CMP: ₹ 459 | Target: ₹ 550 (20%) | Target Period: 12 months | BUY

April 11, 2025

Attractive play on affordable housing finance...

About the stock: Established in 2010, Aadhar is the largest player in affordable housing space with AUM of ₹23,975 crore. Diversification in terms of business mix, customer base and distribution remain core strength.

- Business mix remains well balanced and granular with home loans comprising ~75% of AUM, while LAP constitutes remaining 25%. Salaried borrowers mix comprised 56% salaried and 44% self-employed segments of AUM.
- As of December 31, 2024, Aadhar operates 557 branches across 21 states and union territories.

Investment Rationale

- **Pan-India presence with low concentration risk:** Aadhar has large distribution presence with 557 branches across 21 states, amid strategy to expand reach over deepening penetration, thereby keeping concentration risk with in check. No state contributes >14% of AUM, and top 3 states account for ~40% (vs >50% for peers). Post geographic expansion undertaken over the years, now plan is to deepen penetration in select tier 4/5 cities. Thus, geographic diversification & low concentration risk enhances stability, while focused tier 4/5 expansion drives sustainable growth.
- **Prudent under-writing & structured distribution strategy to aid efficiency:** Aadhar's robust underwriting framework, dual property valuation, strong legal check ensures sound risk management. This is depicted in stage 3 assets being rangebound (1.1-1.5%) despite company's focus on under-penetrated non-white-collar segment. Structured distribution model (deep impact, ultra-micro, micro, small and main branch) enables cost-efficient expansion and deeper market penetration and scalability.
- **Granularity, balanced business mix remain core strategy:** Maintaining a balanced and granular business mix has remain core strategy which has led to sustained performance. The portfolio is entirely secured, comprising 75% home loans and 25% LAP. A significant share of the AUM is towards salaried borrowers (~57% of AUM), though self-employed segment has been gradually scaling. Aadhar has balance mix of asset liability with ~79% of borrowing and ~77% of assets at floating rate. On liabilities side, well-diversified borrowing mix, stable credit rating (AA Stable) coupled with effective liability management is seen to keep CoF relatively competitive (8.1%) and thus aid margin trajectory ahead.

Rating and Target Price

- Aadhar remains an attractive play in the affordable housing finance segment with a robust business model combining efficiency, stability and prudent underwriting practice, leading to healthy and sustainable performance across cycles. Expect AUM growth to sustain at ~19%, while steady asset quality and gradual improvement in margins and efficiency is expected to result in earnings CAGR of ~23% in FY25-27E.
- Given its strong RoA of 4% and RoE of 18%+, while delivering credit growth of above 20%, valuations remain attractive at current level. We value Aadhar at 2.7x FY27E BV and assign a target price of ₹550. We recommend a BUY rating.

Aadhar Housing Finance Ltd

GHAR BANEGA, TOH DESH BANEGA.

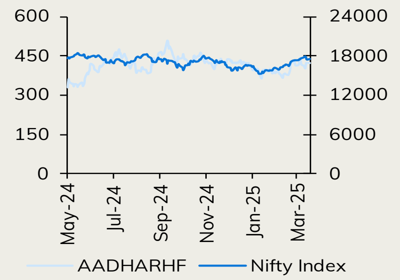
Particulars

Particulars	Amount
Market Capitalisation	₹ 19,546 crore
52 week H/L	517 / 292
Net worth	₹ 6,100 Crore
Face Value	10.0
FII Holding (%)	4.3

Shareholding pattern

Holding (%)	Jun-24	Sep-24	Dec-24
Promoter	76.5	75.9	75.7
FII	4.2	4.3	4.3
DII	8.5	9.5	9.3
Public	10.8	10.3	10.7

Price Chart



Key risks

i)Dependence on vulnerable segments poses demand risk

ii) High dependence on non-exclusive third-party sourcing channel

iii)Shift towards self-employed (informal) borrowers increase risk of delinquencies

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Conviction Pick

Key Financial Summary

₹ crore	FY23	FY24	(FY23-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
NII	977	1283	9.5%	1573	1914	2353	22.4%
PPP	745	1001	10.3%	1237	1516	1881	23.4%
PAT	544	749	11.2%	908	1115	1385	22.7%
ABV (₹)	91	110	6.5%	145	170	201	22.4%
P/E	30.8	22.4		20.2	16.4	13.2	
P/ABV	4.7	3.9		2.9	2.5	2.1	
RoA	3.3%	4%		4.3%	4.4%	4.6%	
RoE	14.7%	18.4%		16.8%	16.1%	17.0%	

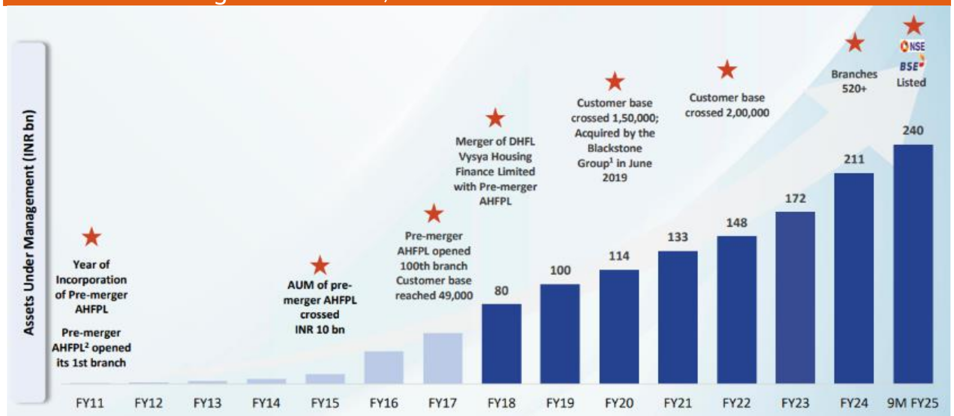
Source: Company, ICICI Direct Research

Company Background

Aadhar Housing Finance Ltd (Aadhar), incorporated in 2010, specializes in providing housing finance solutions tailored to the low-income segment in India, with an average ticket size of ₹10 lakh. Aadhar offers a range of mortgage-related loan products, including loan for purchase and construction of residential property, home improvements and extension loan, loan for commercial property construction and acquisition, primarily targeting mortgage needs upto ₹15 lakh.

Aadhar was initially established as a private limited company and commenced operations in Feb'11. In 2017, DHFL Vysya Housing Finance and Pre-merger AHFPL merged and the entity was later listed in May'24. DHFL Vysya Housing Finance (name changed in Oct'03), was formed in Nov'90 as 'Vysya Bank Housing Finance Limited' in Bengaluru, Karnataka.

Exhibit 1: Achieving AUM of ~₹24,000 crore in Dec'24



Source: Company, ICICI Direct Research

Aadhar has delivered robust growth in gross AUM, increasing from ₹13,327 crore in FY21 to ₹23,975 crore in 9MFY25, representing a CAGR of 18.3% over the period. The AUM portfolio is 100% secured, with retail home loans comprising 75% of AUM and remaining balance contributed by Loan Against Property (LAP) as of December 31, 2024. Substantial proportion of AUM is towards salaried borrowers with gradual scaling seen in self-employed segment over time. As of December 31, 2024, borrower's mix comprised of 57% salaried and 43% self-employed in terms of AUM.

Since commencing operations in 2011, Aadhar has strategically focused on widening its geographic presence rather than deepening penetration in specific markets. Within five years, the company expanded its footprint to 10 states with 100 branches. This expansion strategy has enabled Aadhar to establish a pan-India presence, now covering 21 states and union territories with 557 branches across India (as of December 31, 2024).

AUM Split

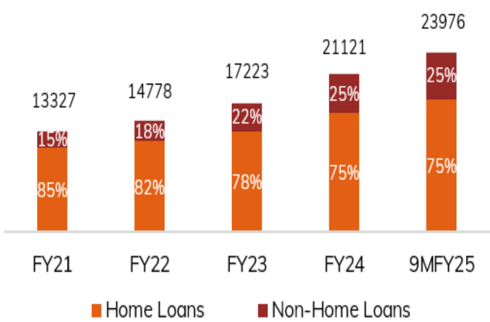
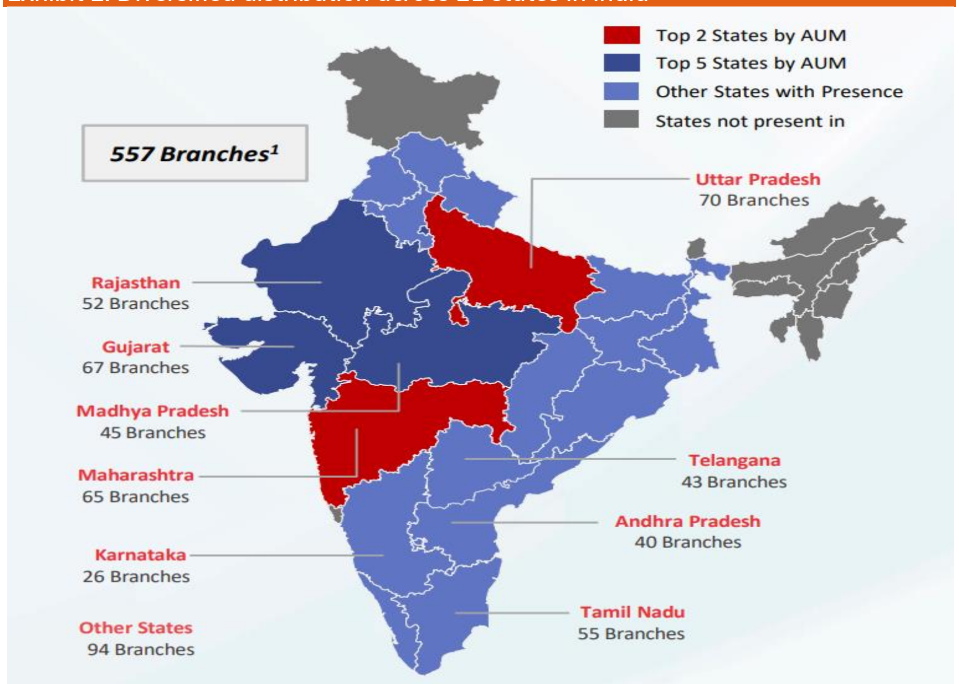


Exhibit 2: Diversified distribution across 21 states in India



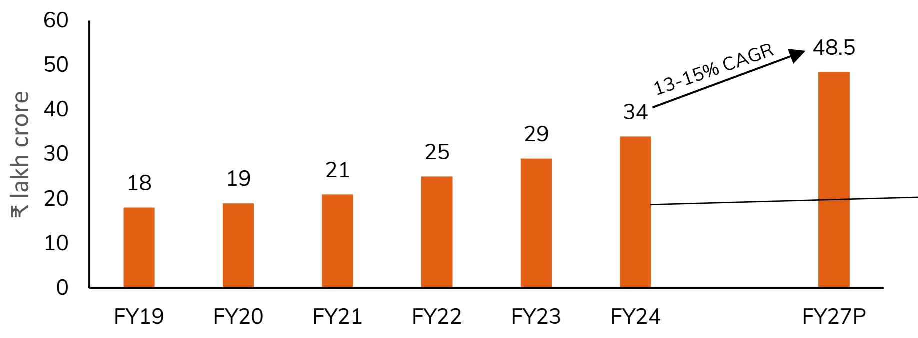
Source: Company, ICICI Direct Research

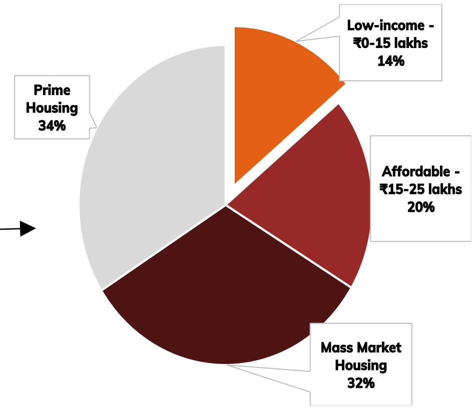
Industry Outlook

Indian Housing Finance Market

The Indian housing finance market grew at ~13.6% CAGR during FY19-24 on account of rise in disposable income, 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 (in last 5-8 years) and gradually improving income of individual borrowers. In FY24, housing credit grew significantly by 16.7% driven by aspirations of a growing young population with rising disposable income and faster growth in smaller districts. Overall housing industry is expected to grow at CAGR of 13-15% over FY23-FY27E.

Exhibit 3: Healthy growth witnessed in home loan industry



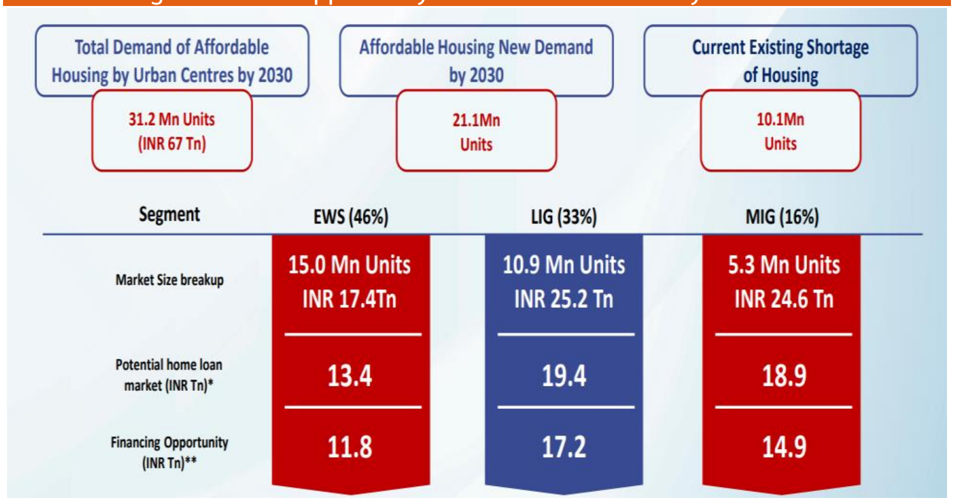


Source: Company, ICICI Direct Research

Opportunity Size:

The affordable housing segment in India presents a significant growth opportunity, driven by rising urbanization and increasing demand. With urban population expected to reach 40% by 2030, the housing shortage is projected at ~3.2 crore units, creating a substantial market for banks and HFCs. The affordable housing finance market is projected to reach ~₹45 lakh crore by FY30, a 3.5x increase from the ~₹13 lakh crore loan book in FY24, highlighting strong growth prospects in this segment.

Exhibit 4: Huge sustained opportunity remains structural story



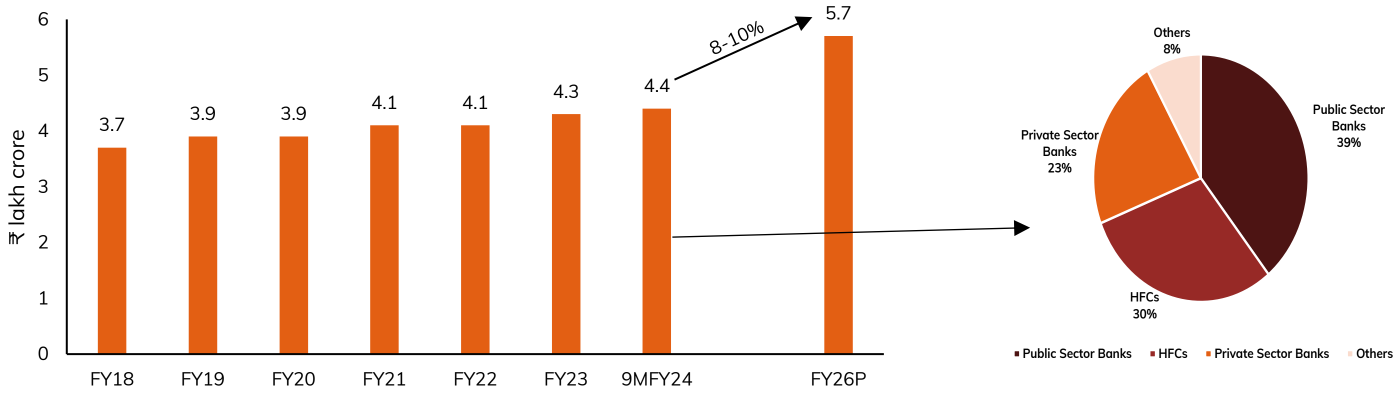
Source: Company, ICICI Direct Research

- Urban areas are projected to host 40% of India's population by 2030 from current 36% leading to a rise in affordable housing in urban areas.
- Shortage of affordable housing units is estimated at ~3.2 crores by 2030 which includes current shortage of 1 crore units.
- The potential financing opportunity for banks and Housing Finance Companies (HFCs) in the affordable housing segment is estimated to reach ~₹45 lakh crore by FY30, a 3.5x increase than outstanding loan book of ₹13 lakh crore.

Housing finance market focused on low-income segment (loans up to ₹15 lakhs)

The overall size of the housing finance market focusing on low-income housing in India stood at ~₹4.4 lakh crore as of Dec'23, constituting ~14% of overall housing finance market, as per CIBIL data. With outstanding loans of ₹1.7 lakh crore, as of Dec'23, PSBs have the highest market share of 38% in the low-income housing loans market. HFCs account for 29% of the market (outstanding loan of ₹1.3 lakh crore, as of Dec'23) followed by private banks which had a market share of 22% (outstanding loan of ₹1 lakh crore as of Dec'23). All other player groups (MNCs and small finance banks) had a cumulative market share of 8% in low-income housing loans as of Dec'23.

Exhibit 5: Outstanding loans of low-income housing loan segment



Source: Company, ICICI Direct Research

Demand for high ticket housing has witnessed an uptick in metros in recent times, while low housing market has grown at a tepid pace in past 2-3 years, however, housing demand in tier 3 and beyond cities is expected to remain steady owing to following reasons;

Government Initiatives' Impact on Housing Finance

Increased allotment for Housing Schemes: The Union Budget for 2025–2026 provided ₹80,6700 crore, for Pradhan Mantri Awas Yojana. PMAY 2.0 targets 3 crore houses by 2029 (1 crore urban, 2 crores rural)

Interest Subsidies: As per PMAY 1.0, subsidy was ₹2.5 lakhs to ₹2.7 lakhs, and as per PMAY 2.0 it is revised at ₹1.8 lakhs

Tax Incentives: Continued tax benefits for homebuyers and developers, encourage continued investment in real estate.

Changing Dynamics

Urbanization: Migration to cities drives demand for housing and tailored loan products. Moreover, development of 'Satellite cities' to decongest urban centres will increase demand for affordable housing in these places.

Rising disposable income: Higher disposable income boost affordability and demand for housing loan.

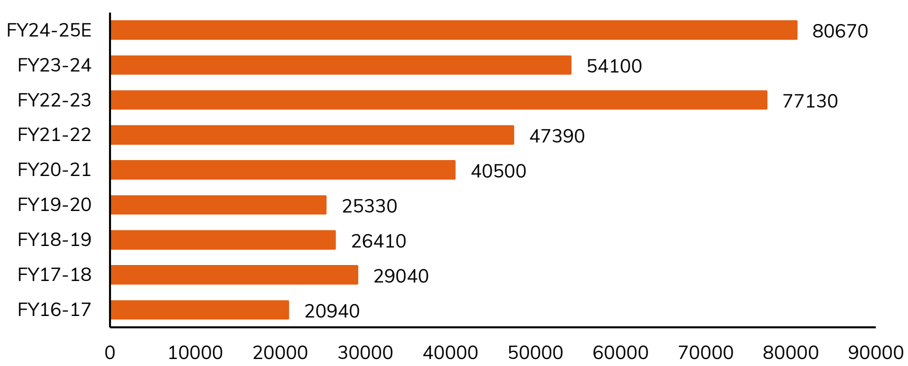
Demographic shift: The rise of nuclear families increases the need for individual housing solution.

Market Penetration Opportunities

Low Mortgage-to-GDP ratio: At 12.3% (as of March 24), India has significant growth potential compared to developed markets.

This under-penetration presents a substantial opportunity for affordable housing finance companies to expand their services, particularly in rural and semi-urban areas where demand is high but access to financing is limited.

Exhibit 6: Central government budgetary allocation for PMAY (₹ crore)



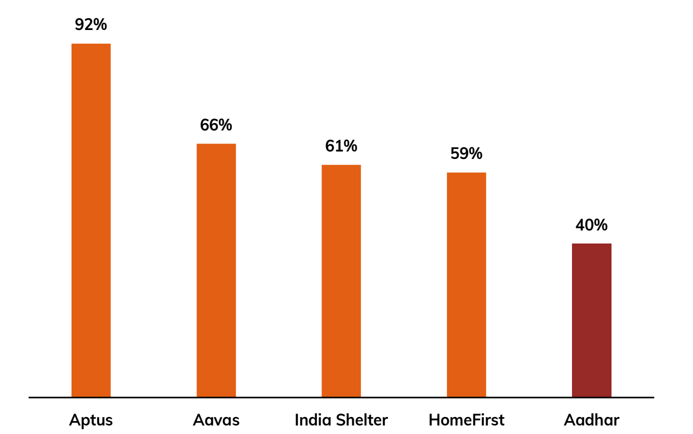
Source: GOI, ICICI Direct Research

Investment Rationale

Diversified distribution aid lower concentration risk

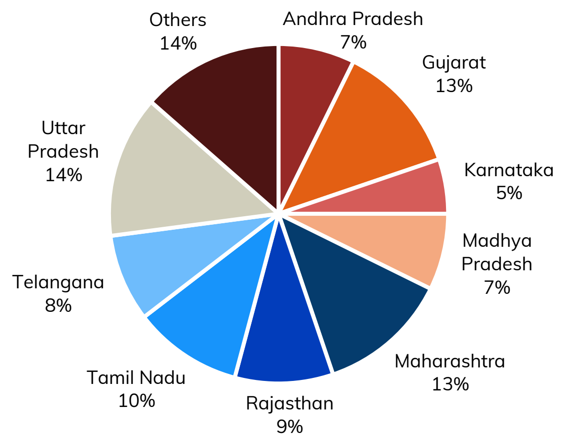
In the first 5 years of operations, Aadhar started business entering into low-income states, however, post-2015, the lender pedalled expansion widening presence in various parts of the country. Aadhar has prioritized expanding its presence over deepening penetration in specific geographies. Currently, Aadhar operates in 21 states with 557 branches (Himachal Pradesh being recent addition in the list with expected entry in Assam in 1HFY26). Its strategy focuses on a diversified distribution network with lower concentration risk. No state contributes >14% of AUM as of Dec'2024, and the top 3 states share stands at ~40% as compared to >50% for peers. Aadhar has already diversified its presence across 21 states, and now is strategizing to deepen penetration in select Tier 4 & 5 geographies, leveraging Aadhar Mitras and Direct Sales team.

Exhibit 7: Top 3 states portfolio concentration



Source: Company, ICICI Direct Research

Exhibit 8: Diversified distribution of AUM



Source: Company, ICICI Direct Research

Customer acquisition remains the driving force

Customer acquisition and ticket size remain driving factors for any lender, however, customer accretion acts as a driving force. Thus, while Average Ticket Size (ATS) has increased marginally from ₹9 lakh in FY22 to ₹10 lakh in 9MFY25, Aadhar has been able to deliver to business growth ahead of 20% driven by onboarding of new customers. ATS of housing loans stood at ~₹14-15 lakh, while ATS of non-housing loans were at ~₹8 lakhs.

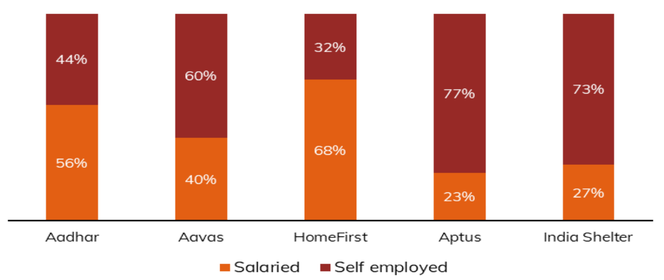
The company focuses on small-ticket loans with focus on salaried borrowers—an underserved segment for mainstream banks and larger HFCs due to high operational intensity and costs. Salaried customers, who are typically more resilient to economic cycles, form 56% of Aadhar's portfolio, higher than most peers (26-68%), thereby ensuring sustainable AUM growth, resilient borrower base and steady quality of AUM. Management plans to gradually shift towards (change of 100-150 bps annually) towards self-employed segment to reach targeted business mix of 50:50 between salaried and self-employed segment in order to ensure healthy yields, business efficiency without diluting asset quality parameters.

Exhibit 9: Customer accretion remains main driver for growth

	FY22	FY23	FY24	9MFY25
Number of customers	2,04,135	2,33,228	2,66,000	2,87,000
AUM (₹ crore)	14,800	17,200	21,100	25,496
Average ticket size (₹ lakh)	9.0	9.0	10.0	10.0

Source: Company, ICICI Direct Research

Exhibit 10: Higher salaried mix ensures stability & lower risk

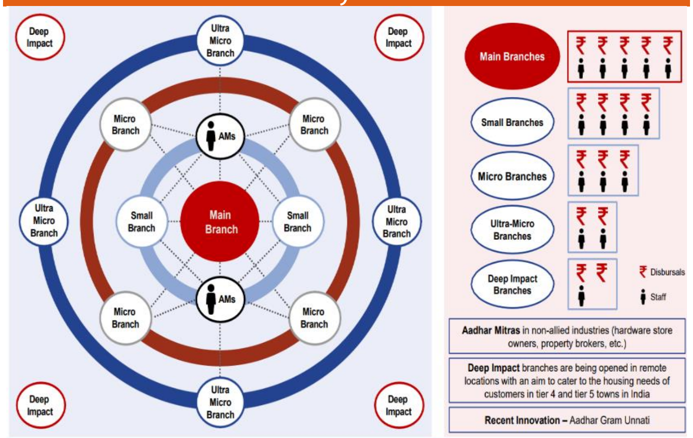


Source: Company, ICICI Direct Research

Scaling growth with cost efficiency

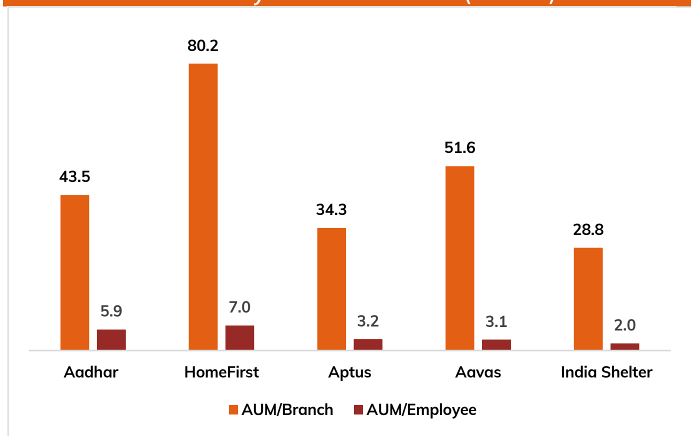
Aadhar employs a structured, tiered branch model based on annual disbursement volumes: main branches (₹24+ crore), small branches (₹12-24 crore), micro branches (₹7-12 crore), ultra-micro branches (₹5-7 crore), and deep impact branches (small sales offices in remote areas with 2-3 personnel). Expansion into Tier 4 & 5 locations begins with ultra-micro or deep impact branches, which are upgraded with growth in monthly disbursement. This approach enables cost-efficient expansion and deeper market penetration and scalability while growing disbursement per employee and thus AUM per employee, keeping AUM per branch stable, thereby supporting cost efficiency and overall performance.

Exhibit 11: Branch structure by Aadhar



Source: Company, ICICI Direct Research

Exhibit 12: Productivity remains resilient (₹ crore)



Source: Company, ICICI Direct Research

Robust underwriting framework ensuring strong asset quality

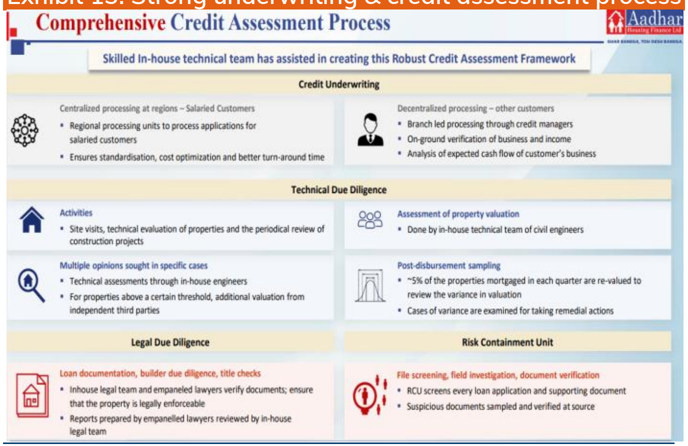
Aadhar's risk based underwriting framework ensures efficient credit assessment and asset quality. Formally salaried borrowers undergo centralized underwriting at Regional Processing Units (RPUs), leveraging bureau data for quick approvals. Meanwhile, self-employed and informal borrowers are assessed through decentralized underwriting, with branch credit officers conducting on-ground verifications. Borrowers are categorized from L1 to L4, with L4 requiring additional scrutiny due to higher risk. To ensure prudent lending, Aadhar follows a dual property valuation approach, using both in-house civil engineers and third-party vendors. Its in-house legal team validates property documentation, with periodic reassessments for depreciation or borrower risk.

Despite company's focus on under-penetrated non-white-collar salaried segments in Tier-2+ cities, asset quality remains strong with 94.8% of loans in Stage-1 and Stage-3 assets limited to 1.4%. Exposure to microfinance remains minimal (707 delinquent customers out of 2.86 lakh), reducing over-leveraging risk. Selective disbursal with focus on customer creditworthiness and collateral reflects strong risk control, thus resulting in steady asset quality with GNPA at 1.1-1.5% in previous fiscals, while steady PCR at 35.6% (as of 9MFY25) reinforces prudent risk management.

Aadhar's asset quality vs. peers.

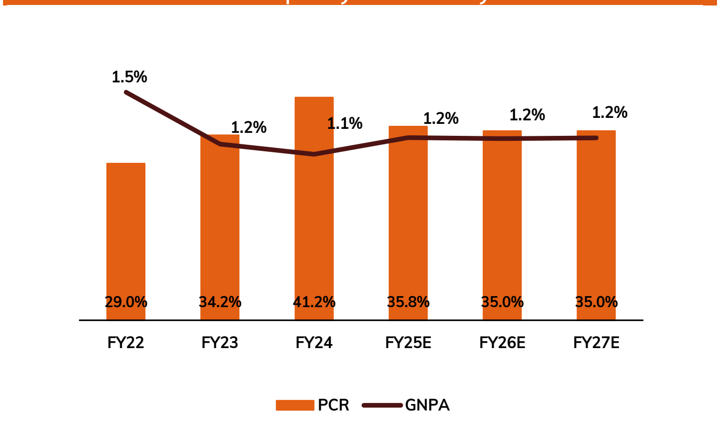
Company	GNPA	PCR
Aadhar	1.2%	35.6%
HomeFirst	1.7%	25.5%
Aptus	1.3%	25.0%
Aavas	1.1%	28.8%
India Shelter	1.2%	25.0%

Exhibit 13: Strong underwriting & credit assessment process



Source: Company, ICICI Direct Research

Exhibit 14: Stable asset quality with steady PCR



Source: Company, ICICI Direct Research

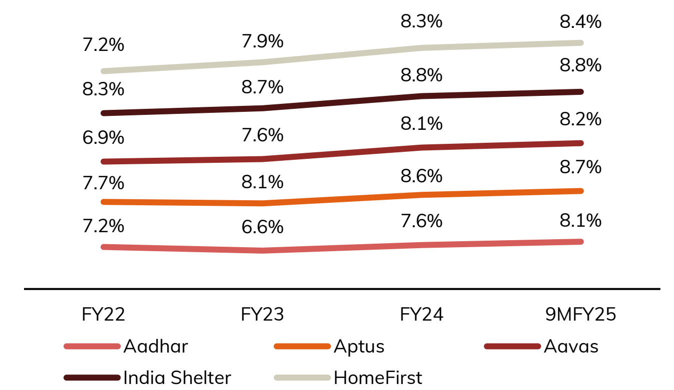
Relatively lower COF and change in borrowing mix to aid margins

A well-diversified borrowing mix, stable credit rating coupled with effective liability management and balanced business mix has remained core to the strategy which has enabled delivering sustained margins over the years. Apart from diversified sources, Aadhar has active partnership across 39 lenders. Credit rating (AA Stable) from ICRA, India Ratings and Brickwork, has enabled continued confidence on the business, thus enabling to raise funds at relatively lowest rates (~7.2-8.1%).

Strategic management of diversifying borrowings with reducing proportion of bank borrowings from 62% to 51%, and increasing share of NHB refinancing from 16% in FY21 to 25% in 9MFY25 has aided efficient management of cost of funds. Further, borrowing from international sources (capital raising from Asian Development Bank) provides diversification and cost competitiveness.

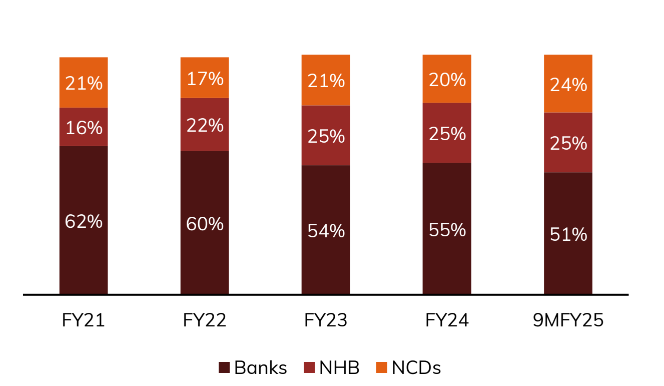
Apart from diversified sources of funds, efficient asset liability management has been core strength thereby minimizing impact of interest rate cycles. Currently, Aadhar has balance mix of asset liability with ~79% of borrowing and ~77% of assets at floating rate. Focus on gradual uptick in proportion of self-employed customers (which are relatively high yielding) is seen to aid yields thereby providing support to improvement in margins.

Exhibit 15: Relatively lower COF aids margin



Source: Company, ICICI Direct Research

Exhibit 16: Borrowings mix

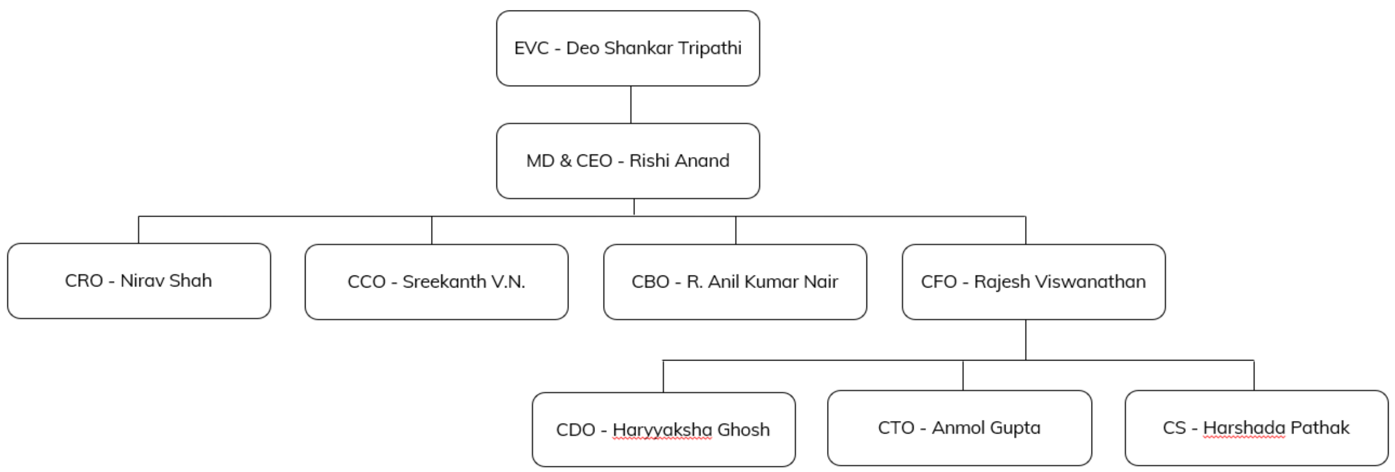


Source: Company, ICICI Direct Research

Experienced, cycle-tested and professional management team with strong corporate governance

The board of directors is comprised of qualified and experienced personnel, who have extensive knowledge and understanding of banking and finance industry. The MD & CEO has over 27 years of experience and CFO has over 25 years of experience in the financial service industry. The management team brings a diverse array of backgrounds with a mix of professionals from the financial services industry. Company has diverse and experience management that gives it the strength to formulate and execute a broad array of strategies, dealing with a wide spectrum of products and customer segment and navigate a wide of range of risk inherent in the business.

Exhibit 17: Organisation structure



Source: Company, ICICI Direct Research

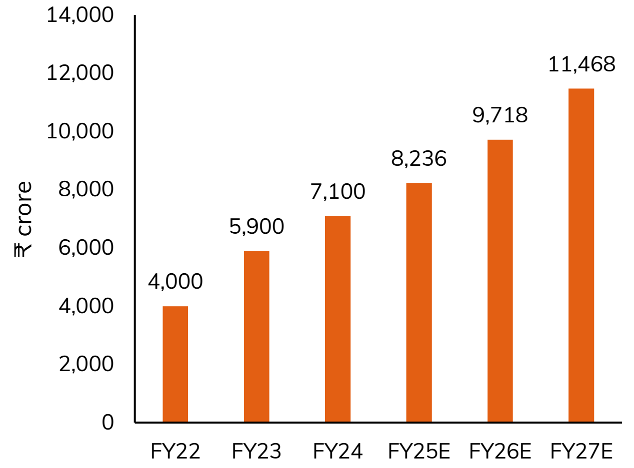
Exhibit 18: Profile of key management

Name	Designation	Discription
Shri O.P. Bhatt	Independent Director & Non- Executive Chairman of the Board	He holds a bachelor's degree in Science from Meerut University, and a master's degree in English Literature from the same university. He has previously served as Chairman of SBI. He is also serving as a director on the boards of Hindustan Unilever Ltd and Tata Group companies, including Tata Motors Ltd, Greenko Energy Holdings Mauritius, Tata Daewoo Commercial Vehicle Ltd and Tata Consultancy Services Ltd. He was appointed as the Non-Executive Chairman and Independent Director on the Board with effect from September 13, 2019 and has been re-appointed by the shareholders at the AGM held on August 18, 2022.
Shri Deo Shankar Tripathi	Executive Vice Chairman	Shri Deo Shankar Tripathi has served as the Company's Executive Vice Chairman since 3rd January 2023. Prior, he held the position of MD & CEO. He is a Diploma holder in Public Administration from Awadh University and has cleared the associate examination of the Indian Institute of Bankers. He completed various certificate courses, including a Strategy and Management in Banking Programme from International Development Ireland Ltd. Previously, he was a GM at Union Bank and President and Chief Operating Officer at DHFL. He also serves as a Director inter alia on the Board of a subsidiary Company, Aadhar Sales and Services Private Ltd.
Rishi Anand	Managing Director & Chief Executive Officer	With a Post Graduate Certification in Business Management from IIM Kozhikode, Rishi Anand has been serving as the MD & CEO of the Company w.e.f. 3rd January 2023. Prior to this, he held the position of COO of Aadhar Housing Finance. He has a rich experience of over 27 years in the financial services sector across a diverse spectrum of functions and businesses. Before joining Aadhar group, he worked with companies such as Shelters, GE Countrywide Consumer Financial Services Ltd, BHW Birla Home Finance Ltd, Reliance Capital & AIG Home Finance India Ltd, Indo Pacific Housing Finance Ltd, and DHFL.

Source: Company, ICICI Direct Research

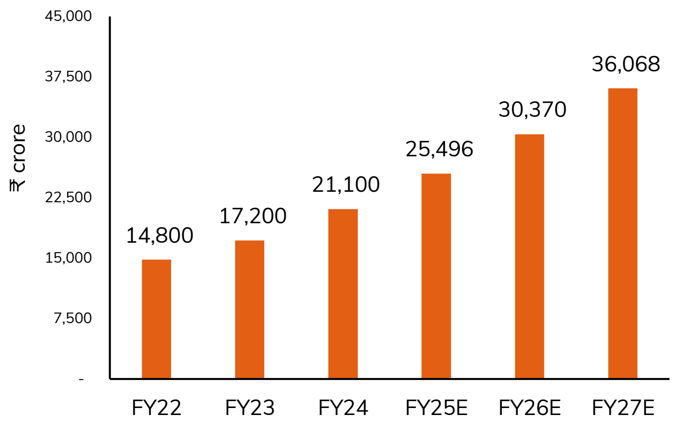
Financial Outlook

Exhibit 19: Continued healthy traction in disbursement.....



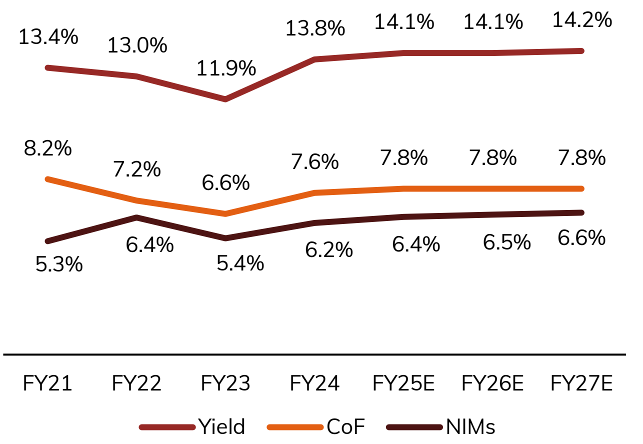
Source: Company, ICICI Direct Research

Exhibit 20: .....to keep AUM growth at 20% CAGR



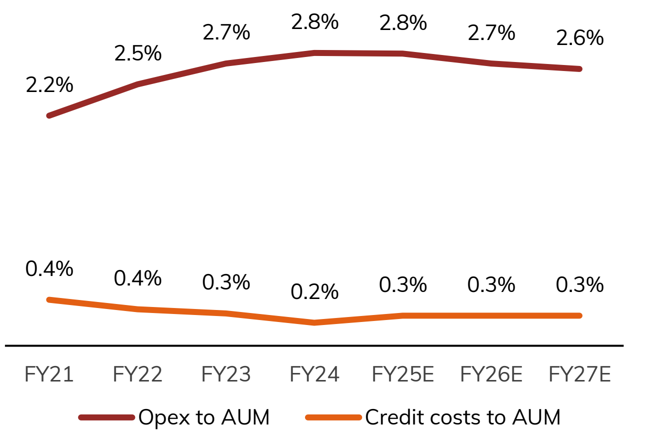
Source: Company, ICICI Direct Research

Exhibit 21: Steady margins amid change in asset mix.....



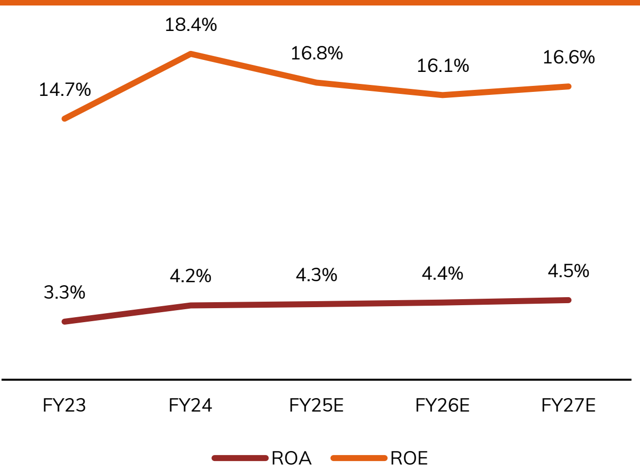
Source: Company, ICICI Direct Research

Exhibit 22: ... improvement in efficiency & steady credit cost...



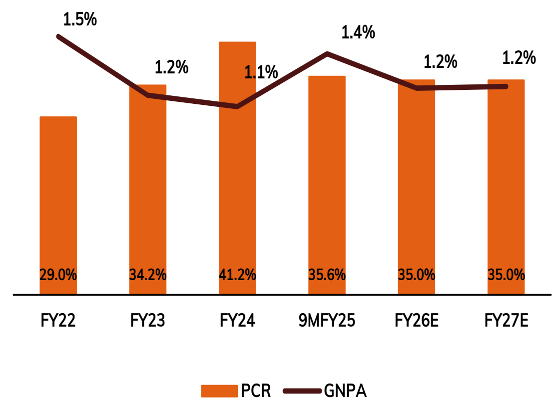
Source: Company, ICICI Direct Research

Exhibit 23: .....is seen to aid return ratios



Source: Company, ICICI Direct Research

Exhibit 24: Asset quality expected to remain stable



Source: Company, ICICI Direct Research

Valuation

Exhibit 25: Valuation matrix

Stocks	CMP	Mkt Cap (₹ crore)	EPS (₹)			BVPS (₹)			P/E (x)			P/B (x)			RoA (%)			RoE (%)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Aadhar	442	19,063	21.3	26.3	32.5	144.6	170.4	202.3	20.7	16.8	13.6	3.1	2.6	2.2	4.3	4.4	4.7	17.0	16.3	17.1
HomeFirst	1,038	9,321	42.5	53.2	66.5	343.6	403.0	456.8	24.4	19.5	15.6	3.0	2.6	2.3	3.5	3.4	3.4	16.4	17.0	17.8
India Shelter	786	8,493	33.5	41.4	51.5	248.3	289.8	341.3	23.5	19.0	15.3	3.2	2.7	2.3	5.3	4.9	4.7	14.5	15.4	16.3
Aavas	1,969	15,555	74.1	90.0	108.6	544.2	632.0	735.5	26.6	21.9	18.1	3.6	3.1	2.7	3.3	3.2	3.2	14.5	15.1	15.7
CanFin	676	8,985	63.5	70.0	80.7	381.5	444.9	515.0	10.6	9.7	8.4	1.8	1.5	1.3	2.2	2.1	2.2	17.9	16.8	16.6

Source: Bloomberg, ICICI Direct Research

Aadhar is leading player in the affordable housing finance segment with an AUM of ₹23,976 crore as of Dec 2024. What sets it apart from peers is its well-diversified and fully secured loan book, which has helped it maintain stable asset quality with GNPA at ~1–1.2% in past three years. Credit rating of AA and diversified borrowing mix has resulted in relatively lower cost of funds at ~7.5–8% - better than most peers. It runs a highly efficient business model, supported by a unique and low-cost distribution structure using deep-impact and ultra-micro branches. This has enabled to keep operating costs low at ~2.5-3% and deliver a strong and sustainable RoA of over 4%.

Aadhar remains an attractive play in the affordable housing finance segment with a robust business model combining efficiency, stability and prudent underwriting practice, leading to healthy and sustainable performance across cycles. Expect AUM growth to sustain at ~19%, while steady asset quality and gradual improvement in margins and efficiency is expected to result in earnings CAGR of ~23% in FY25-27E.

Given its strong RoA of 4% and RoE of 18%+, while delivering credit growth of above 20%, valuations remain attractive at current level. We value Aadhar at 2.7x FY27E BV and assign a target price of ₹550. We recommend a **BUY** rating.

Exhibit 26: Fundamental comparison

Stocks	AUM (₹ crore)		YoA (%)		CoF (%)		Spread (%)		Opex to Avg Assets (%)		RoA (%)		RoE (%)		CAR (%)		GNPA (%)		PCR (%)	
	FY24	9MFY25	FY24	9MFY25	FY24	9MFY25	FY24	9MFY25	FY24	9MFY25	FY24	9MFY25	FY24	9MFY25	FY24	9MFY25	FY24	9MFY25	FY24	9MFY25
Aadhar	21,121	23,976	14.0	13.9	7.5	8.1	5.9	5.8	3.0	NA	4.2	4.3	18.4	16.8	38.5	NA	1.1	1.4	41.3	46.1
HomeFirst	9,698	11,949	13.7	13.5	8.2	8.4	5.4	5.1	2.9	2.6	3.8	3.5	15.5	16.5	39.5	34.5	1.7	1.7	50.9	47.5
India Shelter	6,084	7,619	14.9	14.9	8.8	8.8	6.1	6.2	4.5	4.6	4.9	5.5	14.0	14.7	70.9	60.6	1.0	1.2	26.0	25.0
Aavas	17,313	19,240	13.1	13.1	8.1	8.2	5.1	4.9	3.6	NA	3.3	3.3	13.9	14.1	44.0	45.5	0.9	1.1	NA	NA
CanFin	35,000	37,155	9.9	10.1	7.4	7.5	2.5	2.6	NA	NA	2.3	2.2	17.3	17.2	24.5	NA	0.8	0.9	48.7	NA

Source: Bloomberg, ICICI Direct Research

Risk and Concerns

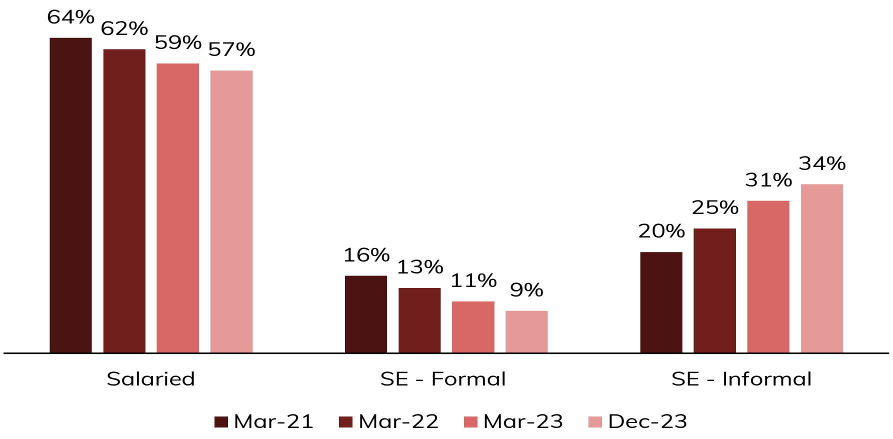
Dependence on vulnerable segment poses demand risk

Aadhar's business model is heavily reliant on demand from the economically weaker sections and low-to-middle income segment, which collectively account for a significant share of India's housing shortage. However, this also exposes the company to macroeconomic and policy-driven risk. Factors such as adverse changes in government policies, slowdown in the housing finance industry, regulatory shifts, or disruption from natural calamities can disproportionately impact these income groups, leading to reduced demand for housing loans. Given the company's focused exposure to these segments, any sustained weakness could negatively affect business growth trajectory, asset quality, and overall financial performance.

Shift towards self-employed (informal) borrowers increases risk of delinquencies

Aadhar has been undertaking a shift towards self-employed segment in past couple of year. As a result, its borrower profile is evolving to include more informal income earners (those without formal income documentation). Resultantly, share of loans to salaried individuals has declined from 64% in FY21 to 57% in 9MFY24, while the proportion of loans to informal self-employed borrowers has increased from 20.5% to 34% during the same period. Informal self-employed borrowers typically have limited income visibility and are more susceptible to economic volatility, making them inherently riskier. While this shift may support yield expansion, it also heightens the risk of delinquencies and NPAs. Thus, growing share of high-risk segment in the loan book warrants close monitoring, as it could translate into higher credit cost and asset quality volatility in the medium term.

Exhibit 27: Gradual shift towards informal self-employed segment



Source: Company, ICICI Direct Research

High dependence on non-exclusive third-party sourcing channel

Aadhar relies heavily on third-party agents for customer acquisition, with ~40% of new customers in 9MFY24 sourced through non-exclusive channels like DSAs. These agents, often self-employed professionals or individuals from unrelated industries, refer leads in exchange for commission but are free to work with competing lenders. This lack of exclusivity poses a significant risk - any attrition or shift in loyalty could directly affect lead generation and disbursement volumes. A decline in referrals or increased competition may impact Aadhar's customer acquisition, slowing growth and potentially impacting its financial performance.

Dilution by promoter remains a risk

Since acquiring control from erstwhile promoters, BCP Topco (Blackstone affiliate) has raised its stake to 75.7%. Though, redemption in the fund is more than 5 years from now, concerns around stability still persist. Any reduction in stake could weaken strategic support, governance and access to Blackstone's resources. While the promoter structure is a strength, dilution remains a key risk.

Financial Summary

Exhibit 28: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Interest Earned	2,269	2,765	3,309	3,960
Interest Expended	987	1,169	1,369	1,619
Net Interest Income	1,283	1,595	1,939	2,341
Growth (%)	31.3	24.4	21.6	20.7
Non Interest Income	317	358	405	456
Net Income	1,600	1,954	2,344	2,797
Employee cost	403	488	571	668
Other operating exp.	196	228	259	294
Operating Income	1,001	1,237	1,514	1,836
Provisions	41	73	88	105
PBT	959	1,164	1,426	1,731
Taxes	210	256	314	381
Net Profit	749	908	1,112	1,350
Growth (%)	37.7	21.1	22.6	21.4
EPS (₹)	19.0	21.1	25.8	31.4

Source: Company, ICICI Direct Research

Exhibit 29: Key ratios ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Valuation				
No. of Shares (crore)	197.4	215.4	215.4	215.4
EPS (₹)	19.0	21.1	25.8	31.4
BV (₹)	112.7	147.6	173.5	204.8
ABV (₹)	109.9	144.6	169.9	200.6
P/E	24.2	21.8	17.8	14.6
P/BV	4.1	3.1	2.6	2.2
P/adj.BV	4.2	3.2	2.7	2.3
Yields & Margins (%)				
Yield on avg assets	10.9	10.0	9.9	9.9
Avg. cost on funds	7.6	7.8	7.8	7.8
NIM	6.2	6.4	6.5	6.6
Spreads	6.2	6.3	6.3	6.4
Quality and Efficiency (%)				
Cost / Total net income	42.5	40.3	38.6	37.4
GNPA	1.1	1.2	1.2	1.2
NNPA	0.6	0.6	0.6	0.6
RoE	18.4	16.8	16.1	16.6
RoA	4.2	4.3	4.4	4.5

Source: Company, ICICI Direct Research

Exhibit 30: Balance sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Capital	395	431	431	431
Reserves and Surplus	4,055	5,929	7,041	8,391
Networth	4,450	6,359	7,472	8,822
Borrowings	13,960	16,265	19,193	22,744
Other Liabilities & Provisions	684	772	861	955
Total	19,093	23,396	27,526	32,521
Applications of Funds				
Investments	462	561	668	812
Advances	16,903	20,395	24,293	28,849
Other Assets	1,728	2,440	2,565	2,860
Total	19,093	23,396	27,526	32,521

Source: Company, ICICI Direct Research

Exhibit 31: Growth ratios

(% growth)	FY24	FY25E	FY26E	FY27E
Total assets	14.9	22.5	17.7	18.1
Advances	22.0	20.7	19.1	18.8
Borrowings	14.9	16.0	18.0	18.5
Total Income	31.2	22.1	20.0	19.3
Net interest income	31.3	24.4	21.6	20.7
Operating expenses	26.4	19.5	15.8	15.8
Operating profit	34.3	23.6	22.4	21.2
Net profit	37.7	21.1	22.6	21.4
Book value	20.3	31.0	17.5	18.1
EPS	37.6	10.9	22.6	21.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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