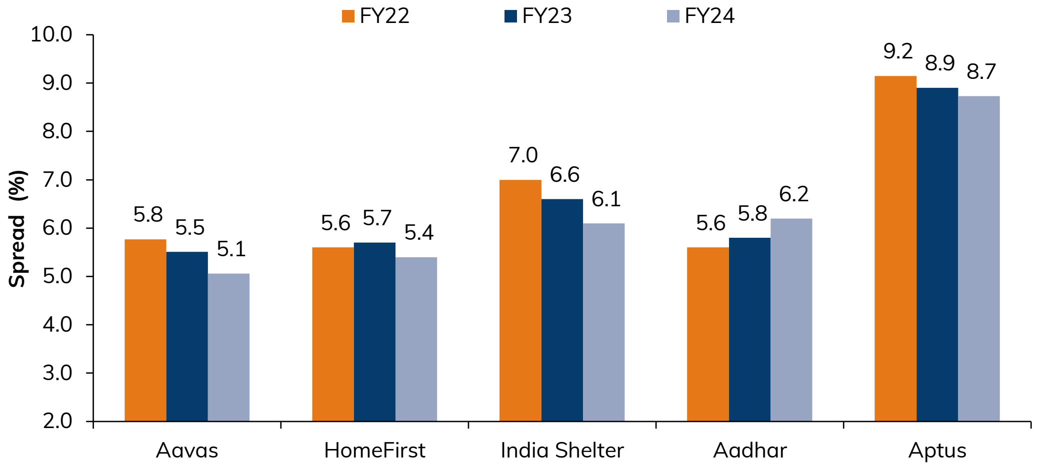
Exhibit 42: ...while its CoF is lowest, at 7.6%, as on FY24



Source: Company data, I-Sec research

Note: Cost of borrowings is reported borrowing cost

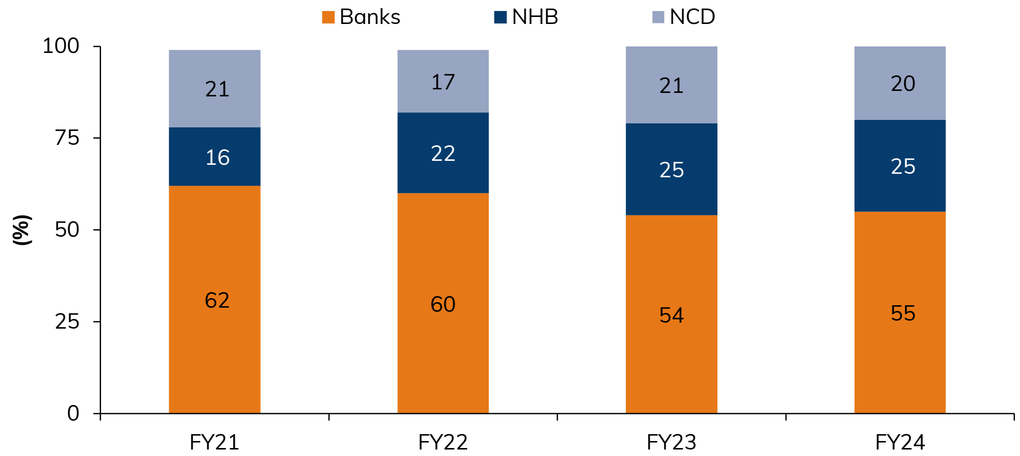
Exhibit 43: Better asset yields and lowest CoF enabled Aadhar in maintaining spreads at >6% in FY24



Source: Company data, I-Sec research

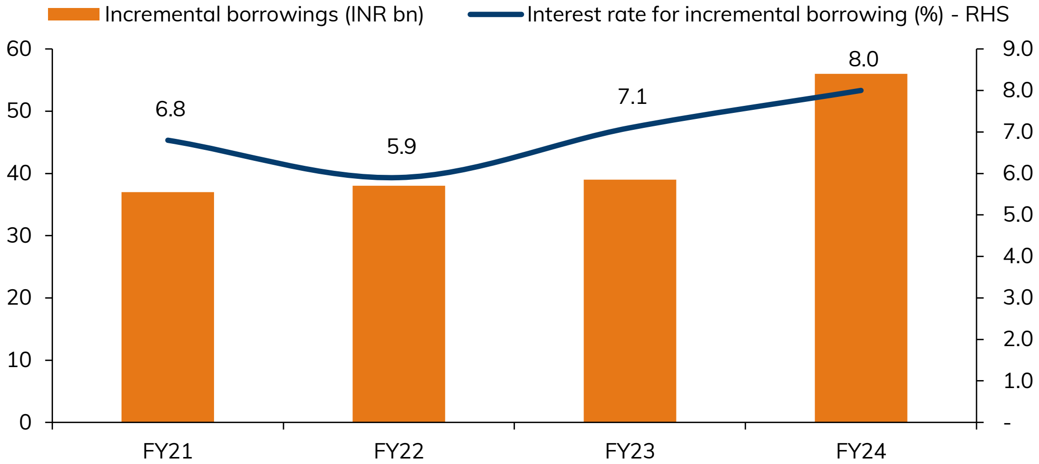
Note: Spread is calculated as difference of reported advance yield and borrowing cost

Exhibit 44: Focusing on diversifying borrowings



Source: Company data, I-Sec research

Exhibit 45: Rationalising cost of borrowings



Source: Company data, I-Sec research

Exhibit 46: High-level of ratings across tenures

Rating agency	Rating type	Rating
Care Ratings	Long term	AA / Stable
ICRA	Long term	AA / Stable
India Ratings	Long term	AA / Stable
Brickworks	Long term	AA / Stable
ICRA	Short term	A1+

Source: Company data, I-Sec research

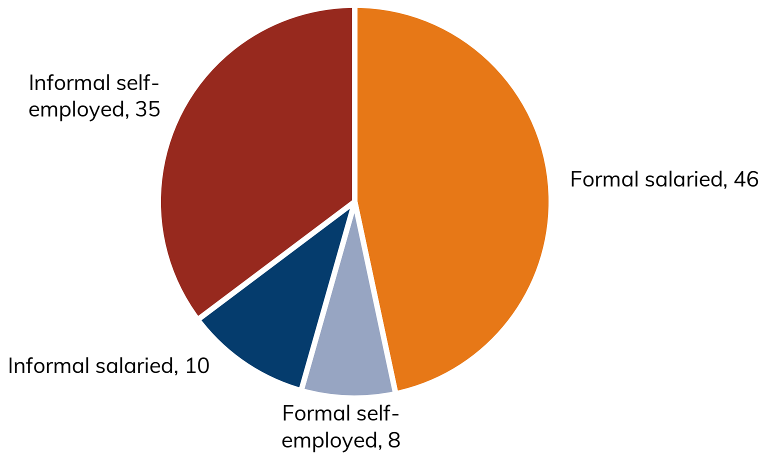
Unique underwriting model leading to strong asset quality

Aadhar has a unique underwriting model with an additional layer of protection, wherein, all the vertical heads report to the zonal head who in-turn reports to business head in head office (HO). Whereas, in other AHFCs, vertical heads report directly to business head in HO.

Aadhar's customer base is a mix of salaried as well as non-salaried customers with 47% of customer towards formal salaried, 10% towards informal salaried, 8% towards formal self-employed and balance 35% towards informal self-employed. A blend of formal as well as informal customer base makes it better-positioned and resilient across business cycles and helps generate better yield. Formal customer base (55%) is more resilient to business cycles, while informal customer base helps Aadhar earn a relatively higher risk-adjusted spread.

Based on the segment mix, Aadhar follows a hybrid underwriting model, which is an ideal combination of centralised underwriting at regions (for formal salaried) and branch tier-based underwriting (for self-employed and informal salaried).

Exhibit 47: Formal (salaried + self-employed) comprises 54% of total portfolio which is relatively resilient to business cycle



Source: Company data, I-Sec research

Aadhar has a separate method for assessing customers from salaried background as against non-salaried customers. For salaried customers, underwriting is done at its 16 regional processing units (RPUs) for quicker turnaround. Earlier, Aadhar had centralised underwriting for salaried customers, but it has now migrated to RPUs given the fact that regional office would have a better knowledge of assessing the customer of that region as against a blanket centralised processing centre for customers from all regions. Currently, Aadhar has 16 such RPUs who are responsible for the underwriting of formal salaried customers. For non-salaried customers, underwriting is done locally at branch since it required close understanding of customer and their cash flows. Aadhar's underwriting is supported by its internally developed four-pronged credit assessment model as show below:

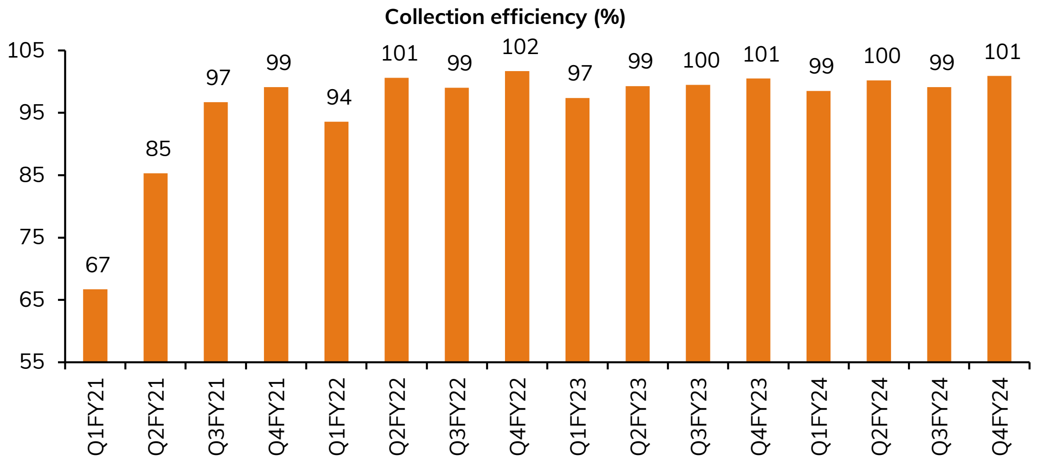
Exhibit 48: Four-pronged credit assessment model

Underwriting	Legal assessment	Technical assessment	Risk containment unit (RCU)
• 490 member team • Does independent customer verification to evaluate customer's business and financing needs • Analyse existing and expected cash flow of the customer's business.	• In-house team of 43 lawyers, and ~667 local law firms and lawyers are empanelled with Aadhar. • All external report from firms are vetted internally by own team of lawyers • Does verification of documents, conduct of property searches and prepare legal scrutiny reports.	• 311 technical members and 213 technical agencies are empanelled with Aadhar • Conduct technical asessment in relation to loans for construction, home extension or home improvement. • Technical assessment if done 100% in-house	• 34 member team and engages third party vendors • Conduct trigger based checks, field investigation, scrutinizes documents, visits certain customers and seeks to identify fraud at early stages

Source: Company data, I-Sec research

Aadhar has an in-house collections team to ensure timely collections. Further, it has digitised collections to a great extent, enabling enhanced productivity by avoiding the hassle of cash collection. It even leads to increased collection efficiency levels.

Exhibit 49: CE stable around 99-100 levels since quite a few quarters



Source: Company data, I-Sec research

GNPA averaged at 1.2% and credit cost at 33bps between FY21–24

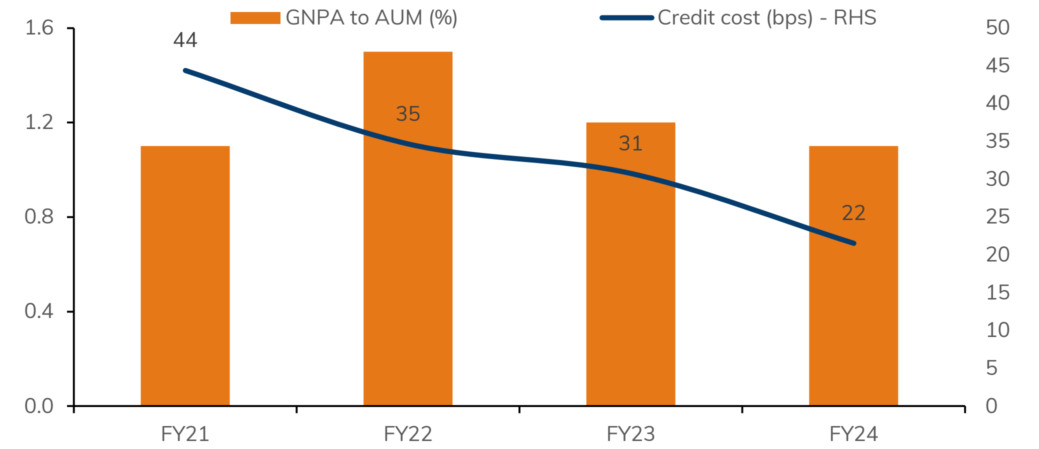
Aadhar's GNPA averaged at 1.2% and credit cost averaged at 33bps with an average coverage ratio of ~33% between FY21–24, despite Covid-19, is testimony of its resilient business model. Within customer category – salaried GNPA remained <1% across years – indicating higher resiliency in this segment, which is 57% of its portfolio. In times of hardship during the Covid-19 pandemic, Aadhar realigned its strategy with incremental focus towards salaried customers in order to contain risk. Moreover, it conducted additional due diligence on its customers to assess the impact of the pandemic-induced slowdown on their earnings. These additional measures helped Aadhar underwrite better in times of distress. We believe that its effective credit risk management policies and framework is reflected in Aadhar's portfolio quality indicators such as high repayment rates and low rates of GNPAs and NNPAs across business and economic cycles. As of FY24-end, Aadhar's GNPA stood at 1.1%, only next to Aavas at 0.9%, at par with India Shelter at 1.1% and better than Aptus at 1.2% and Home First at 1.7%.

Exhibit 50: Asset quality

Particulars (INR mn)	As of FY23	As of FY24
Gross Stage 1	1,32,944	1,63,054
% portfolio in Stage 1	95%	95%
ECL Provision Stage 1	529	538
ECL Provision % Stage 1	**0.4%**	**0.3%**
Gross Stage 2	5,806	6,189
% portfolio in Stage 2	4.1%	3.6%
ECL Provision Stage 2	775	772
ECL Provision % Stage 2	**13%**	**13%**
Gross Stage 3a (DPD <= 90)	59	17
% portfolio in Stage 3a	**0.04%**	**0.01%**
ECL Provision Stage 3a	14	5
Gross Stage 3b (DPD > 90)	1,567	1,852
% portfolio in Stage 3b	**1.1%**	**1.1%**
ECL Provision Stage 3b	543	766
ECL Provision % Stage 3	**34%**	**41%**
Gross Stage 1, 2 & 3	1,40,376	1,71,112
ECL Provision Stage 1, 2 & 3	1,861	2,082
Total ECL Provision %	**1.3%**	**1.2%**

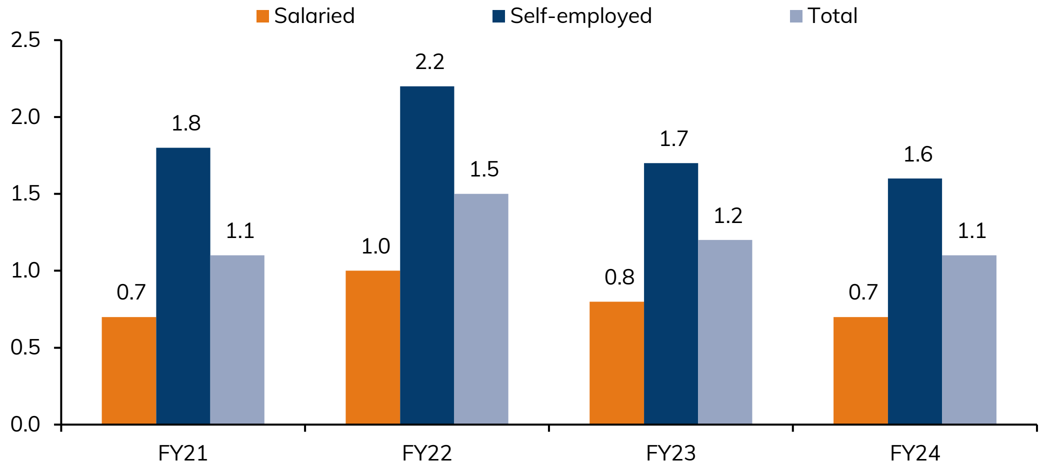
Source: Company data, I-Sec research

Exhibit 51: GNPA and credit cost (calculated) from FY21–24



Source: Company data, I-Sec research

Exhibit 52: Salaried GNPA remained <1% across years, indicating higher resiliency in the segment



Source: Company data, I-Sec research

Exhibit 53: Aadhar's asset quality vs. peers

	FY24 GNPA (%)	FY23 GNPA (%)	FY22 GNPA (%)	Past 3 yrs GNPA average (%)	FY24 NNPA (%)	FY24 Credit cost (bps)
Aavas	0.9%	0.9%	1.0%	0.9%	0.7%	19
Aadhar	1.1%	1.2%	1.5%	1.3%	0.7%	22
India Shelter	1.1%	1.1%	2.1%	1.4%	0.9%	37
Aptus	1.2%	1.2%	1.2%	1.2%	0.9%	40
HomeFirst	1.7%	1.6%	2.3%	1.9%	1.2%	36

Source: Company data, I-Sec research

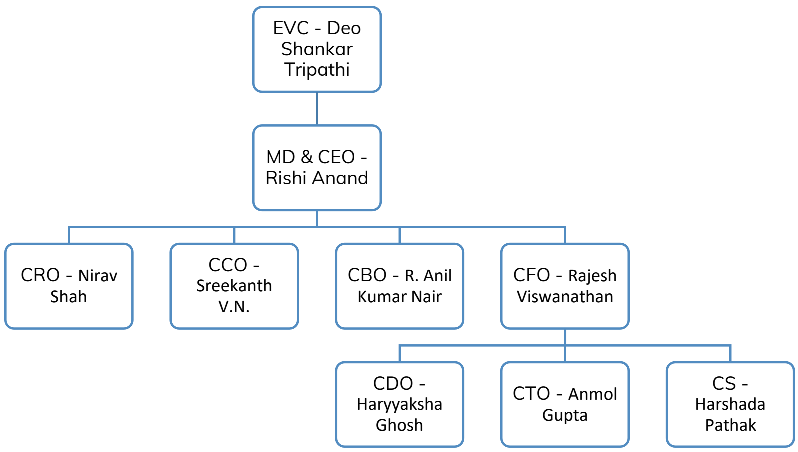
Cycle-tested seasoned management

Aadhar's business resiliency is largely supported by its seasoned management team, which has an average experience of >25 years in the financial services industry. They lead Aadhar with their cycle-tested insights and experience in product offering. The successful build-out of its business is an outcome of superior execution of business strategies by its management team, despite several headwinds from time to time - demonetization in FY16, IL&FS-led liquidity crisis in FY19, change of ownership in FY19, and the latest being the Covid-19 pandemic between FY20–21. The current management has successfully navigated such events and emerged on top. This is very well-reflected in its 37% PAT CAGR, 18% AUM CAGR, average GNPA at 1.1% and credit cost around ~45bps between FY18-24.

On senior management, Deo Shankar Tripathi is the Whole Time Director and Executive Vice Chairman, who comes with an experience of more than 40 years. Aadhar's Managing Director and Chief Executive Officer, Rishi Anand has ~27 years of experience, while its Chief Financial Officer, Rajesh Vishwanathan also has ~25 years of experience in the financial services industry. In addition, among its senior management, Aadhar has Chief Risk Officer, Chief Business Officer, Chief Treasury Officer, Chief Data Officer and Chief Compliance Officer. Hence, it has a full-fledged senior management team with CXO's across verticals to aid smooth functioning of its business.

The company's board of directors comprises of qualified and experienced personnel from various backgrounds. Post its acquisition by Blackstone in 2019, Aadhar has implemented a corporate governance framework, with the induction of three independent directors, one of whom serves as Non-Executive Chairman. Moreover, it has three nominee directors (from promoter side) in the non-executive role.

Exhibit 54: Organisation structure



Source: Company data, I-Sec research

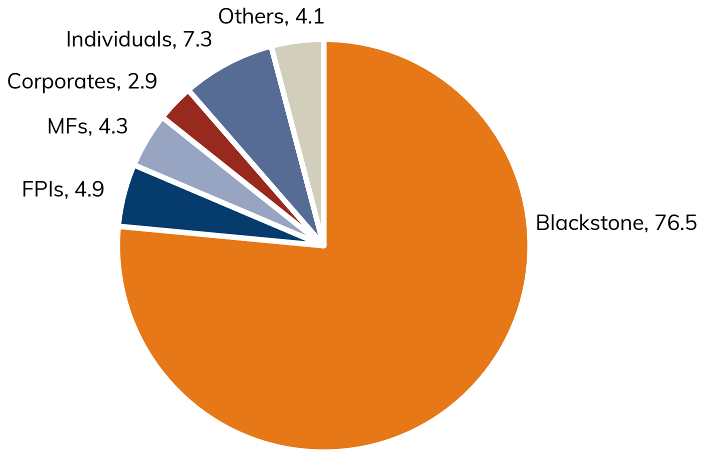
Exhibit 55: Details of senior management (Key Management Personnel)

Name	Designation	Experience	Profile
Deo Shankar Tripathi	Whole Time Director and Executive Vice Chairman	40+ years	Deo Shankar Tripathi is the Whole Time Director and Executive Vice Chairman of the Company. He holds a bachelor's and master's degree in science from Lucknow University and has cleared the examination for a diploma in Public Administration from Awadh University. He has also passed the associate examination of the Indian Institute of Bankers and has completed various certificate courses including International Study Tour on "Energy Efficiency in Residential Buildings" from KFW Entwicklungsbank, Germany, and Strategy and Management in Banking Programme from International Development Ireland Limited. He has worked as a general manager at Union Bank, and president and chief operating officer at DHFL. He joined Aadhar on January 17, 2015. Prior to joining Aadhar, he was the chief executive officer of PreMerger AHFPL. Presently, he is serving as a director on the boards of ASSPL, Fort Finance Limited and Auxilo Finserve Private Limited. He previously held the position of managing director & chief executive officer Aadhar. He was appointed as the Whole – Time Director and Executive Vice Chairman of our Company with effect from January 3, 2023 till December 26, 2027.
Rishi Anand	Managing Director and Chief Executive Officer	27+ years	Rishi Anand is the Managing Director and Chief Executive Officer of Aadhar. He holds a post-graduate certification in business management (PGCBM) from Indian Institute of Management, Kozhikode. He has over 27 years of work experience across a diverse spectrum of functions and businesses in the financial services space. Prior to joining Aadhar, he has worked with various organizations such as Shelters (A Citibank Associate), ICICI Bank Limited, GE Countrywide Consumer Financial Services Limited, BHW Home Finance Limited, Reliance Capital Limited, AIG Home Finance India Limited (now Indo Pacific Housing Finance Limited) and DHFL. He joined Aadhar on April 1, 2018. Prior to his current appointment, he held the position of the chief operating officer – business development of the Company. He was appointed as Managing Director and Chief Executive Officer of the Company with effect from January 3, 2023 till December 26, 2027.
Rajesh Viswanathan	Chief Financial Officer	27+ years	Rajesh Viswanathan is the Chief Financial Officer of the Company. He holds a bachelor's degree in commerce from University of Mumbai. He is a qualified chartered accountant from the Institute of Chartered Accountant of India and a qualified cost and works accountant from the Institute of Cost and Works Accountants of India. He has several years of experience in accounting, finance, strategy, planning, taxation, treasury, audit, and managing investor relations. Prior to joining Aadhar, he has been associated with various organizations, starting 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. He joined Aadhar on December 1, 2019.
Harshada Pathak	Company Secretary and Compliance Officer	19+ years	Harshada Pathak is the Company Secretary and Compliance Officer for Aadhar. She holds a bachelor's degree in commerce from Mulund College of Commerce and bachelor's in law from University of Mumbai. She is a qualified company secretary from the Institute of Company Secretaries of India, having an experience of over 18 years and has previously worked as the compliance officer and company secretary for Volkswagen Finance Private Limited, in the secretarial department of Mahindra & Mahindra Financial Services and in the compliance department of Essar Investments Limited. She joined Aadhar on April 15, 2021.
Sreekanth V.N.	Chief Compliance Officer	32+ years	Sreekanth V.N. is the Chief Compliance Officer of Aadhar. He holds a bachelor's degree in commerce and law from Mahatma Gandhi University and has cleared the examination for master's in business administration (finance) from OJPS University. He is also a qualified company secretary from the Institute of Company Secretaries of India. He has several years of experience in handling all secretarial functions of the Company including liaison with institutions like registrar of companies, financial institutions, and other bodies with whom the Company has administrative dealings. He has previously worked with the Bureau of Police Research & Development, Ministry of Home Affairs and Department of Supply, Ministry of Commerce. Prior to joining the Company, he has worked with organizations such as ICICI Bank Limited, Firestone International Private Limited, KM Trading Co LLC, Malabar Institute of Medical Science and Ocean Bounty Limited. He was also associated with Pre-merger AHFPL from April 11, 2011 and he joined Aadhar on November 21, 2017. .
Anmol Gupta	Chief Treasury Officer	27+ years	Anmol Gupta is the Chief Treasury Officer of the Company. He holds a bachelor's degree in commerce (Hons.) from University of Delhi and is a qualified chartered accountant from the Institute of Chartered Accountant of India. He has several years of experience in coordinating financial operations, preparing budgets, and ensuring maintenance of up-to date financial reports, commitments, expenditures and legal records. Previously, he has worked with BHW Birla Home Finance Limited and as the Accounts Officer of CIMMYT- India, headquartered at Mexico. He was chief financial officer of Erstwhile AHFL. He joined our Company on November 21, 2017.
Nirav Shah	Chief Risk Officer	19+ years	Nirav Shah is the Chief Risk Officer of the Company. He holds a bachelor's degree in commerce from P. D. Lion's College of Commerce and Economics, University of Mumbai. He is a qualified chartered accountant from the Institute of Chartered Accountants of India. He has also cleared the exam for Certified Information Systems Audit from Information System Audit and Control Association. He has several years of experience in implementing risk management systems across business units and maintaining a strong integrated risk management framework. He has worked with Deloitte Haskins & Sells, ICICI Prudential Life Insurance Company Limited and Tata Capital Housing Finance Limited. He joined the Company on July 5, 2018 and had been the Head Internal Audit of the Company from July 2018 till December 31, 2019.
R. Anil Kumar Nair	Chief Business Officer	25+ years	R. Anil Kumar Nair is the Chief Business Officer - Business Development of the Company. He holds a bachelor's and master's degree in commerce as well as a diploma in marketing management from the Rani Durgavati Vishwavidayalaya, Jabalpur, Madhya Pradesh. He also holds a master's in business administration degree from the Sikkim Manipal University. He has experience in the sectors of FMCG, electronics and mortgage industry. He has previously worked with various organizations including Bata India Limited, MIRC Electronics Limited – ONIDA, ICICI Bank Limited, DHFL, Aspire Home Finance Corporation (Now Motilal Oswal Home Finance Limited). He is also a director on the board of Aadhar's subsidiary. He joined Aadhar on February 14, 2019, as Business Head – Business Development – Housing Loan.
Haryyaksha Ghosh	Chief Data Officer	20+ years	Haryyaksha Ghosh is the Chief Data Officer of the Company. He holds a master's of science degree in physics from the Indian Institute of Technology, Kharagpur and a post graduate diploma in management from the Indian Institute of Management, Calcutta. He has experience in the sectors of data science and information technology. He has previously worked with various organizations situated in India and South East Asia, including Infosys Technologies Limited, M/s Ekcelon (Cofounder), Mindwave Solutions Pte. Limited (Singapore), Knowledge Management Solutions Pte. Limited (Singapore), Network 18 Media & Investments Limited, and ECL Finance Limited. He is also a director on the board of Aashaa Global Solutions & Services Private Limited. He joined Aadhar on February 1, 2021.

Source: Company data, I-Sec research

BCP Topco (affiliate of funds managed by Blackstone) is the current promoter of Aadhar, who had acquired 98.72% stake in Aadhar in Jun'19. Currently, post IPO, it holds 76.5% of its pre-offer issued, subscribed and paid-up equity share capital. Post the acquisition, Aadhar has implemented a corporate governance framework, with the introduction of three independent directors, one of whom serves as non-executive chairman.

Exhibit 56: Shareholding pattern as of 24th May 2024



Source: Company data, I-Sec research

Exhibit 57: Key institutional investors

Promoter (Blackstone) - 76.5%			
Top DIIs (Banks, MFs, AIFs and Insurance)	**5.5**	**Top FPIs / FIIs**	**2.4**
Quant Mutual Fund^	1.2	Theleme Partners	0.7
ICICI Bank	1.1	WhiteOak^	0.4
HDFC Mutual Fund^	0.8	APG	0.3
ICICI Prudential Mutual Fund^	0.5	ADIA	0.2
Mahindra Manulife Mutual Fund	0.5	East bridge^	0.2
Invesco Mutual Fund	0.4	Neuberger Berman	0.2
Axis Mutual Fund^	0.3	Morgan Stanley Investment Management	0.2
SBI Life Insurance Company	0.3	Pictet	0.2
ICICI Prudential Life Insurance Company	0.2		
WhiteOak Mutual Fund^	0.2		

Source: Company data, I-Sec research

Note: ^holding through various schemes/funds

Peer benchmarking

Exhibit 58: Player-wise business snapshot

	Aadhar	LIC HF	CanFin	Home First	PNB H	Aavas	Aptus	Fivestar	SBFC	India Shelter
AUM (INR bn)	211	2,868	350	97	712	173	87	96	68	61
Product mix										
Home Loan	75%	85%	88%	86%	69%	69%	60%	-		58%
LAP/MSME	25%	12%	12%	13%	28%	31%	36%	100%	84%	42%
Other		3%	-	1%	3%		4%	-	16%	
Ticket size (INR '000)										
HL	1,050	2,900	2,500	1,150	2,900	1,020	<1,000	NA	NA	1,000
LAP	780		800		3,100	760		350	970	
Customer profile										
Salaried	57%	88%	72%	68%	61%	40%	26%			28%
Non-salaried	43%	12%	28%	32%	40%	60%	74%	100%	100%	72%
Sourcing mix										
In-house	54%	73%	28%	-	58%	100%	100%	100%	100%	98%
DSA	46%	16%	72%	-	42%		-	-		2%
Connectors		11%		100%	-		-	-		
Top 3 states				**59%**	**47%**	**57%**	**92%**	**87%**	**40%**	**61%**
Rajasthan	13%					29%				31%
Maharashtra	14%			13%	25%	13%			13%	17%
Gujarat				31%						
Tamil Nadu				14%	11%		40%	31%		
KTK									14%	
AP							37%	37%		
Telangana							15%	19%		
Uttar Pradesh	13%								14%	
Delhi					12%					
MP						14%				13%

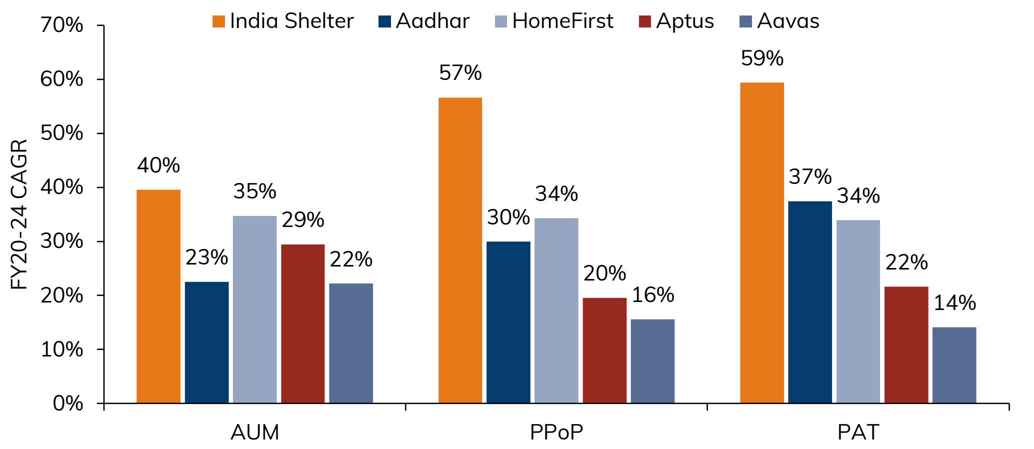
Source: Company data, I-Sec research

Exhibit 59: Player-wise financial snapshot

Parameters	Units	Aadhar				India Shelter				Aavas				Aptus				Home First			
		FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24
Key figures - P&L and Balance Sheet																					
NII	INR mn	6,836	8,935	11,393	14,257	1,692	2,253	2,931	4,141	6,084	7,806	9,586	11,024	4,181	5,884	7,910	9,362	2,567	3,639	4,560	5,909
Other Income	INR mn	760	739	558	1,112	482	862	1,033	1,588	387	474	605	895	306	432	621	928	151	162	353	657
Opex	INR mn	2,721	3,513	4,253	5,364	846	1,326	1,803	2,345	2,566	3,506	4,577	5,430	978	1,171	1,652	2,067	1,056	1,287	1,746	2,313
PPOP	INR mn	4,875	6,161	7,698	10,004	1,329	1,789	2,160	3,384	3,905	4,775	5,614	6,489	3,509	5,145	6,878	8,223	1,662	2,513	3,167	4,254
Provisions and write-offs	INR mn	549	487	492	412	199	120	141	192	371	226	124	245	58	345	341	292	322	250	215	254
PAT	INR mn	3,401	4,449	5,446	7,485	874	1,284	1,553	2,476	2,895	3,568	4,301	4,907	2,669	3,701	5,030	6,119	1,001	1,861	2,283	3,057
Total Assets	INR mn	1,36,303	1,43,758	1,66,132	1,90,857	24,626	32,212	42,956	57,942	89,600	1,10,204	1,34,105	1,65,195	45,202	56,840	71,761	90,044	45,102	51,169	67,390	95,340
AUM	**INR mn**	**1,33,271**	**1,47,767**	**1,72,228**	**2,11,000**	**21,985**	**30,733**	**43,594**	**60,840**	**94,543**	**1,13,502**	**1,41,667**	**1,73,126**	**40,678**	**51,800**	**67,380**	**87,220**	**41,411**	**53,803**	**71,980**	**96,978**
Advances	INR mn	1,06,133	1,19,603	1,38,515	1,69,029	19,812	26,225	36,091	50,624	75,233	90,534	1,14,763	1,40,044	39,149	49,453	64,156	82,890	33,265	43,049	59,957	81,434
Disbursements	INR mn	35,447	39,919	59,026	70,720	8,949	12,953	19,644	26,460	26,569	36,022	50,245	55,822	12,982	16,410	23,940	31,270	10,966	20,305	30,129	39,634
Borrowings	INR mn	1,02,507	1,05,833	1,20,849	1,38,989	14,913	20,700	29,889	34,151	63,454	79,725	98,407	1,23,365	25,080	27,206	37,861	51,850	30,537	34,668	48,135	73,021
Networth	INR mn	26,928	31,467	36,956	44,460	9,373	10,761	12,405	22,987	24,014	28,086	32,697	37,733	19,795	29,162	33,393	37,679	13,805	15,737	18,173	21,215
GNPA	%	1.1%	1.5%	1.2%	1.1%	1.9%	2.1%	1.1%	1.1%	1.0%	1.0%	0.9%	0.9%	0.7%	1.2%	1.2%	1.2%	1.8%	2.3%	1.6%	1.7%
NNPA	%	0.7%	1.1%	0.8%	0.7%	1.4%	1.6%	0.9%	0.9%	0.7%	0.8%	0.7%	0.7%	0.4%	0.9%	0.9%	0.9%	1.2%	1.8%	1.1%	1.2%
Productivity Ratios		FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24
Branches	x	310	332	469	523	115	130	183	223	280	314	346	367	190	208	231	262	72	80	111	133
Employees	x	3,823	4,111	5,618	5,985	1,576	2,200	2,709	3,323	5,679	5,222	6,034	6,075	1,913	2,271	2,405	2,918	687	851	993	1,249
AUM/Branch	**INR mn**	**430**	**445**	**367**	**403**	**191**	**236**	**238**	**273**	**338**	**361**	**409**	**472**	**214**	**249**	**292**	**333**	**575**	**673**	**648**	**729**
Disbursement/Branch	**INR mn**	**114**	**120**	**126**	**135**	**78**	**100**	**107**	**119**	**95**	**115**	**145**	**152**	**68**	**79**	**104**	**119**	**152**	**254**	**271**	**298**
AUM/Employee	INR mn	35	36	31	35	14	14	16	18	17	22	23	28	21	23	28	30	60	63	72	78
Disbursement/Employee	INR mn	9	10	11	12	6	6	7	8	5	7	8	9	7	7	10	11	16	24	30	32
Cost/Income	%	36%	36%	36%	35%	39%	43%	45%	41%	40%	42%	45%	46%	22%	19%	19%	20%	39%	34%	36%	35%
RoA Tree		FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24
Yield on advances	%	14.6%	13.6%	13.8%	14.8%	15.9%	16.2%	16.1%	16.2%	14.2%	13.6%	13.5%	13.6%	17.4%	17.5%	18.3%	17.7%	13.0%	12.8%	13.5%	14.1%
Calculated cost of funds	%	8.3%	7.3%	7.1%	7.6%	8.7%	8.3%	8.3%	9.0%	7.8%	6.7%	6.6%	6.8%	9.1%	8.0%	8.5%	8.6%	7.8%	6.6%	7.3%	8.3%
Spreads	%	6.4%	6.3%	6.7%	7.2%	7.2%	7.9%	7.8%	7.2%	6.4%	6.9%	6.9%	6.8%	8.3%	9.5%	9.8%	9.0%	5.1%	6.2%	6.2%	5.9%
NIM to AUM	%	5.5%	6.4%	7.1%	7.4%	9.1%	8.5%	7.9%	7.9%	7.1%	7.5%	7.5%	7.0%	11.5%	12.7%	13.3%	12.1%	6.6%	7.6%	7.3%	7.0%
Opex to AUM	%	2.2%	2.5%	2.7%	2.8%	4.6%	5.0%	4.9%	4.5%	3.0%	3.4%	3.6%	3.4%	2.7%	2.5%	2.8%	2.7%	2.7%	2.7%	2.8%	2.7%
Credit costs to AUM	bps	44	35	31	22	107	46	38	37	54	27	12	19	17	78	60	40	100	65	41	36
RoAA	%	2.6%	3.2%	3.5%	4.2%	4.1%	4.5%	4.1%	4.9%	3.5%	3.6%	3.5%	3.3%	6.5%	7.3%	7.8%	7.6%	2.5%	3.9%	3.9%	3.8%
RoAE	%	13.5%	15.2%	15.9%	18.4%	9.8%	12.8%	13.4%	14.0%	12.9%	13.7%	14.2%	13.9%	14.5%	15.1%	16.1%	17.2%	8.7%	12.6%	13.5%	15.5%
Yield on advances (after credit cost)	%	14.2%	13.3%	13.5%	14.5%	14.8%	15.8%	15.8%	15.8%	13.7%	13.3%	13.4%	13.4%	17.2%	16.7%	17.7%	17.3%	12.0%	12.2%	13.1%	13.7%

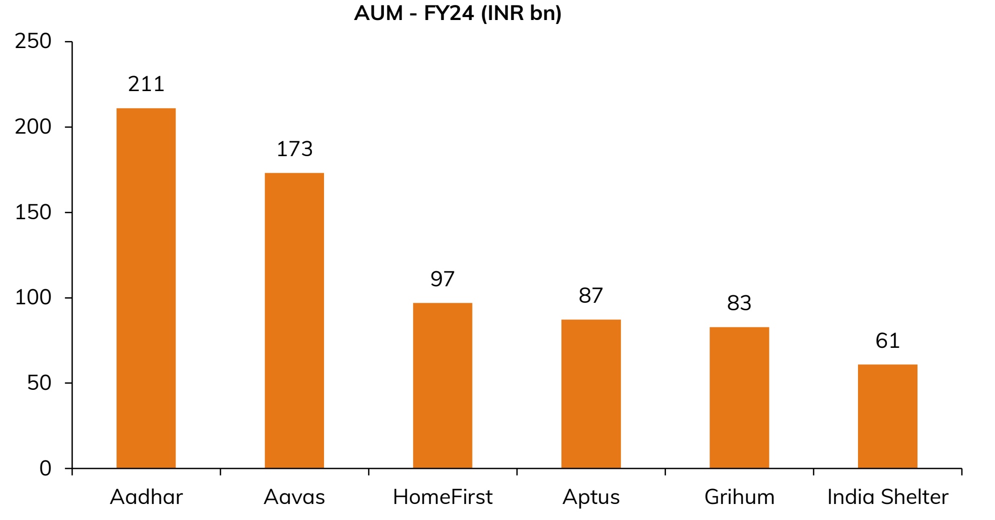
Source: Company data, I-Sec research

Exhibit 60: Aadhar's delivered 2nd higher PAT CAGR at 37% between FY20–24



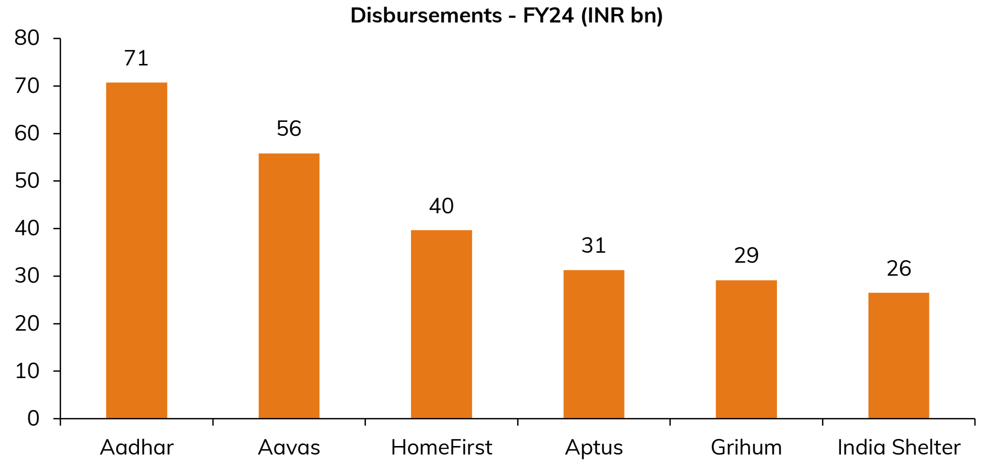
Source: Company data, I-Sec research

Exhibit 61: ...even on a high base, evident in AUM >200bn as on FY24



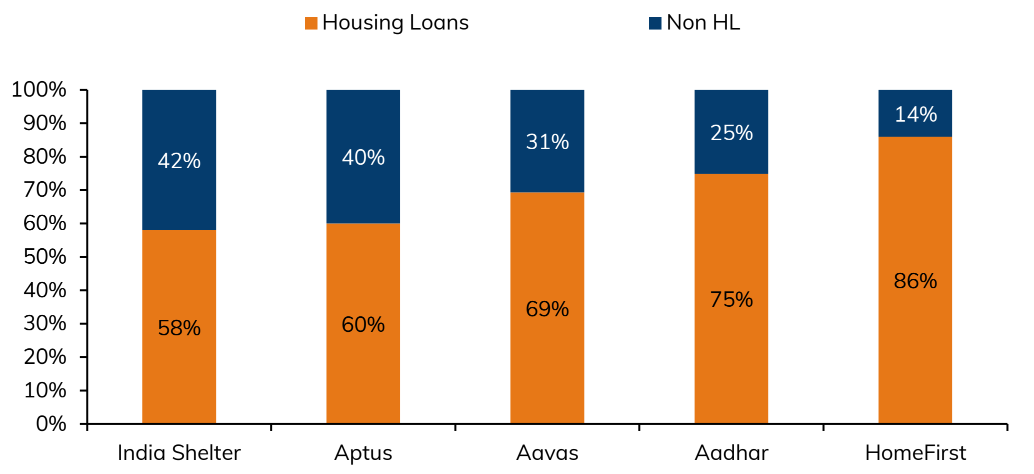
Source: Company data, I-Sec research

Exhibit 62: Disbursements at INR 71bn in FY24 is also amongst highest within peers driven by highest branch network and better productivity



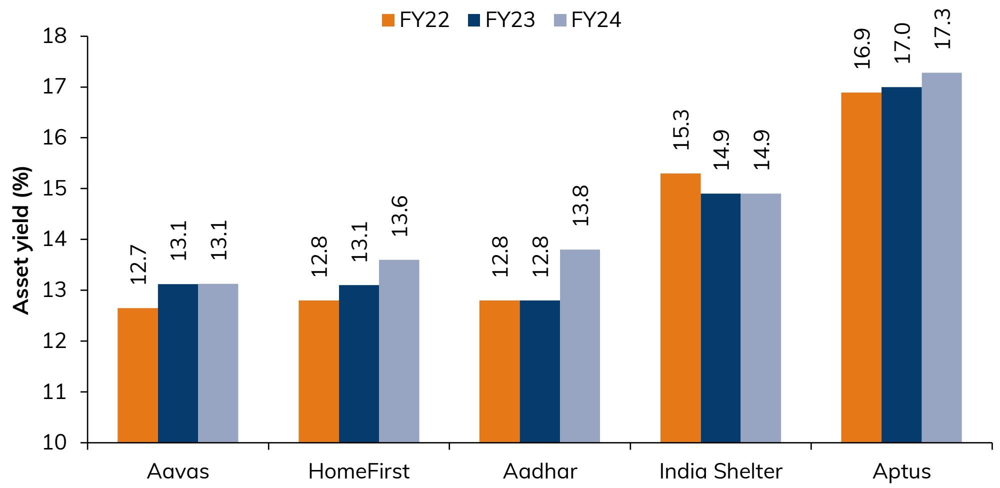
Source: Company data, I-Sec research

Exhibit 63: Non-HL exposure is amongst lowest, at 25%, as on FY24



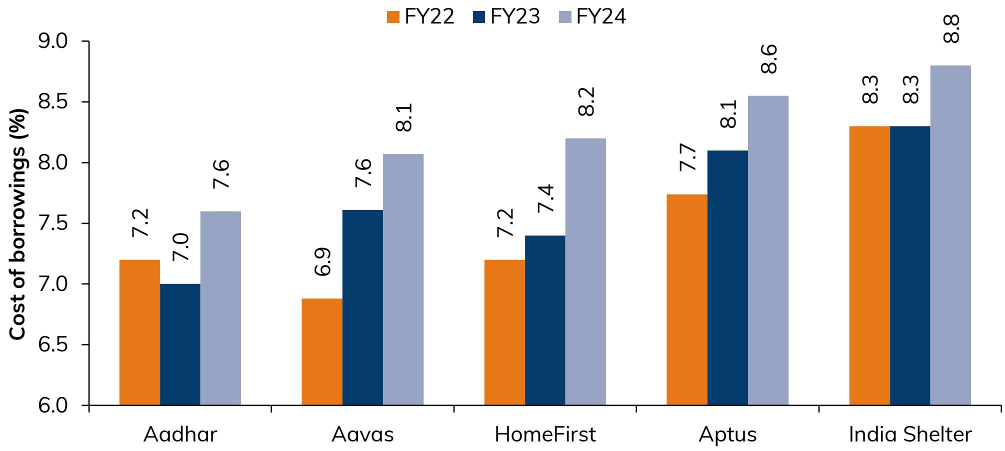
Source: Company data, I-Sec research

Exhibit 64: Player-wise trend in asset yields



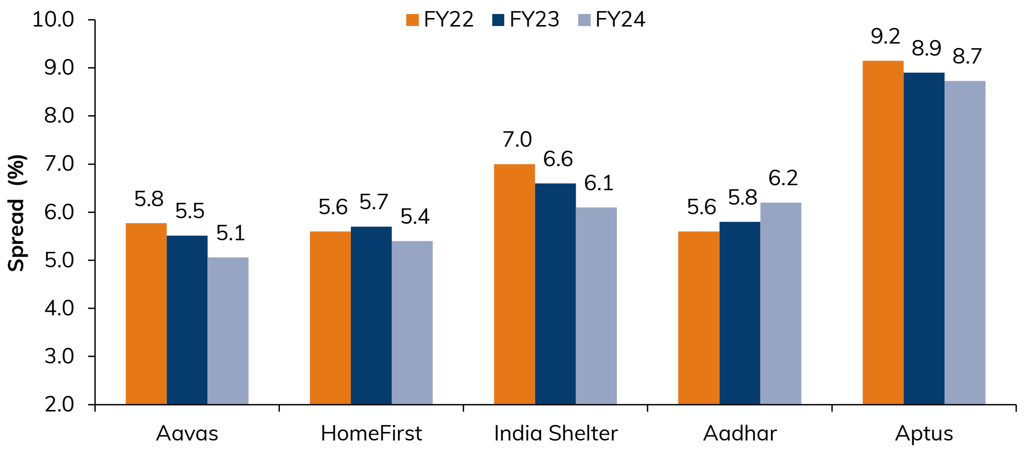
Source: Company data, I-Sec research

Exhibit 65: Player-wise trend in cost of borrowings



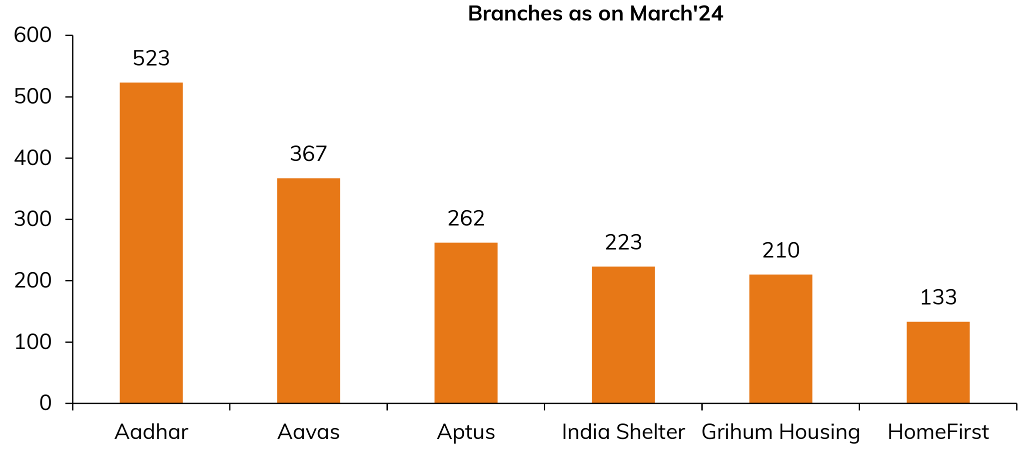
Source: Company data, I-Sec research

Exhibit 66: Player-wise trend in spreads



Source: Company data, I-Sec research

Exhibit 67: Branch network, as on FY24



Source: Company data, I-Sec research

Exhibit 68: Employee metrics

Particulars	Aadhar	India Shelter	Aptus	Home First	Aavas
Employee cost % of AUM	1.64%	3.40%	1.90%	1.80%	2.30%
AUM Per Employee (INR mn)	35	18	30	78	23
Salary per employee per month (INR)	48,130	44,997	42,528	98,975	40,080
AUM per Branch (INR mn)	403	273	333	729	472
Employee per branch (x)	11	15	11	9	20

Source: Company data, I-Sec research

Exhibit 69: Other expenses detailed break-down

	Aadhar			India Shelter			Aptus			Home First			Aavas		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
Other opex as a % of avg AUM	**0.64**	**0.85**	**0.91**	**0.94**	**1.01**	**0.86**	**0.37**	**0.45**	**NA**	**0.85**	**0.93**	**0.84**	**0.85**	**0.95**	**NA**
Advertisement and business promotion	0.04	0.09	0.11	0.05	0.05	0.05	0.00	0.01	NA	0.02	0.04	0.05	0.06	0.09	NA
AMC charges	-	-	-	-	-	-	-	-	NA	-	-	-	0.02	0.02	NA
Auditors remuneration	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	NA	0.01	0.01	0.01	0.01	0.01	NA
Bank charges	-	-	-	0.01	0.02	0.02	0.01	0.01	NA	0.07	0.06	0.04	-	-	NA
Collection and legal recovery expenses	-	-	-	-	-	-	-	-	NA	-	-	-	0.03	0.04	NA
CSR expenses	0.04	0.05	0.06	0.06	0.06	0.06	0.09	0.10	NA	0.04	0.05	0.05	0.06	0.06	NA
Directors sitting fees and commission	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	NA	0.02	0.01	0.01	0.01	0.01	NA
Donation	-	-	-	-	-	-	-	-	NA	-	-	-	0.00	0.00	NA
Electricity charges	0.02	0.02	0.02	0.03	0.04	0.03	0.01	0.01	NA	0.01	0.01	0.01	0.03	0.03	NA
GST	0.08	0.10	0.13	-	-	-	-	-	NA	-	-	-	-	-	NA
Insurance	0.05	0.07	0.07	0.02	0.02	0.01	0.00	0.00	NA	-	-	-	-	-	NA
IT Expenses	0.07	0.11	0.11	0.26	0.21	0.19	0.01	0.04	NA	0.21	0.23	0.19	0.05	0.06	NA
Loan processing	-	-	-	0.11	0.07	0.07	-	-	NA	-	-	-	-	-	NA
Legal and professional charges	0.05	0.07	0.09	0.10	0.18	0.15	0.03	0.05	NA	0.20	0.15	0.12	0.07	0.08	NA
Loss on derecognition of property, plant and equipment	-	-	-	0.00	0.00	0.00	-	-	NA	-	-	-	-	-	NA
Loss on sale of asset held for sale	-	-	-	-	-	-	-	-	NA	-	-	-	-	-	NA
Loss on sale of fixed assets	0.00	-	0.00	-	-	-	-	-	NA	-	-	-	-	-	NA
Manpower management cost	-	-	-	-	-	-	-	-	NA	-	-	-	0.30	0.27	NA
Office expenses	-	-	-	0.04	0.02	0.02	0.02	0.02	NA	0.02	0.02	0.03	0.03	0.03	NA
Postage, telephone and other communication expenses	0.05	0.05	0.03	0.03	0.03	0.03	0.03	0.02	NA	0.01	0.00	0.00	0.07	0.07	NA
Printing and stationery	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01	NA	-	-	-	0.01	0.01	NA
Rent, Rates and taxes	0.04	0.04	0.05	0.03	0.04	0.04	0.04	0.05	NA	0.10	0.13	0.12	0.01	0.01	NA
Rating agency charges	-	-	-	-	-	-	0.01	0.02	NA	-	-	-	-	-	NA
Repairs and maintenance	0.03	0.05	0.06	0.02	0.03	0.02	0.01	0.00	NA	0.00	0.00	0.00	0.03	0.05	NA
Secretarial and Compliance	-	-	-	-	-	-	-	0.01	NA	-	-	-	-	-	NA
Travelling expenses	0.08	0.11	0.12	0.12	0.21	0.13	0.06	0.08	NA	0.08	0.13	0.12	0.07	0.11	NA
Miscellaneous expenses	0.05	0.05	0.04	0.01	0.00	0.01	0.00	0.00	NA	0.06	0.08	0.08	-	-	NA

Source: Company data, I-Sec research

Note: Top5 expense type in each column are highlighted in Red

Financial outlook

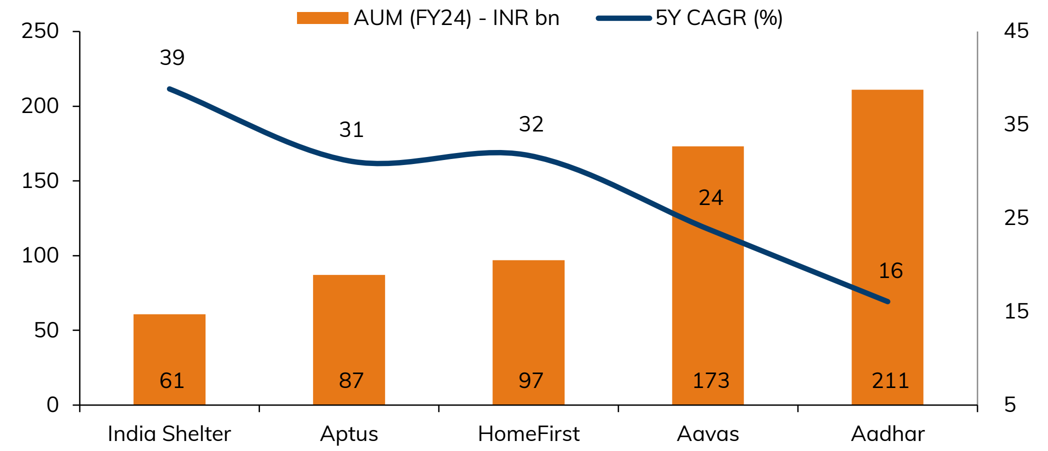
Deep distribution network with >500 branches (FY24) and niche positioning in formal salaried to drive >20% AUM CAGR over FY24-26E

Aadhar started operations in 2010, approximately during the same time when peers like Aavas / HomeFirst / Aptus / India Shelter also started their journey. However, Aadhar with its differentiated approach to affordable housing like tapping formal salaried segment (but less than INR1mn ticket size), diversified business operation, focus on catering underserved North markets like UP, Chhattisgarh, Odisha etc. (relatively low competition) and gradually scale LAP portfolio helped it emerging as the key winner. Its AUM at >INR200bn as on FY24 is one of the highest within affordable space and is also reflection of its business moat. It delivered 18% AUM CAGR between FY18-24 with 23% YoY growth in FY24.

Being an early market entrant and its extensive distribution network, Aadhar focused on customer acquisition and kept ticket size as well as LTV under check. Its live accounts (proxy to customer count) grew by 13% CAGR between FY21-24 vs 17% AUM CAGR during the same period.

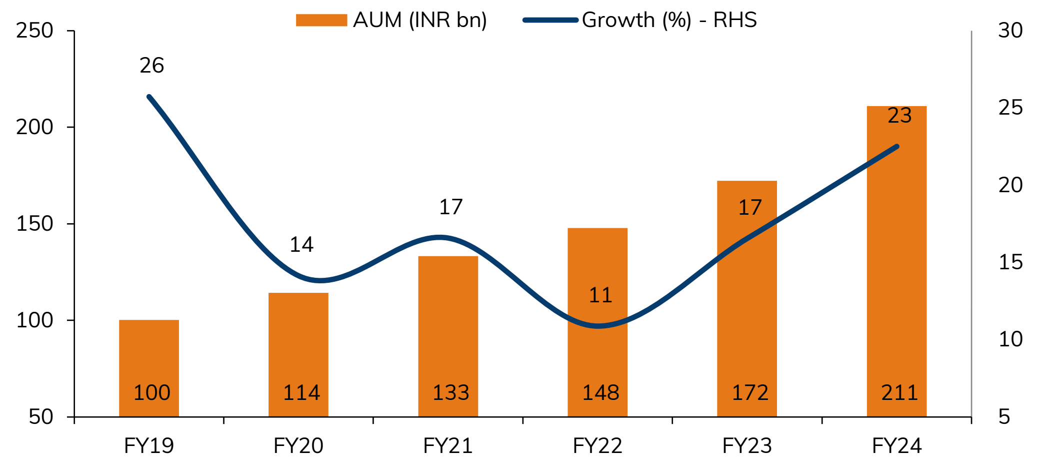
Going ahead, its extensive distribution network of 523 branches spread across 20 states with no single state contributing >15% of AUM coupled with focus on EWS + LIG segment (>70% of its AUM) and lowest cost of loans would be key enablers for Aadhar sustaining its robust growth momentum going ahead. We estimate 21% AUM CAGR over FY24–26E.

Exhibit 70: Highest AUM in absolute terms among peers



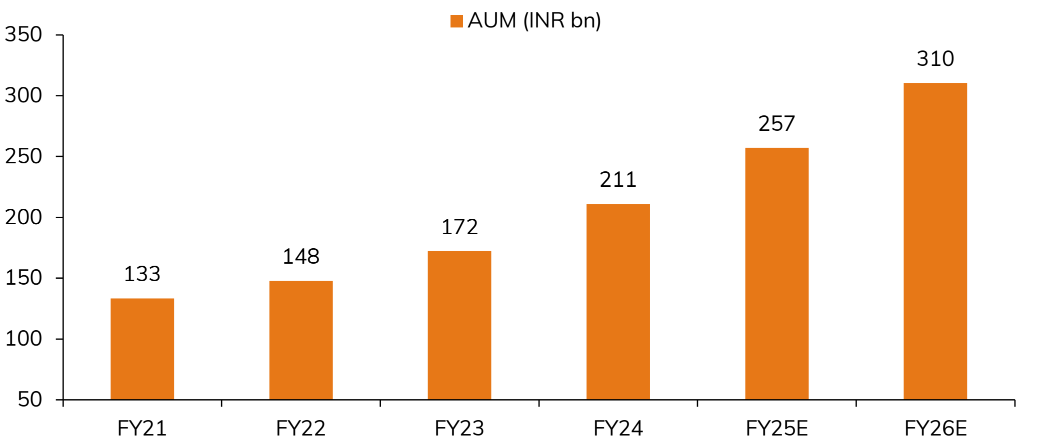
Source: Company data, I-Sec research

Exhibit 71: AUM up 23% for FY24, highest growth rate in the past five years…



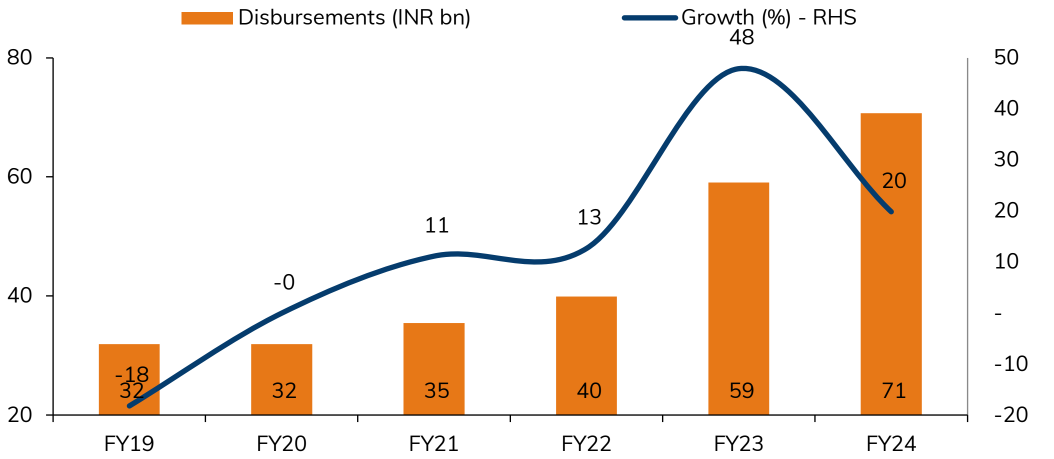
Source: Company data, I-Sec research

Exhibit 72: … we expect growth momentum to sustain; we model 21% CAGR over FY24–26E



Source: Company data, I-Sec research

Exhibit 73: Disbursements have doubled from FY21 to FY24



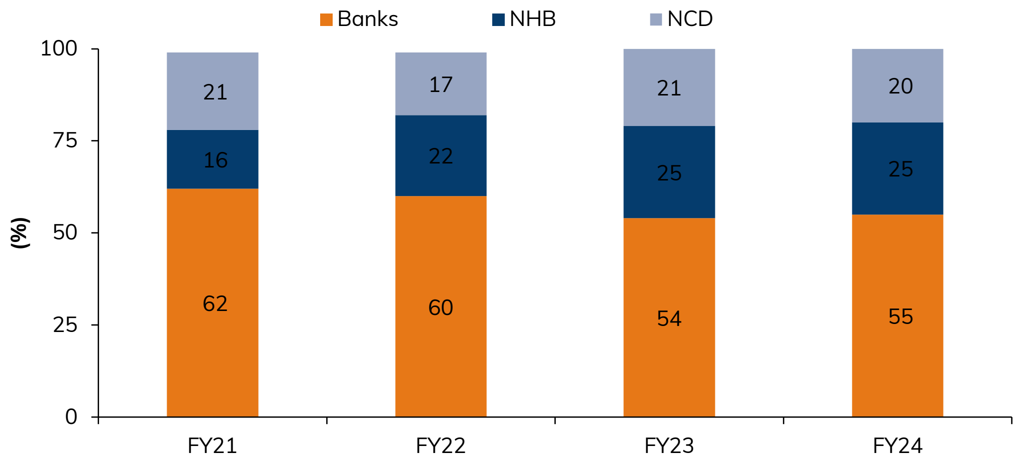
Source: Company data, I-Sec research

Effective asset-liability management to ensure spread sustaining at >6% over FY24–26E

Aadhar's industry-leading spread of >6% is driven by its effective asset-liability management. Its diversified borrowing profile with active relationship with 23 banks, 9 MFs, 3 insurance companies, 1 development finance institution (DFI), NHB and 1 NBFC enabled it in maintaining a lower CoF at 7.6% in FY24. Notably, despite rising rate cycle its cost of funds has gone up only 40bps vs, >200bps increase in repo rate between FY22–24.

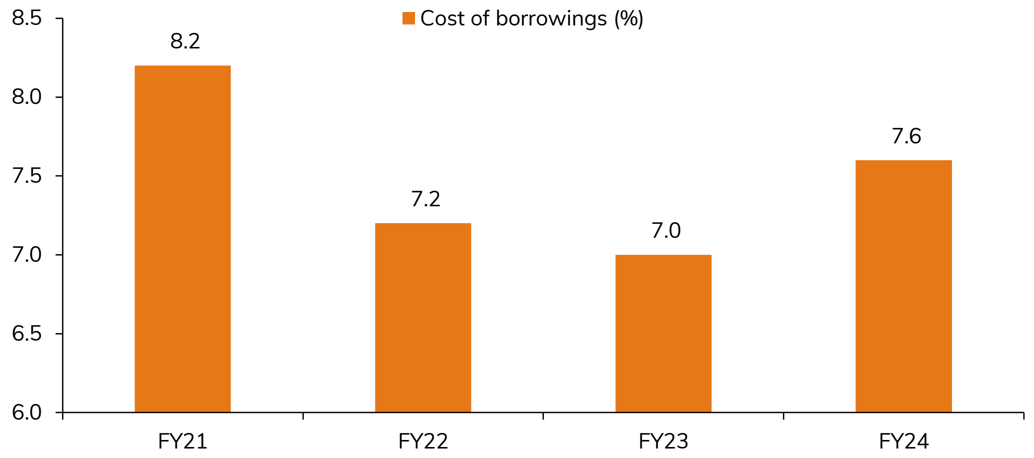
Active management of borrowing mix by management depends on the interest rate scenario, as seen in the increasing share of NHB refinancing, from 16% in FY21 to 25% by FY24; correspondingly trimming bank borrowing to 55% by FY24, from 62% in FY21 (to minimise impact of rising MCLR) helped its borrowing cost maintaining at around 7% throughout rising rate cycle.

Exhibit 74: Active management of borrowing mix depends on interest rate cycle...



Source: Company data, I-Sec research

Exhibit 75: ...the same resulted in only 40bps in CoF despite >200bps increase in repo rate during FY22–24

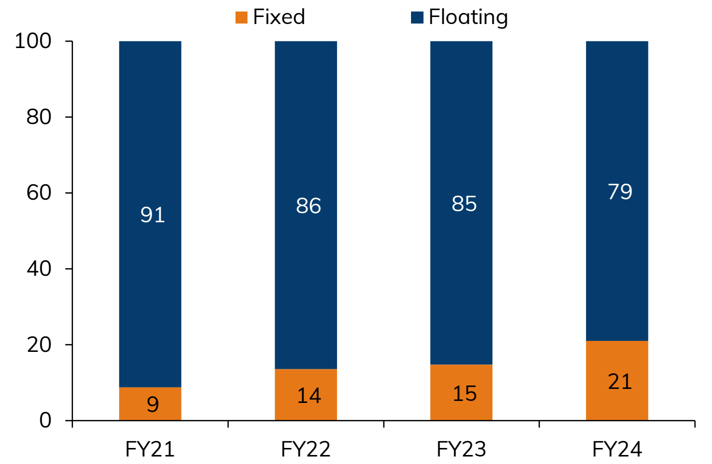


Source: Company data, I-Sec research

On the asset side, large share of EWS + LIG segment (>70% of AUM), deep distribution especially in underpenetrated states (relatively low competition) and increased share of informal segment (11% from salaried + 34% from self-employed) has helped Aadhar in maintaining better risk-adjusted yield at 13.6%. Aadhar's average yield on loan book increased to 13.8% in FY24 vs. 12.8% in FY23, which was primarily driven by change in loan mix towards non-housing loans.

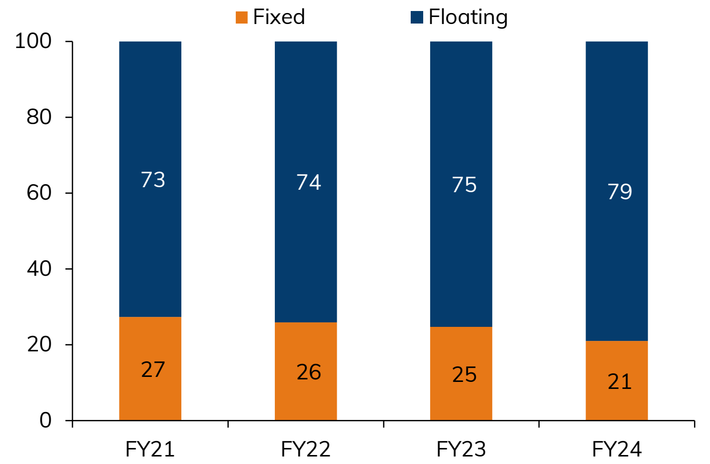
Overall, we expect NIMs to expand by ~20bps in FY25E supported by capital raise, uptick in yields, partly offset by rise in borrowing cost. Aadhar raised fresh capital of INR10bn through IPO which will bring down the leverage to 4x in FY25E vs. 4.7x in FY24. However, as the company increases its reliance on borrowings to support growth, in FY26E, we expect NIM to retrace back to FY24 levels at ~7.4%, as we estimate leverage to rise to ~4.15x in FY26E.

Exhibit 76: 79% of gross AUM is on floating basis...



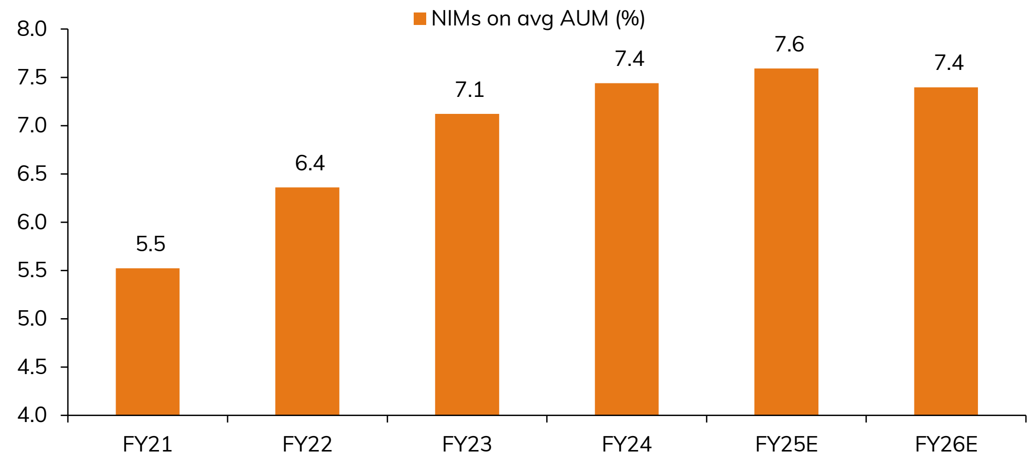
Source: Company data, I-Sec research

Exhibit 77: ...and so is 79% of borrowings



Source: Company data, I-Sec research

Exhibit 78: NIMs in FY26E to retrace back to FY24 levels, after rising in FY25E



Source: Company data, I-Sec research

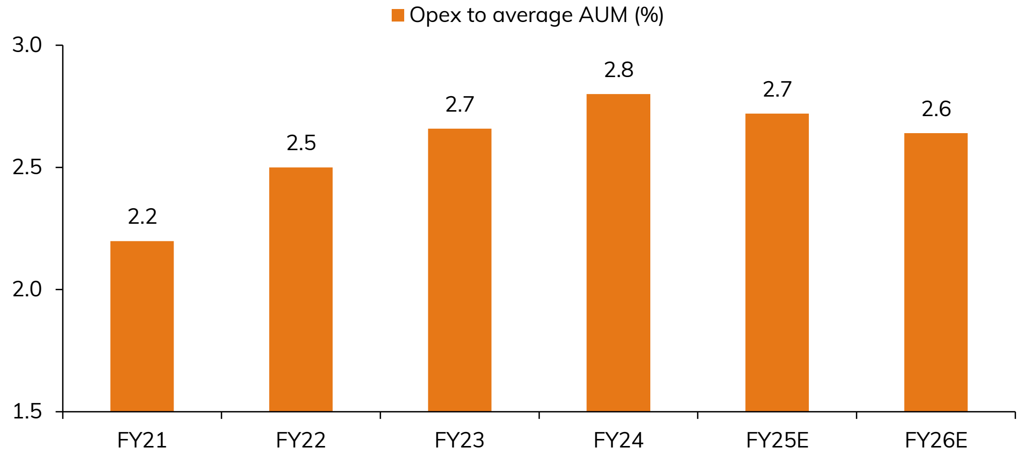
Improving productivity to drive operating leverage

In terms of productivity, AUM per employee for Aadhar improved to INR 35mn vs. INR 31mn a year ago, but has been broadly stable vs. FY21/FY22 levels due to slower AUM growth. With AUM growth now expected to be steady above 20%, we expect productivity ratios to improve further which will drive operational efficiency.

Gong ahead, scaling up the business with lower incremental costs will also lead to improvement in operational efficiency with the passage of time. Cost to income ratio also has been stable in the range of 35–36% over the past four years, which we expect will likely dip to ~33% in FY25E and FY26E as well.

Aadhar continues to invest on the digital front with an aim of enhancing its customer experience and improve productivity. Aadhar appointed TCS in FY20 to integrate its various stages of a loan cycle from onboarding to loan origination, accounting and reporting. Furthermore, in Oct'21, Aadhar implemented an enterprise-wide technology upgrade of its processes and systems with an intention of rationalisation its existing processes and the introduction of enhanced features. A perfect blend of tech as well as physical presence is likely to allow Aadhar continue to expand and grow its business, while improving its overall operational efficiency.

Exhibit 79: Operational efficiencies to kick in as the company scales up



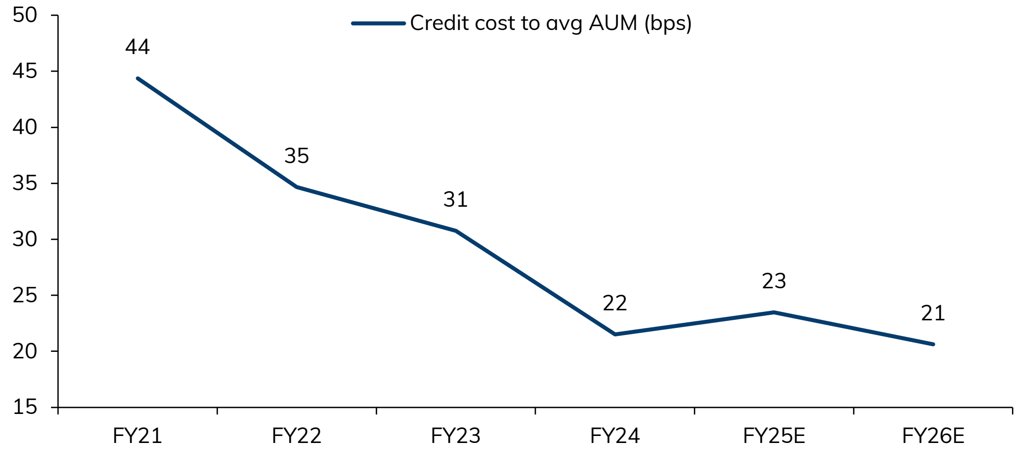
Source: Company data, I-Sec research

Credit cost to remain <30bps over FY24–26E

Aadhar's GNPA averaged at 1.2% and credit cost averaged at 33bps with an average coverage ratio of ~33% between FY21–24, despite the Covid-19 pandemic, is testimony of its resilient business model. Within customer category – salaried GNPA remained <1% across years – indicating higher resiliency in this segment, which is 57% of its portfolio. In times of hardship during the pandemic, Aadhar realigned its strategy with incremental focus towards salaried customers in order to contain risk. Moreover, it conducted additional due diligence on its customers to assess the impact of covid induced slowdown on their earnings. These additional measured helped Aadhar underwrite better in times of distress.

We believe that its effective credit risk management policies and framework reflect in Aadhar's portfolio quality indicators such as high repayment rates and low rates of GNPAs and NNPAs across business and economic cycles. As of FY24-end, Aadhar's GNPA stood at 1.1%, only next to Aavas at 0.9%, at par with India Shelter at 1.1% and better than Aptus at 1.2% and HomeFirst at 1.7%. We estimate the credit cost to sustain at <30 bps over FY25/26E.

Exhibit 80: Credit cost (calculated) is likely to be <50bps over FY24-26E



Source: Company data, I-Sec research

RoA likely to improve to 4.5–4.6% for FY25E/FY26E vs. 4.2% for FY24

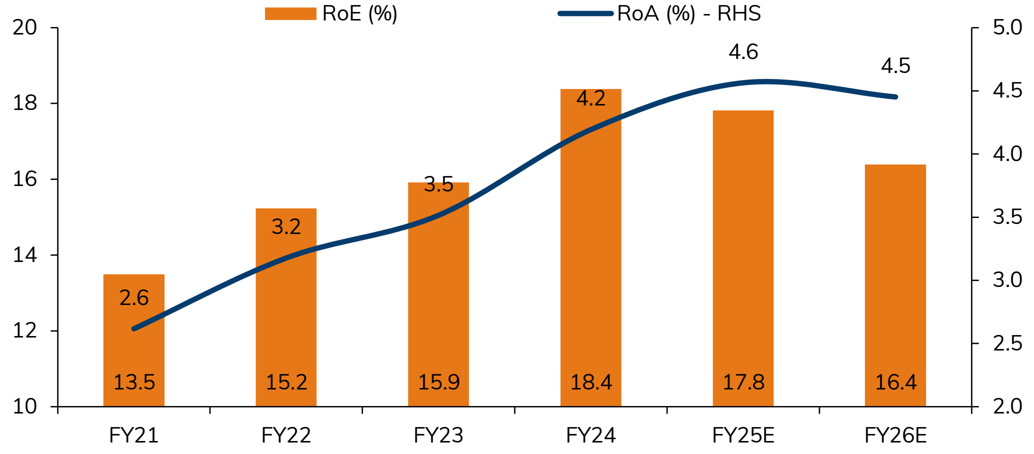
Aadhar is a category creator and only seasoned affordable housing player with it commanding ~2% market share in affordable housing (as on Dec'23) and delivered Industry-leading profitability between FY20-24. Aadhar has demonstrated superior execution by delivering robust 37% PAT CAGR during FY20-24 vs <35% for peers.

The company's AUM CAGR at 23% & RoA >3% between FY20- FY24 stands on the pillars of: 1) steady improvement in risk-adjusted yields to 13.6% by FY24 from 12.5% in FY22, the same was largely driven by 100bps improvement in asset yields; 2) deep distribution network; it has one of the highest branch network of >500 branches and the same has enabled the company in sustaining >20% growth in disbursements between FY20-24; 3) increased focus on scaling LAP book given much higher yields at 16.5% vs HL yields at 12.5%; and 4) pristine asset quality – average credit cost at 33bps between FY21-24.

Aadhar strives to sustain its current growth run-rate as it expects AUM growth at ~20% in the near-term driven by better productivity at newly opened branches; and its plans to add 70–75 branches in FY25.

We believe pan-India distribution with one of the highest branch network of >500 branches would help it sustain >20% AUM growth in the near-term, increased proportion of informal self-employed segment in overall mortgage portfolio is likely to result in better spreads than peers, levers for cost of fund reduction, >70% floating rate asset & liability to insulate spread from interest rate cycles, and steady credit cost at ~20bps over FY24–26E would help it in sustain better RoE than peers. Credit cost is likely to remain at 20bps in the near term. We expect Aadhar's RoA to improve to ~4.5–4.6% range for FY25E/FY26E from 4.2% for FY24.

Exhibit 81: RoA likely to sustain at ~4.5%



Source: Company data, I-Sec research

Key Risks

- Lower growth than the guidance of >20% credit growth in FY25/FY26
- Sharp deterioration in margins, if any due to decline in yields on floating rate book not compensated by direct decline in cost of borrowings
- Any deterioration in the portfolio quality might have an adverse impact on the overall profitability

Industry outlook

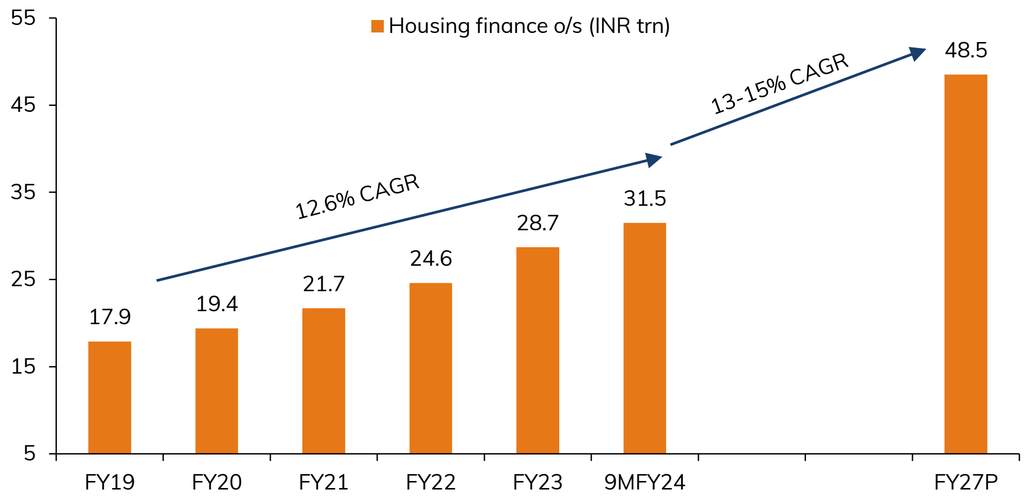
Overview of housing finance market in India

Housing finance market likely to grow at a CAGR of 13–15% from FY23 to FY27E

The Indian housing finance market recorded ~12.6% CAGR (growth in loan book) from FY19 to FY23, on account of rise in disposable incomes, healthy demand, and greater number of players entering the segment. Over the past two fiscals, housing finance segment has seen favourable affordability on account of stable property rates and improved annual income of individual borrowers.

The overall housing finance segment credit outstanding is ~INR 28.7trn, as of FY23 (up 16.7% in FY23), led by the aspirations of a growing young population with improving disposable income and migration to metro cities and elevated demand in tier-2/3 cities as well. Crisil MI&A expects overall housing segment to grow at a CAGR of 13–15% between FY23 to FY27.

Exhibit 82: Housing finance portfolio grew at a CAGR of 12.6% between FY19–23



Source: CRIF Highmark, CRISIL MI&A

Prime housing finance segment grew the fastest in housing finance from FY19–23

Among major ticket-size brackets, prime housing segment (loans above INR 5mn) witnessed fastest growth from FY19 to FY23, growing at a CAGR of 19.5%, which was followed by loans in the mass market housing segment (loans between INR 2.5mn to INR 5mn) which grew at a CAGR of 15.9% and affordable housing (loans less than INR 2.5mn) growing at a rather slow pace of 5.6% during the same period.

Market share for ticket brackets, in value terms was equally distributed as at Q3FY24, with both affordable and prime housing segments accounting for 34% market share each and mass market housing with 32% share in overall housing.

Exhibit 83: Ticket-size-wise growth in housing finance

Outstanding credit ticket-wise breakup (INR trn)									
Ticket Size	FY19	FY20	FY21	FY22	FY23	9MFY24	FY19-FY23 CAGR	FY19-9MFY24 CAGR	FY21-9MFY24 CAGR
Affordable Housing (Less than INR 2.5mn)	8.2	8.6	9.1	9.6	10.2	10.6	5.6%	6.6%	3.9%
Mass Market Housing (INR 2.5mn to 5mn)	5.1	5.7	6.6	7.7	9.2	10.2	15.9%	18.9%	11.5%
Prime Housing (More than INR 5mn)	4.6	5.1	6	7.3	9.3	10.7	19.2%	23.5%	15.6%
Total	**17.9**	**19.4**	**21.7**	**24.6**	**28.7**	**31.5**	**12.5%**	**15.2%**	**9.8%**

% of total	FY19	FY20	FY21	FY22	FY23	9MFY24
Affordable Housing (Less than INR 2.5mn)	46	44	42	39	36	34
Mass Market Housing (INR 2.5mn to 5mn)	28	29	30	31	32	32
Prime Housing (More than INR 5mn)	26	26	28	30	32	34
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: CRIF Highmark, CRISIL MI&A

Exhibit 84: Disbursement growth in affordable housing remained subdued at 5% between FY19–9MFY24

Disbursement ticket-wise breakup (INR bn)									
Ticket Size	FY19	FY20	FY21	FY22	FY23	9MFY24	FY19-FY23 CAGR	FY19-9MFY24 CAGR	FY21-9MFY24 CAGR
Affordable Housing (Less than INR 2.5mn)	1,345	1,372	1,486	1,961	2,262	1,652	13.9%	5.3%	2.7%
Mass Market Housing (INR 2.5mn to 5mn)	1,083	1,227	1,552	2,196	2,627	1,982	24.8%	16.3%	6.3%
Prime Housing (More than INR 5mn)	979	1,137	1,507	2,595	3,683	3,261	39.3%	35.1%	21.3%
Total	**3,408**	**3,736**	**4,545**	**6,752**	**8,571**	**6,894**	**25.9%**	**19.3%**	**11.0%**

% of total	FY19	FY20	FY21	FY22	FY23	9MFY24
Affordable Housing (Less than INR 2.5mn)	39	37	33	29	26	24
Mass Market Housing (INR 2.5mn to 5mn)	32	33	34	33	31	29
Prime Housing (More than INR 5mn)	29	30	33	38	43	47
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: CRISIL MI&A

Urban regions account for highest share in housing finance portfolio

As at Q3FY24, urban regions had the highest share, at ~66%, in the overall housing finance portfolio, followed by rural at ~20% share and semi-urban regions at ~9% share. Among tier's, fastest credit growth between FY19 to FY23 was witnessed in rural regions, which grew at a CAGR of 15.3%, followed by semi-urban with a CAGR of 15.0% and urban with a CAGR of 11.4%.

Exhibit 85: Urban accounts for >60% of housing loans

Ticket Size	FY19	FY20	FY21	FY22	FY23	9MFY24	FY19-FY23 CAGR	FY19-9MFY24 CAGR	FY21-9MFY24 CAGR
Urban Regions	12.3	13.2	14.7	16.5	19.1	21.1	11.6%	14.4%	9.5%
Rural Regions	3.1	3.4	3.9	4.5	5.4	6.3	14.9%	19.4%	12.7%
Semi-Urban Regions	1.4	1.6	1.8	2.1	2.5	2.9	15.6%	20.0%	12.7%
Others	0.9	1	1.1	1.3	1.5	1.8	13.6%	18.9%	13.1%
Total	**17.7**	**19.2**	**21.5**	**24.4**	**28.5**	**32.1**	**12.6%**	**16.0%**	**10.5%**

% of total	FY19	FY20	FY21	FY22	FY23	9MFY24	Cumulative
Urban Regions	69	69	68	68	67	66	66
Rural Regions	18	18	18	18	19	20	85
Semi-Urban Regions	8	8	8	9	9	9	94
Others	5	5	5	5	5	6	100
Total	**100**	**100**	**100**	**100**	**100**	**100**	

Source: CRIF Highmark, CRISIL MI&A

Exhibit 86: Region-wise, semi-urban regions had the best asset quality among regions as of Q3FY24

Tier (%) Asset quality	FY19	FY20	FY21	FY22	FY23	9MFY24
Urban Regions	1.6	2.4	2.6	2.5	2.2	2.1
Semi-Urban Regions	1.9	2.6	2.5	2.4	2.0	1.8
Rural Regions	2.3	3.1	3.1	2.8	2.5	2.2
Others	1.5	1.9	2.0	1.9	1.7	1.6

Source: CRIF Highmark, CRISIL MI&A

Housing shortage in India

Average household size, as per 2011 census, stood at 4.9 persons per household

As per 2011 census, total number of households in India stood at 246.69mn, with rural and urban regions accounting for 68% and 32% share, respectively. The average household size in India stood at 4.9 persons per household with average household size in rural at 4.9 persons and urban at 4.8 persons.

Exhibit 87: Average household size in urban stood at 4.8 persons per household and in rural at 4.9 persons per household

Characteristics	Total	Rural	Urban
Total Population	1,210	833	377
Total Households	247	168	79
Average Household size	4.9	5.0	4.8

Source: Census 2011, State of Housing in India 2013, CRISIL MI&A

Furthermore, according to Census Data 2011, majority of the Indian households live in a one-room or two-room house. According to the NSSO Survey on Housing Conditions conducted in 2012, the average floor area of a dwelling unit was 40.03sq.m in rural India and 39.20sq.m in urban India during 2012.

As per 2011 census, out of the total households (246.7mn) in India, 4% have no exclusive rooms, 37% have only one room, 32% have two rooms, 14% have three rooms and 13% have four rooms and above. One-room households dominate the share of overall households in both rural and urban regions.

Exhibit 88: Households by number of dwelling rooms

Area	Number of Households (mn)	Distribution of Households having number of dwelling rooms (mn)				
		No Exclusive Room	One Room	Two Rooms	Three Rooms	Four Rooms and above
Rural	167.83	7.21	66.15	53.99	21.31	19.16
Urban	78.86	2.43	25.34	24.14	14.49	12.47
India	246.69	9.64	91.49	78.13	35.8	31.63

Source: Census 2011, State of Housing in India 2013, CRISIL MI&A

Exhibit 89: Housing shortage in India

Area	Total Number of Census Homes (mn)	Occupied Census House (mn)	Distribution of Occupied Census Houses (mn)			
			Residence	Residence cum other use	Total of Residence and Residence cum other use	All other Non-Residential Use
Rural	220.70	207.12	159.93	6.23	166.16	40.96
Urban	110.14	99.04	76.13	2.35	78.48	20.56
Total	**330.84**	**306.16**	**236.06**	**8.58**	**244.64**	**61.52**

*Other non- residential use – Shop, Office, School, College, Hotel, lodge, guest house, hospital dispensary, Factory, workshop, work shed, place of worship, etc;

Source: Census 2011, Ministry of Housing and Urban Poverty Alleviation National Buildings Organisation; Planning Commission, CRISIL MI&A

Estimated shortage and requirement of ~100mn houses in 2022

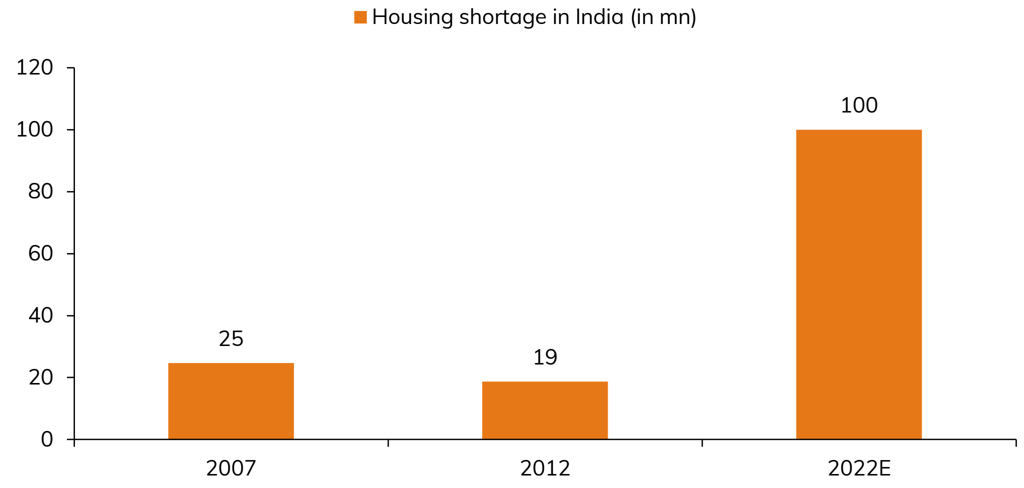
*Total incremental housing loans demand, if this entire shortage is to be addressed, **is estimated to be in the region of INR50trn to INR60trn**, as per the Committee report.*

*In comparison, the overall housing loans outstanding (excluding PMAY loans), **as of Mar'23, is ~INR28.7trn.***

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 an RBI-appointed committee on the development of housing finance securitisation market (Sep'19), the housing shortage in India was estimated to increase to 100mn units by 2022. Majority of the household shortage is for LIG and EWS with a small proportion (5–7%) of the shortage coming from middle income group or above. Total incremental housing loans demand, if this entire shortage is to be satiated, is estimated to be in the region of INR 50trn to INR 60trn, as per the committee's report.

In comparison, the overall housing loans outstanding (excluding PMAY loans), as of Mar'23, is ~INR 28.7trn. This indicates the immense latent potential of the market; in case a concrete action is taken for addressing the shortage of houses in the country.

Exhibit 90: Housing shortage in India has multiplied over the past decade

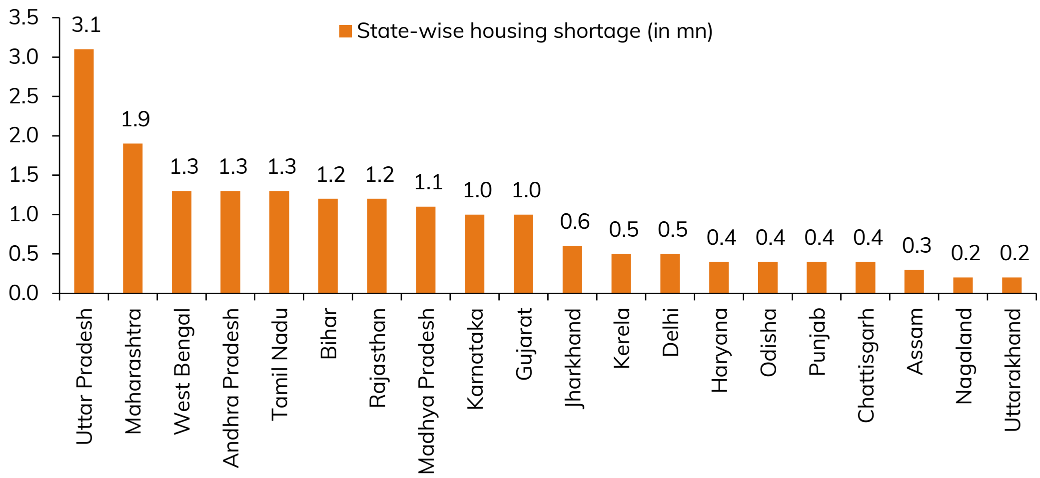


Note: E: Estimated; Source: RBI, Planning Commission, CRISIL MI&A

Top 10 states contribute 76% of total urban housing shortage (2012)

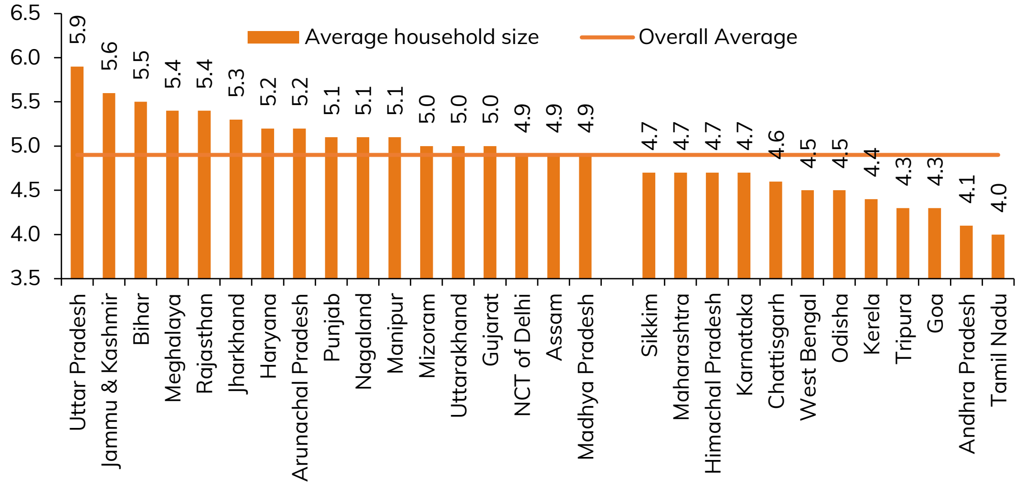
As per the estimates of the 'Twelfth Five-year Plan', ten states accounted for ~76% of the urban housing shortage. UP has a housing shortage of >3mn, followed by Maharashtra at 1.94mn, West Bengal at 1.33mn, Andhra Pradesh at 1.27mn and Tamil Nadu at 1.25mn.

Exhibit 91: State-wise housing shortage



Source: Report of the Technical Urban Group on Urban Housing Shortage (TG-12), CRISIL MI&A

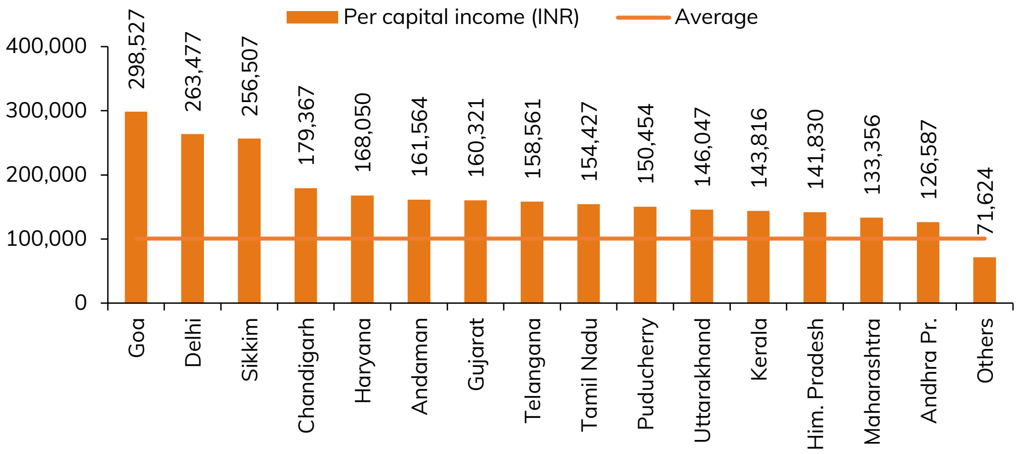
Exhibit 92: State-wise average household size



Source: NSSO (National Sample Survey Organisation), CRISIL MI&A

Amongst the top states with high shortage of homes, some states such as UP, Bihar, West Bengal, Rajasthan and Madhya Pradesh have a lower per capita income, as compared to the national average. This shows that there is significant headroom for growth in terms of increasing per capita income and reducing the housing shortage in the country.

Exhibit 93: ~45% of India's states have lower per capita income than national average (FY23)



Source: RBI CRISIL MI&A

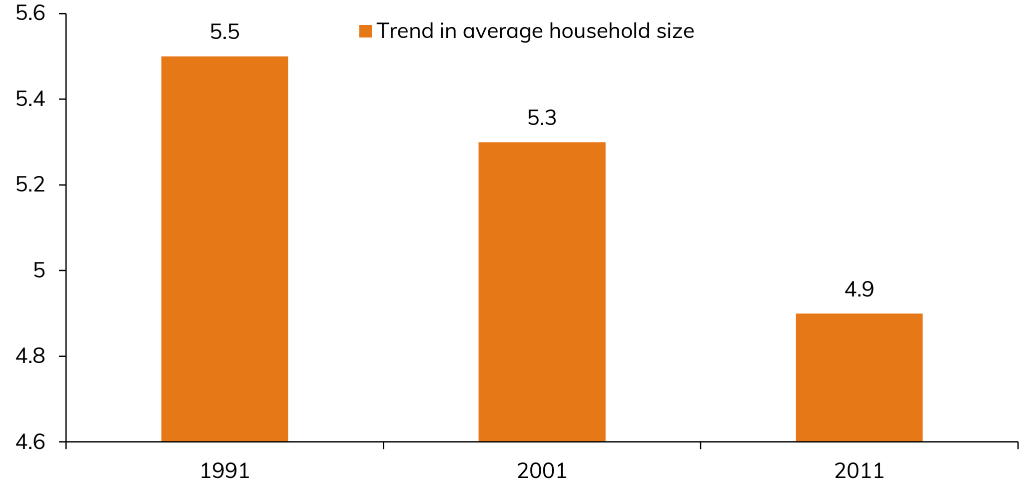
Key demand triggers

Increase in number of nuclear families will likely lead to rise in housing demand

Nuclearisation refers to the formation of multiple single families out of one large joint family, leading to a decline in average household size as seen over the past decades.

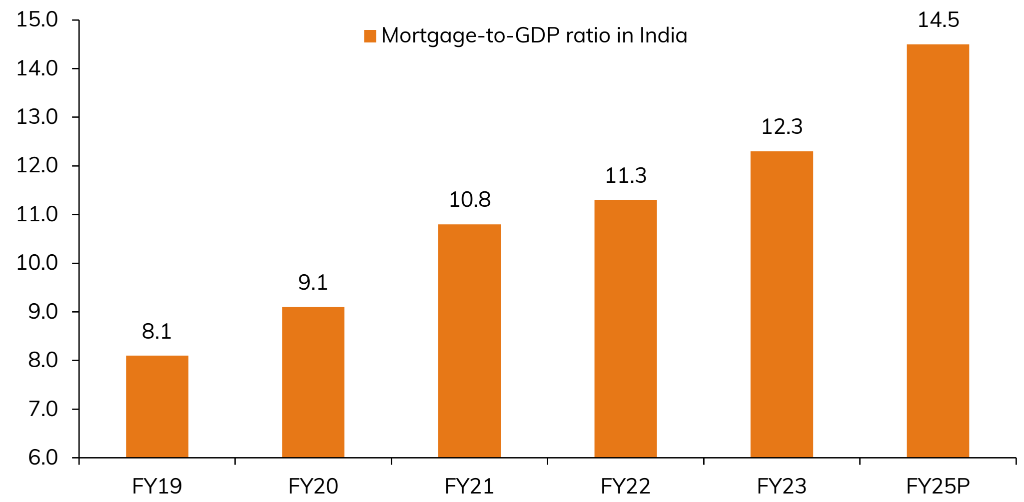
In urban areas, nuclearisation is primarily driven by change in people's lifestyle, changing social or cultural attitudes, and increased mobility of labour in need of better employment opportunities. Such trends are expected to continue in the future too, which will likely lead to rise in housing demand.

Exhibit 94: Trend in average household size



Source: Census 2011, CRISIL MI&A

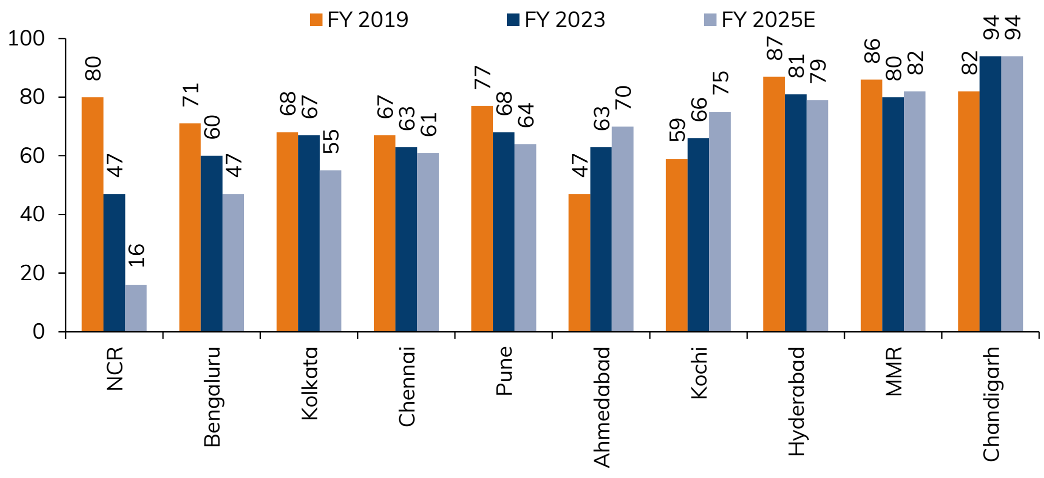
Exhibit 95: Improvement in mortgage-to-GDP ratio in India, but still well below developed countries



Note: P – Projected, Data for mortgage to GDP for India includes both Housing loans outstanding over constant GDP for India;

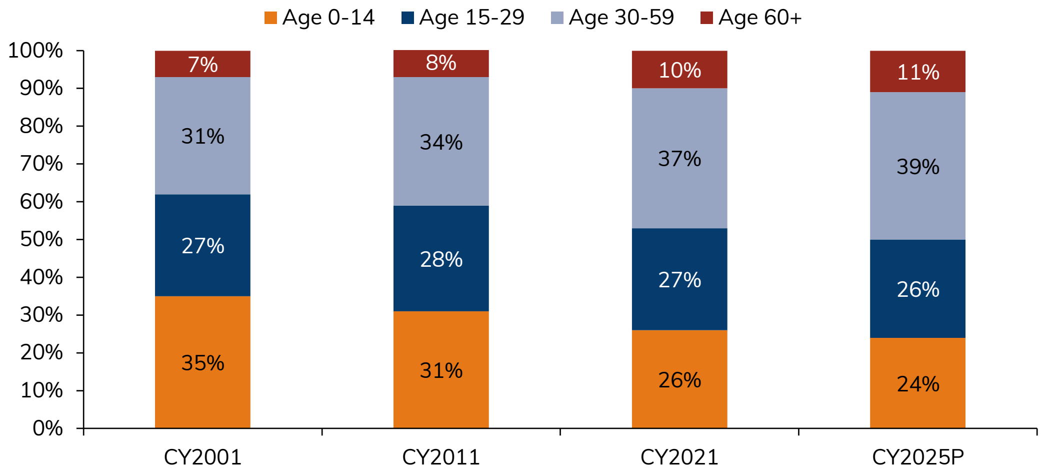
Source – NHB, World Bank, CRISIL MI&A

Exhibit 96: Unsold inventory shall dip going into FY25E, aiding housing demand



Source: Company reports, CRISIL MI&A Estimates

Exhibit 97: India's demographic dividend increasing in the 30–59 age bracket, which is the key earning segment



Note: E: Estimated, P: Projected;

Source: United Nations Department of Economic and Social affairs, CRISIL MI&A

Overview of affordable housing finance market in India (<INR 2.5mn)

The overall size of the affordable housing finance market, in terms of loan outstanding, was INR 10.6trn as at Q3FY24, constituting ~34% of the overall housing finance market. PSBs have the highest market share, at ~46%, in the affordable housing finance segment, followed by ~27% for HFCs (O/s loans of INR 2.8trn as at Q3FY24) and then ~24% for private banks (O/s loans of INR 2.5trn as at Q3FY24).

Exhibit 98: HFCs accounted for second-highest share among lenders in affordable housing segment, as at Q3FY24

Lender (INR bn)	FY19	FY20	FY21	FY22	FY23	9MFY24	FY19-FY23 CAGR	FY19-9MFY24 CAGR	FY21-9MFY24 CAGR
Public Sector Banks	4,065	4,273	4,392	4,519	4,774	4,844	4.1%	4.5%	2.5%
Housing Finance Companies	2,254	2,332	2,405	2,485	2,670	2,866	4.3%	6.2%	4.5%
Private Sector Banks	1,790	1,897	2,140	2,420	2,484	2,599	8.5%	9.8%	5.0%
Small Finance Banks	10	26	47	84	132	166	89.1%	100.2%	36.9%
Non-Banking Finance Companies	45	53	91	94	119	152	27.3%	35.2%	13.6%
Foreign Banks	19	16	14	13	10	11	-14.1%	-12.4%	-5.9%
Total	**8,183**	**8,598**	**9,089**	**9,615**	**10,189**	**10,637**	**5.6%**	**6.8%**	**4.0%**

% of total	FY19	FY20	FY21	FY22	FY23	9MFY24	Cumulative
Public Sector Banks	50	50	48	47	47	46	46
Housing Finance Companies	28	27	26	26	26	27	72
Private Sector Banks	22	22	24	25	24	24	97
Small Finance Banks	0	0	1	1	1	2	98
Non-Banking Finance Companies	1	1	1	1	1	1	100
Foreign Banks	0	0	0	0	0	0	100
Total	**100**	**100**	**100**	**100**	**100**	**100**	

Source: CRIF Highmar, CRISIl MI&A

Exhibit 99: Lender-wise disbursement in affordable housing finance

Lender (INR bn)	FY19	FY20	FY21	FY22	FY23	9MFY24	FY19-FY23 CAGR	FY19-9MFY24 CAGR	FY21-9MFY24 CAGR
Public Sector Banks	623	659	632	770	869	596	8.7%	-1.1%	-1.5%
Housing Finance Companies	409	340	417	577	721	555	15.2%	7.9%	7.4%
Private Sector Banks	287	338	395	542	554	389	17.9%	7.9%	-0.4%
NBFCs	17	19	19	25	47	56	28.8%	34.3%	31.5%
Small Finance Bank	8	15	21	45	68	54	73.0%	63.3%	26.2%
Foreign Banks	1	1	1	2	2	2	16.4%	9.1%	6.9%
Total	**1,345**	**1,372**	**1,486**	**1,961**	**2,262**	**1,652**	**13.9%**	**5.3%**	**2.7%**

% of total	FY19	FY20	FY21	FY22	FY23	9MFY24	Cumulative
Public Sector Banks	46.3	48.1	42.6	39.3	38.4	36.1	36
Housing Finance Companies	30.4	24.8	28.1	29.4	31.9	33.6	70
Private Sector Banks	21.3	24.6	26.6	27.6	24.5	23.6	93
NBFCs	1.3	1.4	1.3	1.3	2.1	3.4	97
Small Finance Bank	0.6	1.1	1.4	2.3	3.0	3.3	100
Foreign Banks	0.1	0.1	0.1	0.1	0.1	0.1	100
Total	**100**	**100**	**100**	**100**	**100**	**100**	

Source: CRISIL MI&A

Exhibit 100: Lender-wise market share in disbursements

Disb. mkt share in AHFC (%)	FY19	FY20	FY21	FY22	FY23	9MFY24
Aadhar	2.37	2.33	2.39	2.04	2.61	2.97
Aavas	1.99	2.14	1.79	1.84	2.22	2.23
HomeFirst	1.17	1.18	0.74	1.04	1.33	1.73
Aptus	0.81	0.93	0.87	0.84	1.06	1.31
India Shelter	0.42	0.40	0.60	0.66	0.87	1.15

Source: CRISIL MI&A, Company data, I-Sec research

Exhibit 101: Lender-wise market share in AUM

AUM mkt share in AHFC (%)	FY19	FY20	FY21	FY22	FY23	9MFY24
Aadhar	1.22	1.33	1.46	1.54	1.69	1.87
Aavas	0.72	0.91	1.04	1.18	1.39	1.52
HomeFirst	0.30	0.42	0.46	0.56	0.71	0.85
Aptus	0.27	0.37	0.45	0.54	0.66	0.76
India Shelter	0.14	0.18	0.24	0.32	0.43	0.53

Source: CRISIL MI&A, Company data, I-Sec research

FY23–27 growth uptick likely, following FY19–23's slow growth phase

Between FY19–23, growth in affordable housing loans remained subdued, with the segment witnessing a CAGR of 5.6% as compared to overall housing loans, which grew ~12.6% during the time. This can be primarily attributed to a slowdown in economic activity, funding challenges due to NBFC crisis and the Covid-19 pandemic. Further, rise of the hybrid work model and working from home along with rising propensity to spend, merged with rising standard of living due to rising incomes of individuals led to an increase in demand for bigger residential homes. As a result, sale in affordable housing took a beating, whereas high-end and mid-segment housing gained the most in the last couple of years.

FY21, with the onset of the pandemic in H1FY21, saw a disproportionate impact on the segment's EWS and LIG customers *vis-a-vis* the overall segment that caters to salaried individuals, whose incomes have been relatively stable. However, with faster-than-expected recovery in H2FY21, because of the central and state governments' measures, proactive measures by RBI and tax sops with low interest rates led to growth in the affordable housing segment.

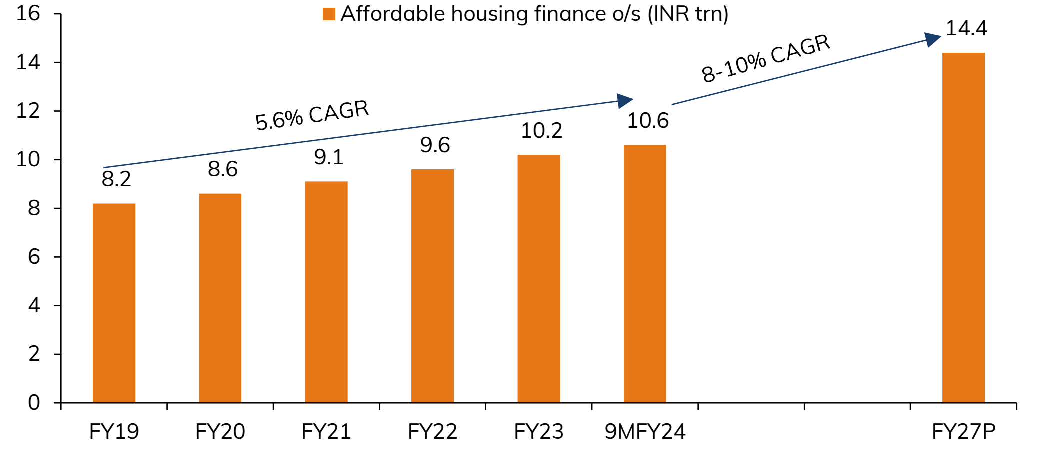
The segment's growth was hindered again by the pandemic's second wave in Q1FY22, leading to localised lockdowns by state governments, which affected economic activities in tier-2/3 cities. But continued assistance from the government and the central bank, supported by higher demand for housing, and continued penetration in tier-2/3 cities by affordable HFCs helped the segment's recovery and bounce back.

While the market has grown at a tepid pace in the past 2–3 years, CRISIL MI&A is sanguine on future growth due to the following reasons:

- Government's increased focus on housing and incentives being given by some state governments such as lowering stamp duties to aid housing demand
- Rising demand for affordable homes as consumers increasingly move out of tier-3/4 cities in a post-Covid world
- Preference for owning homes seems to be on the rise in the post-Covid world

CRISIL MI&A expects the industry to pick up steam gradually and the affordable housing segment to touch INR 14.4trn by FY27, translating into 8-10% CAGR between FY23-FY27.

Exhibit 102: Affordable Housing finance market likely to grow at 8-10% between FY23 to FY27



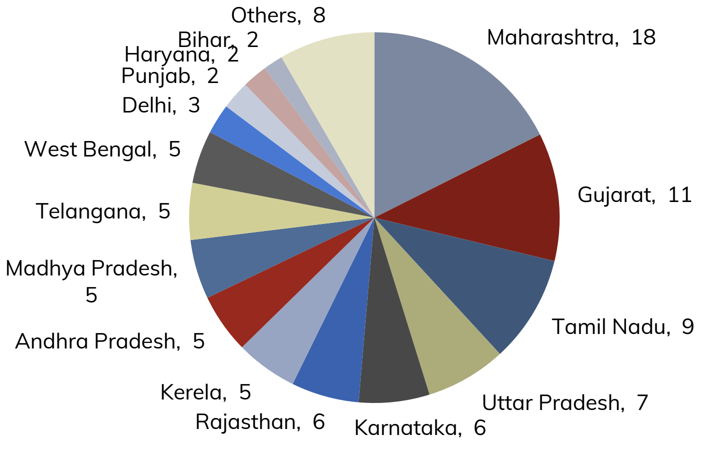
Source: CRIF Highmark, CRISIL MI&A

Top 10 states account for ~78% of total affordable housing loans, as of Q3FY24

There are wide variations in size and growth in the affordable housing finance segment across states and within various districts in the same state as well. This goes to indicate latent opportunity to offer loans to unserved or underserved customers.

Based on loans outstanding in the affordable housing finance market, among states, as of Q3FY24, Maharashtra accounted for the highest share in the affordable housing finance segment, accounting for ~18% share, followed by Gujarat, Tamil Nadu, and UP accounting for ~11%, ~9% and ~7%, respectively.

Exhibit 103: Maharashtra tops the chart in affordable housing market share followed by Gujarat and Tamil Nadu



Source: CRIF Highmark, CRISIL MI&A

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Exhibit 104: Top 5 states constitute ~50% of the total affordable housing finance market as of Q3FY24

State (INR bn)	FY19	FY20	FY21	FY22	FY23	9MFY24	FY19-FY23 CAGR	FY19-9MFY24 CAGR	FY21-9MFY24 CAGR	% of total
Maharashtra	1,522	1,571	1,641	1,719	1,797	1,872	4.2%	5.3%	3.4%	18
Gujarat	815	880	966	1,072	1,125	1,187	8.4%	9.9%	5.3%	11
Tamil Nadu	828	864	915	951	989	998	4.5%	4.8%	2.2%	9
Uttar Pradesh	553	581	627	662	709	749	6.4%	7.9%	4.6%	7
Karnataka	586	590	590	600	631	656	1.9%	2.9%	2.7%	6
Rajasthan	388	427	468	518	576	629	10.4%	12.9%	7.7%	6
Kerela	472	500	524	551	573	574	5.0%	5.0%	2.3%	5
Andhra Pradesh	432	454	469	492	528	553	5.1%	6.4%	4.2%	5
Madhya Pradesh	365	396	431	461	509	552	8.7%	10.9%	6.4%	5
Telangana	453	464	477	489	509	526	3.0%	3.8%	2.5%	5
West Bengal	349	372	396	427	466	490	7.5%	8.8%	5.5%	5
Delhi	242	247	258	264	270	279	2.8%	3.6%	1.9%	3
Punjab	197	206	216	234	250	265	6.1%	7.7%	5.2%	2
Haryana	191	199	208	218	227	233	4.4%	5.1%	2.9%	2
Bihar	114	125	135	148	168	182	10.2%	12.5%	7.7%	2
Others	675	720	766	808	862	890	6.3%	7.2%	3.8%	8
Total	**8,182**	**8,597**	**9,088**	**9,614**	**10,189**	**10,636**	**5.6%**	**6.8%**	**4.0%**	**100**

% of total	FY19	FY20	FY21	FY22	FY23	9MFY24	Cumulative
Maharashtra	19	18	18	18	18	18	18
Gujarat	10	10	11	11	11	11	29
Tamil Nadu	10	10	10	10	10	9	38
Uttar Pradesh	7	7	7	7	7	7	45
Karnataka	7	7	6	6	6	6	51
Rajasthan	5	5	5	5	6	6	57
Kerela	6	6	6	6	6	5	63
Andhra Pradesh	5	5	5	5	5	5	68
Madhya Pradesh	4	5	5	5	5	5	73
Telangana	6	5	5	5	5	5	78
West Bengal	4	4	4	4	5	5	83
Delhi	3	3	3	3	3	3	85
Punjab	2	2	2	2	2	2	88
Haryana	2	2	2	2	2	2	90
Bihar	1	1	1	2	2	2	92
Others	8	8	8	8	8	8	100
Total	**100**	**100**	**100**	**100**	**100**	**100**	

Source: CRIF Highmark, CRISIL MI&A

Exhibit 105: Top 10 cities account for ~30% share of total affordable housing credit book as of Q3FY24

% of total	FY19	FY20	FY21	FY22	FY23	9MFY24	Cumulative
Delhi NCR	7	7	6	6	6	6	6
Mumbai	7	7	7	6	6	6	12
Pune	4	4	4	4	3	3	15
Kolkata	3	3	3	3	3	3	18
Bangalore	4	4	3	3	3	3	21
Surat	2	2	2	2	2	2	23
Ahmadabad	2	2	2	2	2	2	26
Chennai	3	2	2	2	2	2	28
Hyderabad	2	2	2	2	2	2	29
Jaipur	1	1	1	1	1	1	31
Indore	1	1	1	1	1	1	32
Nashik	1	1	1	1	1	1	33
Vadodara	1	1	1	1	1	1	34
Coimbatore	1	1	1	1	1	1	35
Rajkot	1	1	1	1	1	1	36
Other cities	60	61	62	62	64	64	100
Total	**100**	**100**	**100**	**100**	**100**	**100**	

Source: CRIF Highmark, CRISIL MI&A

Exhibit 106: Highly-penetrated states – Maharashtra and Gujarat – have 60–70% of its AUM concentrated in 2–3 cities; hence, expansion scope in new cities remain

City (INR bn)	FY19	FY20	FY21	FY22	FY23	9MFY24	FY19-FY23 CAGR	FY19-9MFY24 CAGR	FY21-9MFY24 CAGR
Maharashtra	**986**	**1,001**	**1,038**	**1,072**	**1,086**	**1,120**	**2.4%**	**3.2%**	**1.9%**
Mumbai	573	582	603	624	624	643	2.1%	2.9%	1.6%
Pune	328	330	337	341	348	354	1.5%	1.9%	1.2%
Nashik	86	89	98	107	114	123	7.5%	9.6%	6.0%
Gujarat	**524**	**554**	**600**	**650**	**667**	**698**	**6.2%**	**7.4%**	**3.8%**
Surat	200	207	217	228	232	243	3.8%	4.9%	2.8%
Ahmadabad	172	186	204	224	231	242	7.6%	8.8%	4.3%
Vadodara	93	96	103	111	113	118	4.8%	6.0%	3.4%
Rajkot	58	65	76	87	91	96	12.0%	13.5%	6.2%
Tamil Nadu	**294**	**296**	**302**	**300**	**301**	**299**	**0.6%**	**0.5%**	**-0.2%**
Chennai	207	204	203	199	194	191	-1.5%	-1.9%	-1.5%
Coimbatore	87	92	99	102	107	108	5.2%	5.5%	2.3%
Delhi NCR	549	562	588	606	626	650	3.3%	4.3%	2.6%
Kolkata	229	240	254	271	292	307	6.3%	7.6%	4.9%
Bangalore	316	308	301	295	299	301	-1.3%	-1.2%	0.0%
Hyderabad	180	180	182	182	184	186	0.6%	0.9%	0.5%
Jaipur	111	120	130	137	146	157	7.0%	9.0%	4.9%
Indore	85	91	99	105	116	127	8.3%	10.8%	6.4%
Other cities	4,910	5,246	5,596	5,998	6,472	6,791	7.1%	8.4%	5.0%
Total	**8,183**	**8,597**	**9,089**	**9,615**	**10,189**	**10,637**	**5.6%**	**6.8%**	**4.0%**

% of total	FY19	FY20	FY21	FY22	FY23	9MFY24
Maharashtra	**12**	**12**	**11**	**11**	**11**	**11**
Mumbai	7	7	7	6	6	6
Pune	4	4	4	4	3	3
Nashik	1	1	1	1	1	1
Gujarat	**6**	**6**	**7**	**7**	**7**	**7**
Surat	2	2	2	2	2	2
Ahmadabad	2	2	2	2	2	2
Vadodara	1	1	1	1	1	1
Rajkot	1	1	1	1	1	1
Tamil Nadu	**4**	**3**	**3**	**3**	**3**	**3**
Chennai	3	2	2	2	2	2
Coimbatore	1	1	1	1	1	1
Delhi NCR	7	7	6	6	6	6
Kolkata	3	3	3	3	3	3
Bangalore	4	4	3	3	3	3
Hyderabad	2	2	2	2	2	2
Jaipur	1	1	1	1	1	1
Indore	1	1	1	1	1	1
Other cities	60	61	62	62	64	64
Total	**100**	**100**	**100**	**100**	**100**	**100**

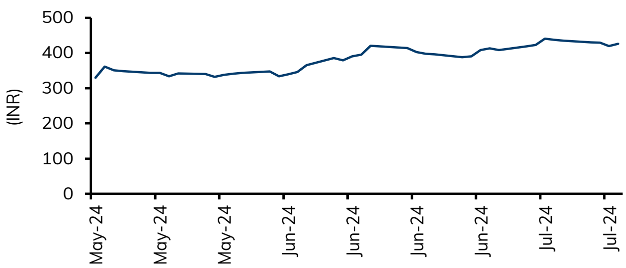
Source: CRIF Highmark, CRISIL MI&A

Exhibit 107: Shareholding pattern

%	May-24
Promoters	76.5
Institutional investors	11.7
MFs and others	2.7
FIs/Banks	2.6
Insurance	1.1
FIIs	5.3
Others	11.8

Source: Bloomberg

Exhibit 108: Price chart



Source: Bloomberg

Financial Summary

Exhibit 109: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	19,385	24,124	29,327	34,997
Interest Expenses	7,992	9,867	11,563	14,006
Net Interest Income (NII)	**11,393**	**14,257**	**17,765**	**20,990**
Other Income	558	1,112	1,490	1,640
Total Income (net of interest expenses)	**11,951**	**15,368**	**19,255**	**22,630**
Employee benefit expenses	3,041	3,457	4,063	4,764
Depreciation and amortization	165	210	220	231
Other operating expenses	1,297	1,698	2,082	2,498
Total Operating Expense	**4,503**	**5,364**	**6,365**	**7,493**
Pre Provisioning Profits (PPoP)	**7,448**	**10,004**	**12,889**	**15,137**
Provisions and write offs	492	412	550	585
Profit before tax (PBT)	**6,956**	**9,592**	**12,340**	**14,552**
Total tax expenses	1,510	2,107	2,711	3,197
Profit after tax (PAT)	**5,446**	**7,485**	**9,629**	**11,355**

Source Company data, I-Sec research

Exhibit 110: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	3,948	3,948	4,266	4,266
Reserves & surplus	33,008	40,513	59,341	70,696
Shareholders' funds	**36,956**	**44,460**	**63,607**	**74,962**
Borrowings	1,20,849	1,38,989	1,59,400	1,95,188
Provisions & Other Liabilities	8,328	7,409	8,101	8,864
Total Liabilities and Stakeholder's Equity	**1,66,132**	**1,90,857**	**2,31,107**	**2,79,014**
Cash and balance with RBI	19,162	12,714	14,399	17,386
Fixed assets	248	300	360	432
Loans	**1,38,515**	**1,69,029**	**2,05,694**	**2,48,370**
Investments	4,583	4,578	5,572	6,727
Deferred tax assets (net)	74	102	123	147
Other Assets	3,552	4,133	4,960	5,952
Total Assets	**1,66,132**	**1,90,857**	**2,31,107**	**2,79,014**

Source Company data, I-Sec research

Exhibit 111: Key Ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements				
AUM (INR mn)	1,72,228	2,11,000	2,57,118	3,10,462
On-book Loans (INR mn)	1,38,515	1,69,029	2,05,694	2,48,370
Off-book Loans (INR mn)	33,714	41,971	51,424	62,092
Disbursements (INR mn)	59,026	70,720	85,118	99,680
Sanctions (INR mn)	-	-	-	-
Repayments (INR mn)	34,565	31,948	39,000	46,336
Growth (%):				
Total AUM (%)	17	23	22	21
Disbursements (%)	48	20	20	17
Sanctions (%)	-	-	-	-
Repayments (%)	23	19	18	18
Loan book (on balance sheet) (%)	16	22	22	21
Total Assets (%)	16	15	21	21
Net Interest Income (NII) (%)	28	25	25	18
Non-interest income (%)	-24	99	34	10
Total Income (net of interest expenses) (%)	24	29	25	18
Operating Expenses (%)	21	26	19	18
Employee Cost (%)	12	24	18	17
Non-Employee Cost (%)	42	30	21	19
Pre provisioning operating profits (PPoP) (%)	25	30	29	17
Provisions (%)	1	-16	33	6
PBT (%)	23	38	29	18
PAT (%)	22	37	29	18
EPS (%)	22	37	19	18
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	8.8	9.3	9.5	9.2
NIM on IEA (%)	7.5	8.2	8.6	8.4
NIM on AUM (%)	7.1	7.4	7.6	7.4
Yield on loan assets (%)	13.8	14.8	14.8	14.6
Yield on IEA (%)	12.8	13.8	14.2	14.1
Yield on AUM (%)	12.1	12.6	12.5	12.3
Cost of borrowings (%)	7.1	7.6	7.8	7.9
Interest Spreads (%)	6.7	7.2	7.1	6.7
Operating efficiencies				
Non interest income as % of total income	4.7	7.2	7.7	7.2
Cost to income ratio	37.7	34.9	33.1	33.1
Op.costs/avg assets (%)	2.7	3.0	3.0	2.9
Op.costs/avg AUM (%)	2.7	2.8	2.7	2.6
Number of employees	5,618	5,985	6,642	7,067
No of branches (x)	469	523	583	623
Salaries as % of non-interest costs (%)	68	64	64	64
NII /employee (INR mn)	2.0	2.4	2.7	3.0
AUM/employee(INR mn)	31	35	39	44
AUM/ branch (INR mn)	367	403	441	498
Capital Structure				
Average gearing ratio (x)	3.3	3.2	2.8	2.6
Average leverage ratio (x)	4.5	4.4	3.9	3.7
CAR (%)	42.7	45.6	57.0	55.5
Tier 1 CAR (%)	41.7	44.7	56.2	54.9
Tier 2 CAR (%)	1.1	0.9	0.8	0.7
RWA (estimate) - INR mn	83,391	99,467	1,13,132	1,36,603
RWA as a % of loan assets	59	59	55	55

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	1.2	1.1	1.3	1.3
NNPA (%)	0.8	0.7	0.9	0.9
GNPA (INR mn)	1,626	1,869	2,674	3,229
NNPA (INR mn)	1,069	1,098	1,765	2,131
Coverage ratio (%)	34	41	34	34
Credit Costs as a % of avg AUM (bps)	102	44	35	31
Credit Costs as a % of avg on book loans (bps)	129	56	43	38
Return ratios				
RoAA (%)	3.5	4.2	4.6	4.5
RoAE (%)	15.9	18.4	17.8	16.4
RoAAUM (%)	3.4	3.9	4.1	4.0
Valuation Ratios				
No of shares (mn)	395	395	427	427
No of shares (fully diluted) - mn	395	395	427	427
ESOP Outstanding (mn)	-	-	-	-
EPS (INR)	13.8	19.0	22.6	26.6
EPS fully diluted (INR)	13.8	19.0	22.6	26.6
Price to Earnings (x)	31	22	19	16
Price to Earnings (fully diluted) (x)	31	22	19	16
Book Value (fully diluted) - INR	94	113	149	176
Adjusted book value (INR)	92	110	146	172
Price to Book (x)	4.6	3.8	2.9	2.4
Price to Adjusted Book (x)	4.7	3.9	2.9	2.5

Source Company data, I-Sec research

Exhibit 112: Key Metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	1,54,945	1,78,495	2,10,982	2,55,061
Average Loans (INR mn)	1,29,059	1,53,772	1,87,362	2,27,032
Average Equity (INR mn)	34,211	40,708	54,033	69,284
Interest earned (%)	12.5	13.5	13.9	13.7
Interest expended (%)	5.2	5.5	5.5	5.5
Gross Interest Spread (%)	**7.4**	**8.0**	**8.4**	**8.2**
Credit cost (%)	0.3	0.2	0.3	0.2
Net Interest Spread (%)	**7.0**	**7.8**	**8.2**	**8.0**
Operating cost (%)	2.9	3.0	3.0	2.9
Lending spread (%)	**4.1**	**4.8**	**5.1**	**5.1**
Non interest income (%)	0.4	0.6	0.7	0.6
Operating Spread (%)	**4.5**	**5.4**	**5.8**	**5.7**
Tax rate (%)	1.0	1.2	1.3	1.3
ROAA (%)	**3.5**	**4.2**	**4.6**	**4.5**
Effective leverage (AA/ AE)	4.5	4.4	3.9	3.7
RoAE (%)	**15.9**	**18.4**	**17.8**	**16.4**

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122