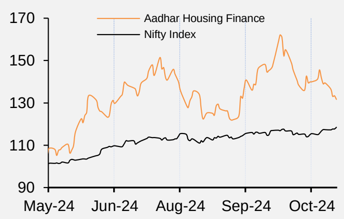
MIRAE ASSET
Capital Markets

Initiate
October 24, 2024

Rating	**BUY**
Target Price (INR)	**555**
Share Price (24/10/24, INR)	413
Expected Return	34.4%

Revenue (25E, INR mn)	19,155
Consensus Rev. (25E, INR mn)	19,581
EPS Growth (25E, %)	22.5
Market EPS Growth (25E, %)	6.1
P/E (25E, x)	18.6
Market P/E (25E, x)	22.7
NIFTY	24,399
Market Cap (INR bn)	178.3
Shares Outstanding (mn)	429.8
Free Float (%)	24.0
Foreign Ownership (%)	80.0
52-Week Low	292
52-Week High	517

(%)	1M	6M	12M
Absolute	-18.8	-	-
Relative	-12.8	-	-



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AADHARHF IN · BFSI

Aadhar Housing Finance

Leading the Pack: Shines with Stellar Performance

Aadhar Housing Finance (AADHARHF) is a leading affordable HFC with AUM size of INR 217bn commanding 2% share in Indian affordable housing market. With diversified presence across 21 states, focus on low-income housing and resilience business model, AADHARHF is well placed to deliver high quality growth. Its ability to deliver superior margin, cost-efficient expansion & contained credit cost ensure strong profitability (23% PAT CAGR over FY24-26E driving >20 bps expansion in RoA to ~4.5%). We initiate coverage on AADHARHF with 'BUY' rating and assign target price of INR 555/sh valuing at P/BV 3.0xFY26E BV.

Investment Rationale

Extensive distribution network, focus on EWS/LIG ensure sustenance of robust >20% AUM growth: Since starting lending operations in 2011, AADHARHF remained focused on widening presence rather the deepening penetration in a particular geography. Within five years, the company enhanced its footprints to 10 states with 100 branches. The strategy also paid well for it in terms of understating credit market across India breadth, building scale with lower concentration risk and remain diversified since from starting.

No state contributes 15% of AUM as of Jun'2024, and the top 3 states share stands at ~40% as compared to >50% for peers, showing business model resilience to micro-market risk. As AADHARHF has already diversified its presence across 21 states, now it is strategized to deepen penetration in selected tier 4/tier 5 geographies. This will further broaden the customers' acquisition catchment area, adequately leveraged by its focus on Aadhar Mitras + DSTs sourcing channels (61% of disbursements). An additional tailwind to growth is AADHARHF's continued focus on EWS/LIG (70% of AUM) which presents immense latent potential for growth as 95% of the housing shortage is expected to be driven by this segment.

Scalable business model resilient to bear economic cycle impact: AADHARHF is geographically much better diversified than its peers which we think is prime requisite for HFCs focused on low-income housing as it largely protects from region/state specific credit risk. Furthermore, cost-efficient branch expansion model by testing new geography through opening ultra small branch/sales point and higher share of salary segment (57% of AUM) secure business resilience. AADHARHF's 30% PAT CAGR, avg. GNPA ~1.2% and credit cost ~33 bps over FY21-24 is a testament of its resilience business model. The company adopts a combination of centralized (for salaried segment)/decentralized (for self-employed) underwriting processes along with internally developed credit assessment model which bring more efficiency in TAT and risk containment.

Earning and valuation metrics

(YE Mar)	FY22	FY23	FY24	FY25E	FY26E
NII (INR mn)	7,771	9,771	12,826	15,770	18,602
Growth (%)	27.2	25.7	31.3	23.0	18.0
NIM (on AUM) (%)	5.5	6.1	6.7	6.7	6.5
PPOP(INR mn)	6,161	7,698	10,005	12,720	15,233
Adj PAT (INR mn)	4,449	5,446	7,485	9,531	11,371
AUM (INR bn)	148	172	211	257	312
RoA (%)	3.2	3.5	4.2	4.5	4.4
RoE (%)	15.2	15.9	18.4	17.8	16.8
Adj. EPS (INR)	10.9	13.4	18.1	22.2	26.5
P/E (x)	37.9	30.9	22.8	18.6	15.6
P/BVPS (x)	5.4	4.5	3.8	2.8	2.4

Source: Company data, MACM Research

Refine assets-liability management to sustain margin >6.5% over FY25-26E: Despite high exposure to formal salaried customers and low non-HL mix, AADHARHF generates one of the highest assets yield/spread among peers (AADHARHF's FY24 spread at 6.5% vs HOMEFIRS at 5.1%, AAVAS at 5.1%, INDIASHL at 6.1%). AADHARHF is expected to continue generating strong YoA (>14%) on the back of **1)** high pricing power due to significant presence in underpenetrated states such as UP, MP, Chhattisgarh among others **2)** higher exposure of relatively high yield EWS/LIG (70% of AUM) and **3)** rising share of informal customers in AUM mix (45% in FY24 vs 31% in FY21). Alternatively, CoB, rose by ~30 bps over FY23-24 despite 200 bps increase in the repo rate driven by AADHARHF's effective liability management by increasing cheap NHB borrowing thereby minimizing the impact of rising MCLR. CoB is expected to remain <8.0% over FY25-26E, also supported by recent IPO capital raise keeping leverage contained. We expect AADHARHF to generate NIM (on avg. AUM) >6.5% over the next two fiscals (vs avg. 6.4% in FY23-24).

Core PPOP/AA expects to reach 5.0% over FY25-26E driving RoA to ~4.5%: Sustained increase in core PPOP/AA to 4.8% in FY24 from 3.6% in FY21 (higher than peers i.e. HOMEFIRS at 3.8%, AAVAS at 3.0% in FY24) which reflects AADHARHF's focus on achieving quality growth in cost-efficient way with the better margin. Driven by cost-efficient expansion strategy, incremental business scale will come at lower cost thereby boosting productivity. Growth in core PPOP is expected to remain strong (23% CAGR) on healthy spread and low cost/opex (~3.0%) which is likely to keep core PPOP/AA of 5.0% over FY25-26E.

View & Valuation: Diversified book with no state constituting 15% of AUM and deeper presence in underpenetrated market helped AADHARHF to scale business faster than peers while remaining immune to micro-market risk. RoA almost doubled to 4.2% in FY24 from 2.6% in FY21 on steady improvement in risk adjusted yield (13.8% in FY24 vs 12.6% in FY21) and contained CoB & opex/AA. We view AADHARHF is better placed to deliver 21.5% AUM CAGR over FY24-26E driven by extensive distribution network, strong growth potential in targeted EWS/LIG segment and industry related tailwinds like PMAY scheme. NIM (on avg. AUM) expects to be at a healthy level of ~6.6% (avg) and credit cost at ~23 bps over the next two fiscals. We expect AADHARHF to deliver 23% PAT CAGR over FY24-26E which will drive >20 bps expansion in avg. RoA to ~4.5% and generate avg. RoE ~17.3%. Given AADHARHF's ability to deliver an excess return of 500 bps (over CoE) over the next two fiscals, the current valuation of IY forward P/BV 2.4x looks attractive. We initiate coverage on AADHARHF with 'BUY' rating and assign target price of INR 555/sh valuing at P/BV 3.0xFY26E BV.

Key Financial Parameters

	CMP (INR)	**Mcap** (INR bn)	**ROA(%)**			**ROE (%)**			**PE (X)**			**P/BV (x)**		
			FY24	**FY25E**	**FY26E**	**FY24**	**FY25E**	**FY26E**	**FY24**	**FY25E**	**FY26E**	**FY24**	**FY25E**	**FY26E**
AADHARHF*	417	178	4.2	4.5	4.4	18.4	17.8	16.8	22.8	18.6	15.6	3.8	2.8	2.4
HOMEFIRS*	1,128	101	3.8	3.5	3.5	15.5	16.5	18.1	31.8	27.0	21.0	4.6	4.0	3.4
APTUS	352	176	7.6	7.3	7.1	17.2	18.5	19.8	28.8	23.4	18.9	4.7	4.1	3.5
AAVAS	1,666	132	3.3	3.2	3.3	13.9	14.6	15.5	26.9	22.2	18.0	3.5	3.0	2.6
INDIASHL	690	74	4.9	4.9	4.8	14.0	13.6	15.3	26.2	21.5	17.0	3.4	2.8	2.4
LICHF	600	330	1.7	1.6	1.5	16.2	14.9	13.7	6.9	6.8	6.3	1.1	1.1	1.0
PNBHOUSI	925	240	2.2	2.3	2.4	11.6	11.4	12.0	15.9	13.2	11.4	1.6	1.4	1.3

Source: Company data, MACM Research, Bloomberg Note: *Our estimates

Story in Charts

Exhibit 1. Expects 21.5% AUM CAGR over FY24-26E

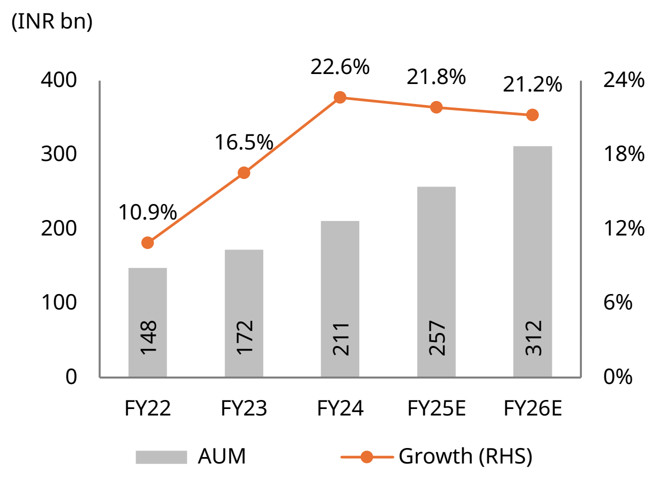


Exhibit 2. Estimated disbursements to cross INR 100bn by FY26E

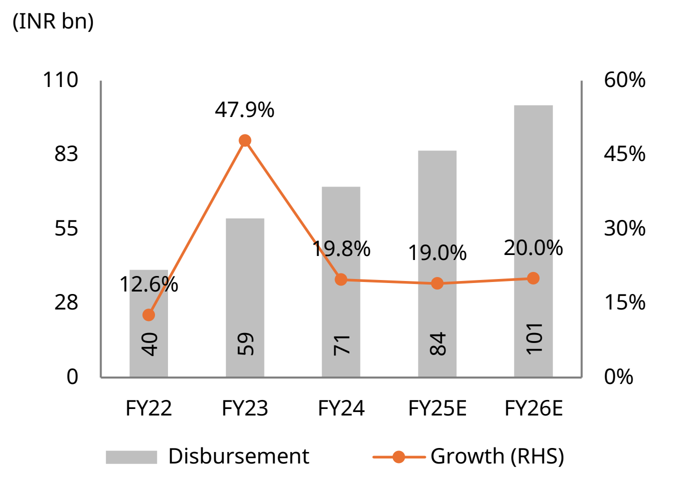


Exhibit 3. AUM mix: Formal salaried continues to dominate the AUM mix

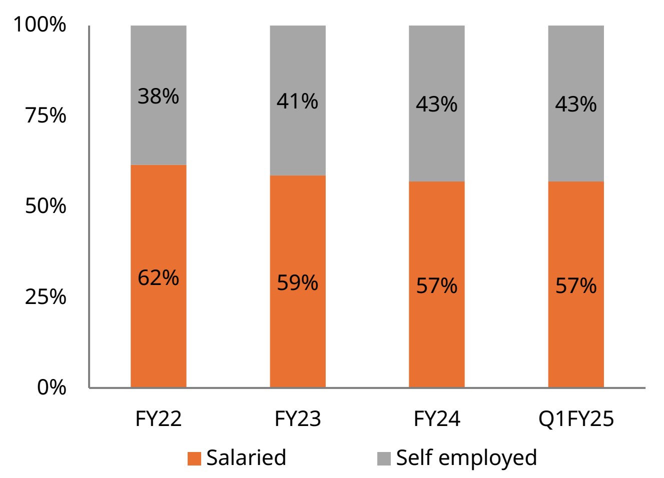


Exhibit 4. Disbursal mix: main branch to have max share

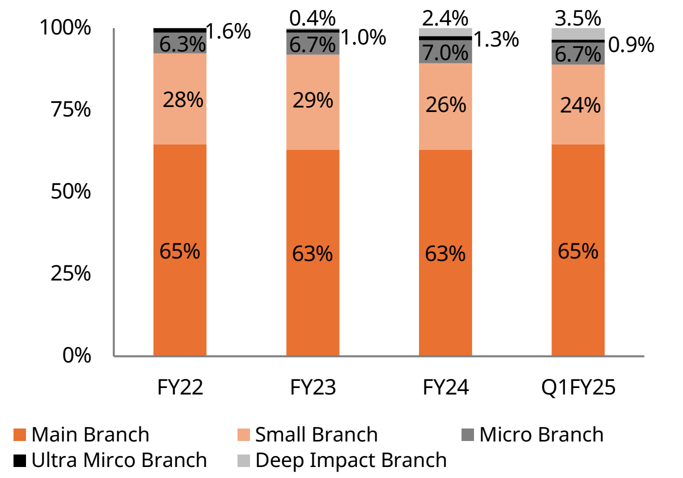


Exhibit 5. Incremental business scale to come at lower cost boosting producivity

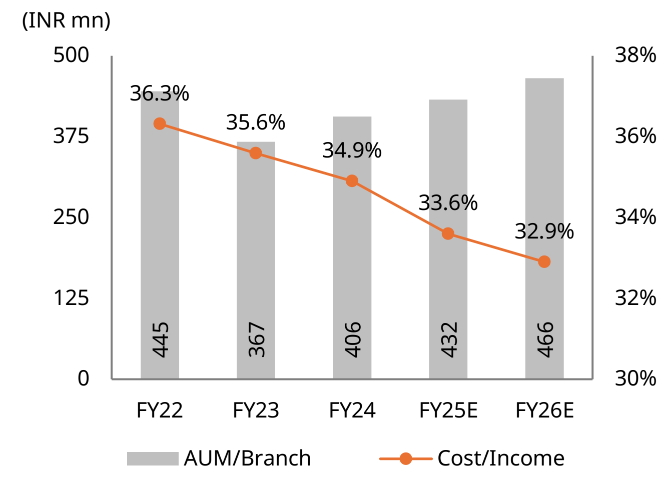
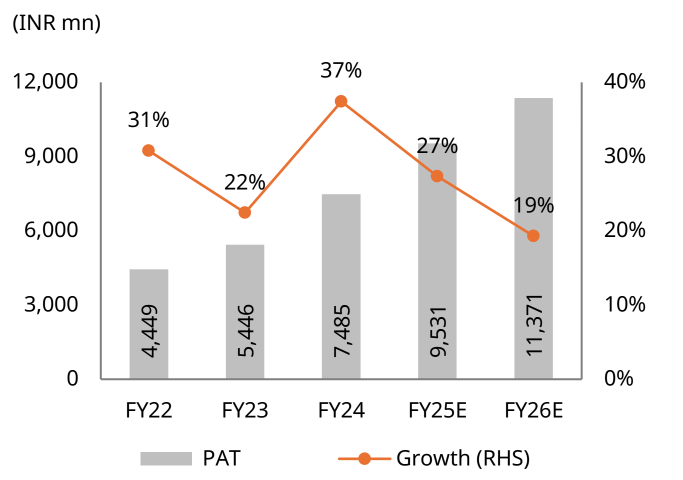


Exhibit 6. Profitability estimates to grow at a CAGR of 23% over FY24-26E



Source: Company data, MACM Research

Exhibit 7. Stable assets quality to keep credit cost contained

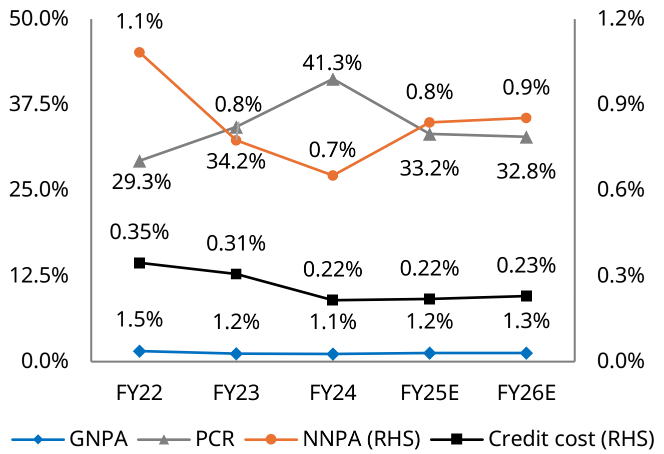


Exhibit 8. GNPA remains below 1% in salaried mix over four fiscals showing business resilience

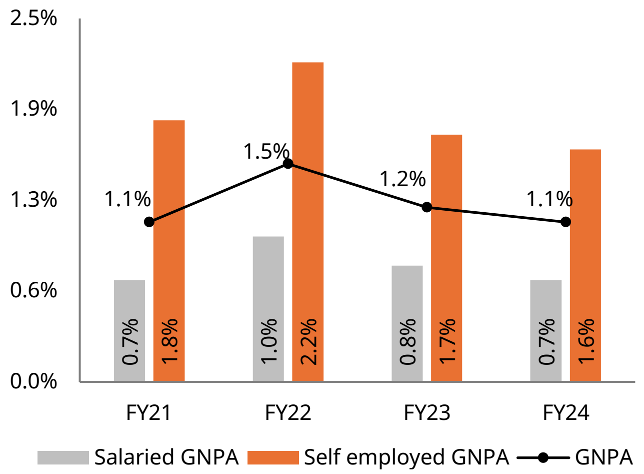


Exhibit 9. AADHARHF's ability to generate higher yield and contained CoB to keep spread at a healthy level

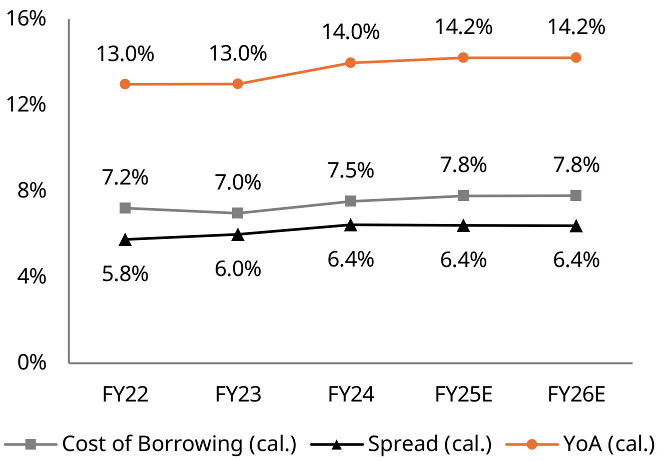


Exhibit 10. Expects 23% PAT CAGR over FY24-26E driving RoA expansion to ~4.5%

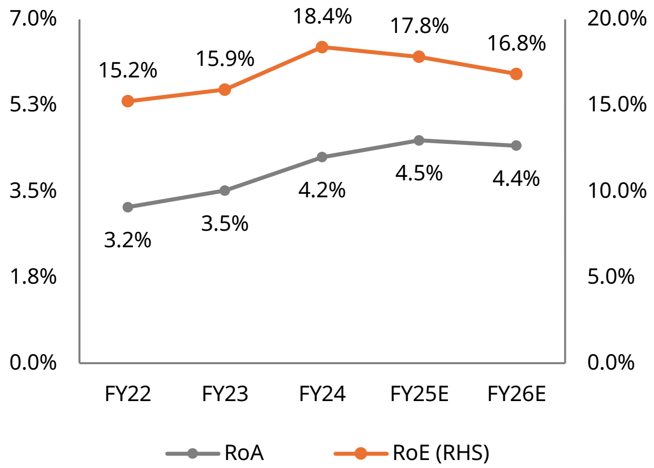


Exhibit 11. AADHARHF's market share in domestic affordable housing finance market

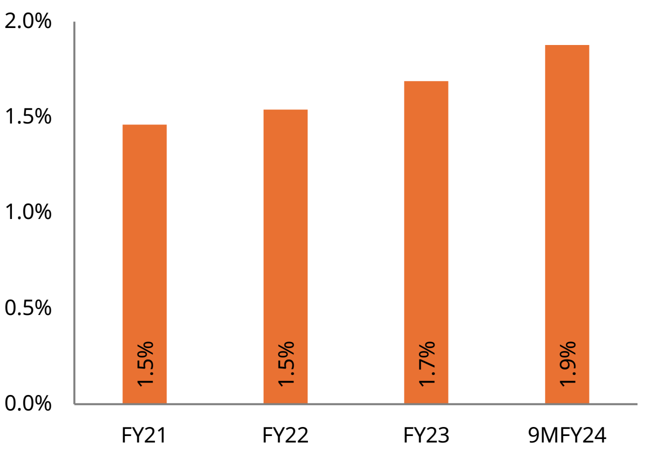
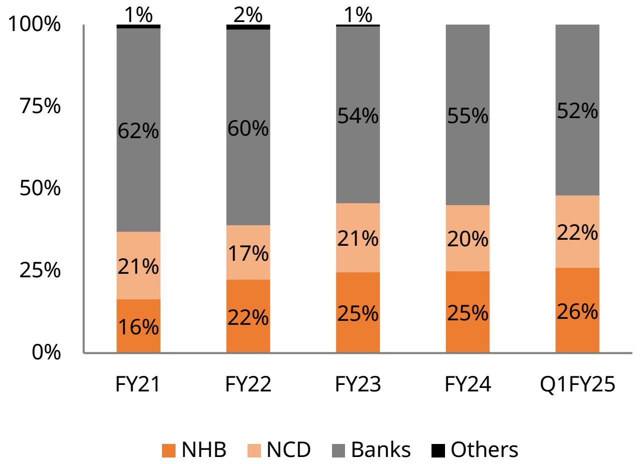


Exhibit 12. AADHARHF's Borrowing mix;rising share of cheap NHB in mix



Source: Company data, MACM Research

Brief Introduction

Aadhar Housing Finance (AADHARHF) is a retail-focused affordable housing finance company providing home loans to economically weaker and low-to-middle income groups who often have limited access to traditional financial services. The company offers small tickets of ATS of INR 1mn, ensuring broader financial inclusivity. AADHARHF started commencing operation in 2011 choosing low penetrated & credit untested states of northern India such as UP, Bihar, Jharkhand, Odisha, Chhattisgarh among others. With an AUM of INR 217bn as of Jun'2024, AADHARHF is the largest among listed peers focusing on low-income housing segment. The company has diversified geographical presence in 21 states and union territories with the network of 536 branches. Top five states account for around 60% of the AUM and 56% of the total branches network. AADHARHF encompasses 100% secured retail books in which retail home loans comprises for 75% of AUM and balance by LAP as of Jun'2024. Salaried/self-employed accounted for 57%/43% of AUM. Borrowing book is diversified with proportion of banks/NHB/NCD stood at 52%/26%/22% as of Jun'2024. The company has demonstrated strong growth/profitability over the past driving fiscals with pristine assets quality. AUM/PAT rose by 17%/30% CAGR over FY21-24. Driven by strong profitability on healthy NIM & low credit cost, ROA expanded to 4.2% in FY24 from 2.6% in FY21 driving 500 bps expansion in ROE of 18.4%.

AADHARHF has recently (May'2024) launched its **IPO** of INR 30,000mn which included Offer for Sale (OFS) of INR 20,000mn and INR 10,000mn of fresh capital raise. The major shareholders, namely BCP Topco, an affiliate of Blackstone which acquired 98.7% stake in Jun'2019, participated in the OFS. Post issue, BCP Topco stake reduced to 76.0%. The issue was successful as it was subscribed 27 times.

Exhibit 13. Key Financial Parameters

	FY21	FY22	FY23	FY24
Live accounts	182,471	204,135	233,228	266,000
AUM (INR mn)	133,271	147,778	172,228	211,209
Disbursement (INR mn)	35,447	39,919	59,026	70,724
No. of branches and sales offices	310	332	469	523
No. of states	20	20	20	20
Average ticket size (INR mn)	0.9	0.9	0.9	1.0
Retail AUM (INR bn)	133.3	147.8	172.2	211.0
Gross NPA (%)	1.1	1.5	1.2	1.1
Net NPA (%)	0.7	1.1	0.8	0.7
Net worth (INR bn)	26.9	31.5	37.0	44.5
Profit after tax (INR mn)	3,401	4,449	5,446	7,485
ROA (%)	2.6	3.2	3.6	4.2
ROE (%)	13.5	15.2	15.9	18.4
CRWAR (%)	44.1	45.4	42.7	38.5
Yield on Advances (cal.) (%)	12.5	13.0	13.0	14.0
Avg cost of borrowing (cal.) (%)	7.8	7.2	7.0	7.5
NIMs (cal.) (%)	4.6	5.5	6.1	6.7
Cost to Income (%)	35.8	36.3	35.6	34.9

Source: Company data, MACM Research, RHP

Investment Rationale

1) Extensive distribution network, focus on EWS/LIG ensure sustenance of robust >20% AUM growth

AADHARHF is the largest affordable housing finance company (HFC) with AUM of INR 217bn commanding ~2% share in the Indian affordable housing market. The company's AUM size as of Jun'24 was 20% large than nearest peer Aavas Financiers (AAVAS) and more than double to the size of other peers like Home First Finance (HOMEFIRS), Aptus Value Housing (APTUS) and India Shelter Finance (INDIASHL).

Starting lending operations in 2011 approximately the same time when peers like HOMEFIRS/ APTUS/ INDIASHL and AAVAS also started their journey, AADHARHF has been leading the pack in terms of growth, business size and market share gain. Considering that extensive branch network is essential for HFCs growth especially in low-income housing finance segment, AADHARHF has kept its focus intact on widening its distribution network. In the first five years since incorporation, AADHARHF extended its geographical footprints to 10 states by opening ~100 branches and leading the close peers by expanding pre-merger AUM to INR 18 bn (vs AAVAS at INR 17bn and INR 5bn each for HOMEFIRS & APTUS).

Exhibit 14. AADHARHF has the highest AUM among its peers as of Q1FY25

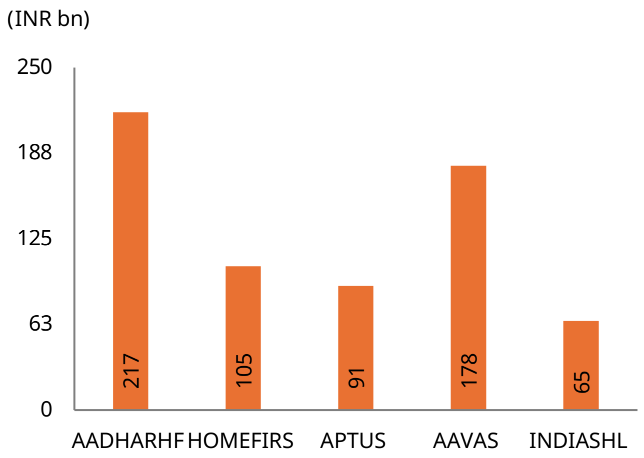
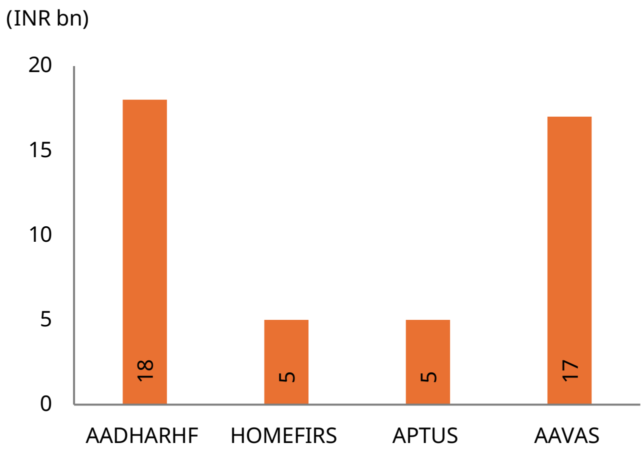


Exhibit 15. AUM (pre-merger) reaches INR 18bn as of FY16, leading the AHF peers



Source: Company data, MACM Research

- **Focused on low income housing and customer acquisitions**
  AADHARHF has extended its presence to pan-India with a branch network of 536 in 21 states & UTs as of Jun'2024, significantly higher than nearest peer AAVAS having 371 branches. Since inception, AADHARHF has been dedicated to low income housing finance and thereby extending branches network also well supported to its strategy to acquire new customers. Average ticket size (ATS) has been remaining contained at INR 0.9 mn over past fiscals indicating that incremental AUM growth is mainly driven by new customers addition rather than increase in ATS. We believe geographical presence is a prerequisite for HFCs especially for catering to low-income people as branches operate in a certain radius for credit accumulation besides fostering trust among customers.

Exhibit 16. Aadhar has the highest customer base as of Q1FY25

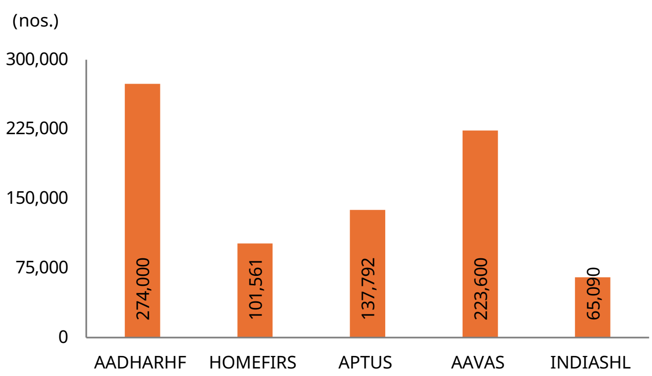
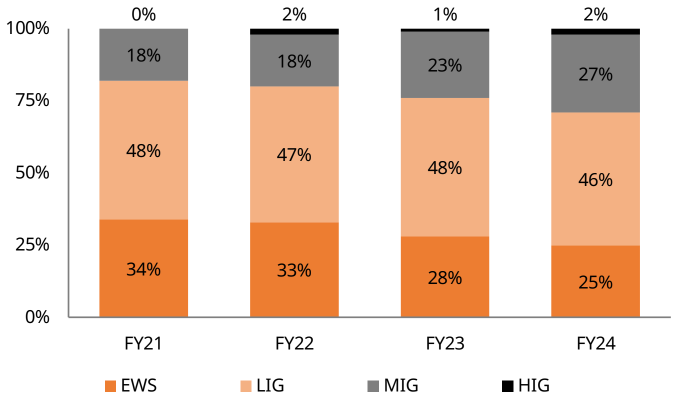


Exhibit 17. EWS/LIG share in AUM mix at 70% as of Q1FY25, though reduced from 81% in FY21



Source: Company data, MACM Research

Expects 21.5% AUM CAGR over FY24-26E driven by…

- **Extended geographical diversification to sustain growth momentum**

  Why is geographical diversification a prime requisite for HFCs? - We believe widened geographical diversification helps a lender in many ways to sustain the growth momentum like mitigating state-level saturation, broad understanding of state-level legal and property records besides easing the higher exposure risk to the specific state/region. AADHARHF is better placed among peers on geographical diversification front ensuring its leadership in AHF segment. No state contributes 15% of its AUM and the top three states' portfolio concentration stood lowest at 40% as compared to >50% for peers as of Jun'2024. AADHARHF strategized to expand in under-penetrated and untested states of northern India Uttar Pradesh, Bihar, Jharkhand and Orisha with focus on tapping the low-income people. As of Jun,'2024, the economically weaker section (EWS) and low-income group (LIG) constitute 70% of AUM. AADHARHF strategically chose a challenging path by entering credit-untested markets and enjoyed the first mover advantage.

  The company's strategy to widen extensively is reflected from the fact that the company has presence in 90-100% of districts of the penetrated states. Though, the strategy paid well for it for understanding the regional credit market, credit discipline of specific geography besides keeping itself ahead of competition. Thus, till the time peers enter the market and spend time on understanding lower credit market & legal framework, AADHARHF would already capture a market share in these geographies. The company's latest entry to Himachal Pradesh state is a testament of this strategy. We believe extended geographical diversification presents a strong tailwind for sustaining the growth momentum.

Exhibit 18. Top 3 states contribution to AUM as of Q1FY25

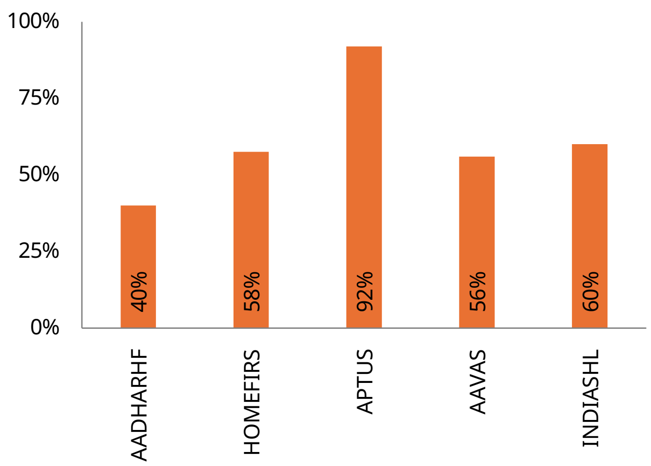
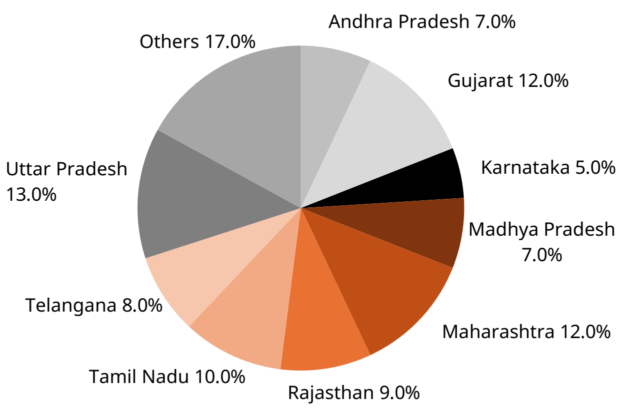


Exhibit 19. AADHARHF Branch mix across states as of Q1FY25



Source: Company data, MACM Research

Exhibit 20. Penetration rate in each state as of Q1FY25

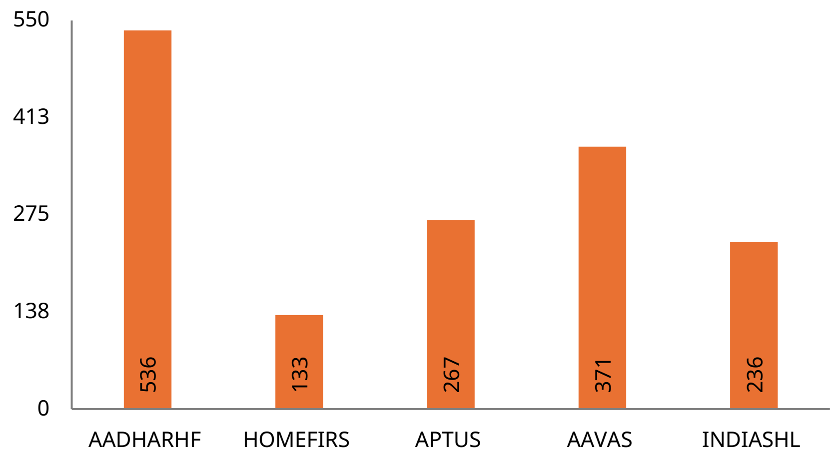
	No. of Branches	No. of districts with the point of presence	No. of districts in the state	Penetration rate (%)
Andhra Pradesh	40	23	25	92
Gujarat	64	33	33	100
Karnataka	25	31	31	100
Madhya Pradesh	40	55	56	98
Maharashtra	63	35	36	97
Rajasthan	48	48	51	94
Tamil Nadu	52	38	38	100
Telangana	42	33	33	100
Uttar Pradesh	70	66	74	89
Others	92	171	424	40
Total	536	533	801	67

Source: Company data, MACM Research

- **Expanding distribution network for deeper market penetration**
  AADHARHF also implemented a differentiated approach to expand by focusing first on widening distribution network (to understand market, credit behavior of respective state people and risk) and then deepening presence in selected markets. Since the company expanded geographically significantly, it has now strategized to deepen the presence in selected states/geographies based on their historic credit experience and the behavior of the vintage portfolio in these areas. Onwards, incremental branch addition to by led by deep impact branches (very small size branches of 2-3 DSTs and branch in-charge).

  AADHARHF expects to open 75 branches in FY25E of which it guided for 50-55 to be deep impact branches. The company has selected five states under Phase 1 where it has been expanding deep impact branches network since Q4FY23 such as in Uttar Pradesh, Andhra Pradesh, Telangana, Rajasthan and Gujarat. In Phase 2, AADHARHF strategized to deepen the presence in Maharashtra, Madhya Pradesh and Tamil Nadu. We view the strategy to pay off – 1) enhancing presence in tier 4/ tier 5 cities to lower concentration risk 2) boost to new customers acquisitions and growth 3) understand credit behavior with first mover advantage and 4) more flexibility to alter business plan given lower capital outlay. In the long term (4-5 years), AADHARHF may deepen its presence in 10-12 states.

Exhibit 21. AADHARHF leading the peers in terms of branches as of Q1FY25



Source: Company data, MACM Research

- **Adding new branches to a high business potential area - another trigger to growth**
  AADHARHF put a cap on branch's disbursement (INR 50-70mn monthly disbursements). When a specific region possesses strong business potential and a respective branch starts generating healthy business, the management introduces a new branch in the specific region. We view this strategy helps the company to keep staff motivated for the new business, instead of making original branch's staff overconfident and satisfied.

Exhibit 22. Disbursements mix

(%)	FY22	FY23	FY24	Q1FY25
Main Branch	64.6	63.0	63.0	64.6
Small Branch	27.7	28.9	26.3	24.3
Micro Branch	6.3	6.7	7.0	6.7
Ultra Mirco Branch	1.6	1.0	1.3	0.9
Deep Impact Branch	0.0	0.4	2.4	3.5
	100.0	100.0	100.0	100.0

Source: Company data, MACM Research

- **Combination of in-house/external channel sourcing to broaden customers acquisitions**
  AADHARHF uses a combination of multiple lead sourcing channels which include in-house channels such as direct sales teams (DSTs), sales managers and external sources are direct sales agents (DSAs) and Aadhar Mitras. AADHARHF emphases more on Aadhar Mitras souring which acts as lead providers to the DSTs and get a referral fee for a/c that results in a loan disbursal. Aadhar Mitras are typically hardware store owners/property broker/mobile shop owner etc. They are linked to the local branch after undergoing the mandatory training programme. As of FY24, the company has 12,600+ associated Aadhar Mitras and 2600+ DSTs.

  External sourcing from DSAs constitutes 49% as of Jun'24, which the company expects to bring down to 35% by curtailing the share of retail DSAs. We view the strategy to focus more on sourcing from DSTs and Aadhar Mitras is supportive for the company as 1) it is cheaper than DSA (40-50 bps commission for Aadhar Mitras vs 90 bps commission for corporate DSAs) 2) lowering BT out risk and 3) checked concern of future loss of business due to break of partnership with DSAs.

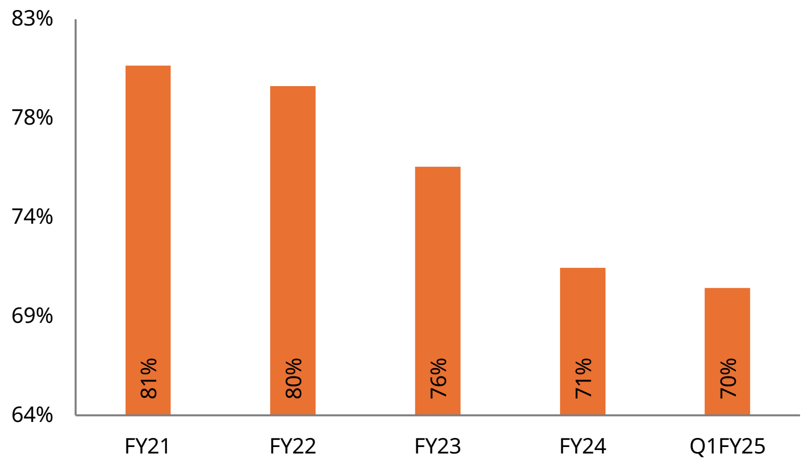
Exhibit 23. Sourcing mix

	FY22		FY23		FY24		1FY25	
	Disbursement (INR mn)	Contri. (%)	Disbursement (INR mn)	Contri. (%)	Disbursement (INR mn)	Contri. (%)	Disbursement (INR mn)	Contri. (%)
Aadhar mitra	9,004	23	11,388	19	14,498	21	3,053	20
DSAs	13,004	33	24,645	42	32,887	47	7,289	49
DSTs	17,911	45	22,993	39	23,339	33	4,625	31
Total	39,919	100	59,026	100	70,724	100	14,967	100

Source: Company data, MACM Research

- **Strong growth drivers in key focused EWS/LIG segment**
  While AADHARHF widened presence across India, it continues to focus on EWS/LIG with avg. ticket size remaining <INR 1 mn. EWS/LIG constitutes 70% of AUM as of Jun'2024, though it reduced from 81% in FY21. As the company intends to remain focused on EWS/LIG, the segment presents immense latent potential for growth as 95% of the housing shortage is expected to be driven by EWS/LIG. During FY18-23, HFCs focused on low income housing (LIH) segment grew at 14% CAGR outpacing other segments i.e. overall HFC at 6% and small HFCs at 9%. Further, housing demand is rising Tier 3/Tier 4 cities as consumers increasingly work out of these cities (as per CRISIL, housing demand from Tier 3/ Tier 4 cities to rise to INR 5.7 trn by FY26P from INR 4.3 trn in FY23).

Exhibit 24. EWS/LIG customer share at 70% in AADHARHF's AUM mix



Source: Company data, MACM Research

Exhibit 25. 95% of the housing shortage expects to be driven by EWS and LIG segments

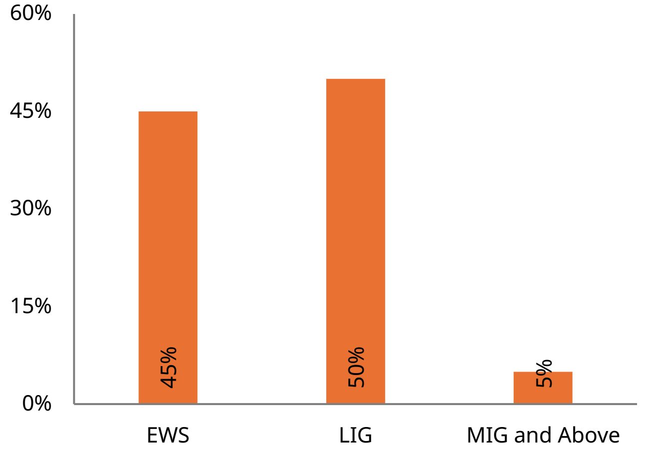


Exhibit 26. Growth of HFCs focused on LIH segment outpaces other segement over 5 year CAGR (FY18-23)

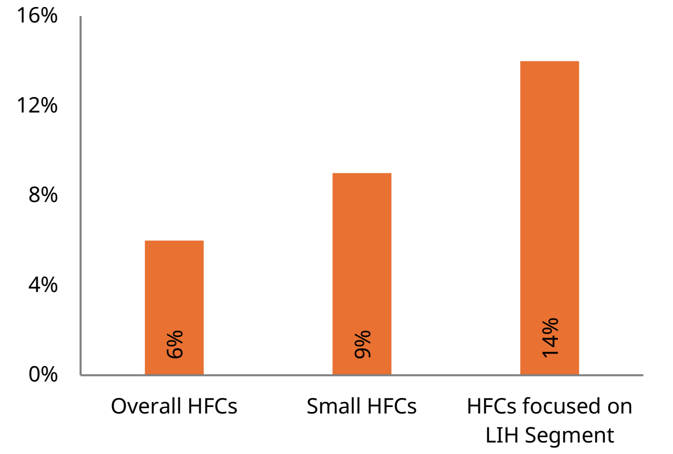


Exhibit 27. Expects 21.5% AUM CAGR over FY24-26E

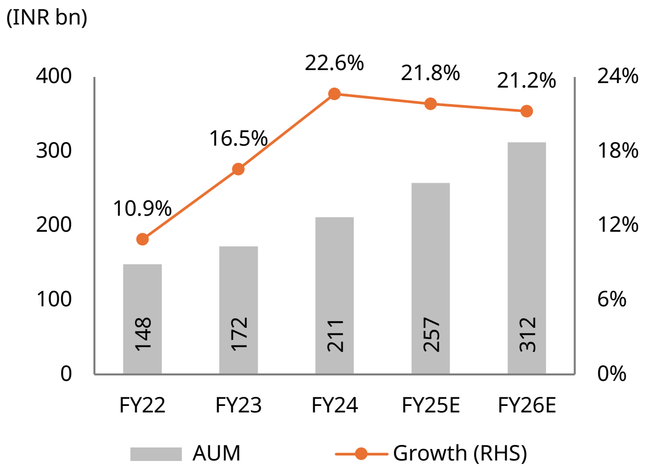
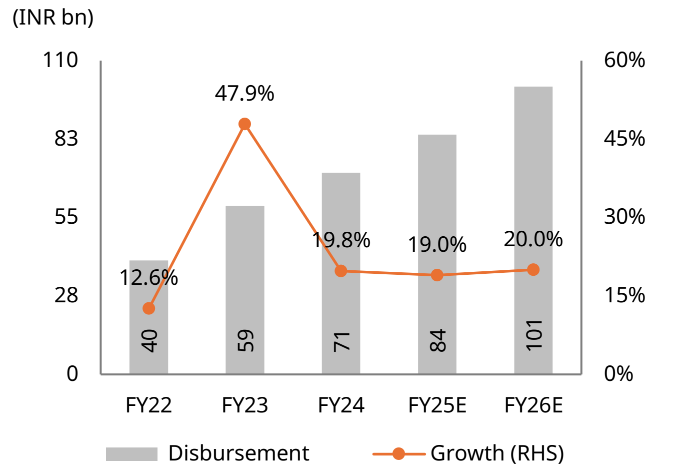


Exhibit 28. Disbursements to cross INR 100bn by FY26E



Source: Company data, MACM Research

2) Scalable business model resilient to bear economic cycle impact

AADHARHF has proved itself to be a seasoned player with cycle-tested resilient business model. Be it branch diversification, focused customers segment and distribution model, AADHARHF implemented a differentiated approach than peers.

- **Business diversification immunes from geographical risk**
  AADHARHF is geographically much better diversified than its peer which we think is prime requisite particularly for affordable HFCs as they mostly caters to low income people which are more skeptical to natural calamities/political interference. As of Jun'2024, top three states' portfolio concentration stood lowest at 40% as compared to HOMEFIRS at 58%, APTUS at 92%, AAVAS at 56% and INDIASHL of 60%. No state has more than 12% of total branch network. We view robust business diversification immune the company from geographical/micro-market risk.

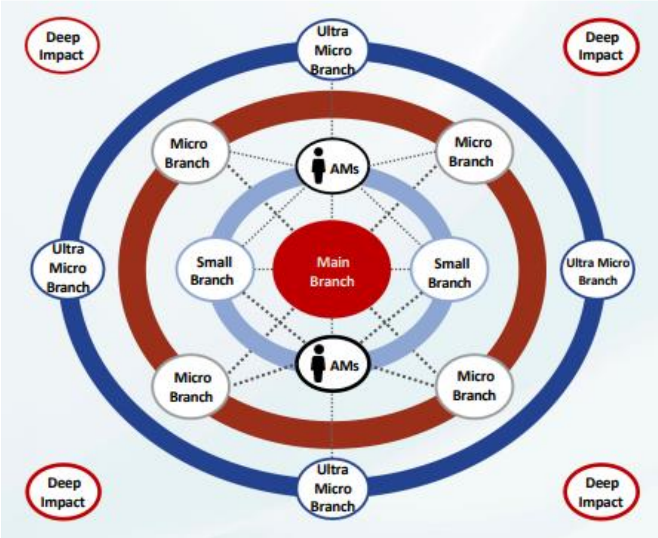
  AADHARHF strategically adopts a measured/cost-efficient branch expansion model to meet the local requirements. On a regional level, it categories the branches as main & small branches which are hubs. It widens region presence by opening micro or ultra-micro branches under the ambit of main & small branches. Usually, AADHARHF establishes presences in new location with an ultra-micro branch and once it turns profitable, the company upgrades it to a small/main branch to cater to a larger pool of customers. AADHARHF is now strategically expanding its presence in remote location by opening sale points/deep impact branch to judge the credit behavior/credit discipline of the area. Once satisfied with business potential/delinquency trend, deep impact branches gradually become ultra micro to micro then small and eventually turn into main branch. AADHARHF also formulated a separate product Aadhar Gram Unnati to test the demand in semi-urban locations.

Exhibit 29. Loan disbursal limit and typical manpower as of Q1FY25

Type	Loan disbursal	Typical manpower	No.	(%)
Main Branch	>INR 240 mn	(a) branch manager (b)sales team (c) credit team (d) technical team (e) operations team	133	25%
Small Branch	INR 120 mn- 240 mn	(a) branch manager (b)credit officer (c) sales team (d) technical team (e) collection team	144	27%
Micro Branch	INR 70 mn-120 mn	(a) sales manager (b) DSTs (c) relationship manager (d) credit officer	91	17%
Ultra Mirco Branch	INR 50 mn-70 mn	(a) sales manager (b) DSTs or relationship manager	23	4%
Deep Impact Branch	INR 50 mn-70 mn	(a) branch in-charge (b) DSTs	145	27%
Total			536	100%

Source: Company data, MACM Research

Exhibit 30. Agile branch network; keeping opex in control



Source: Company data, MACM Research

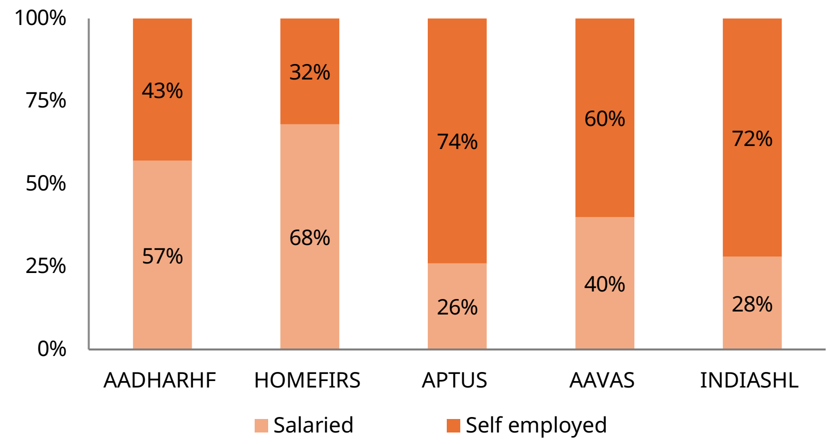
- **Better customer mix ensuring business resilience and improving assets yield**
  We believe early entry of AADHARHF in the underserved affordable market in smaller cities and focus on low ticket loans (<INR 1.5mn) empowers it to choose the formal salaried segment which is less vulnerable to economic shocks. While its peers started journey in the crowded markets of Southern & Western states and focused on self-employed customers segment to immune from competition. The strategy has paid well for AADHARHF given the strong track record of growth, risk adjusted yield (>13.5%) and contained GNPA (~1%) despite several headwinds from time to time like demonetization, IL&FS induced NBFC crises, Covid pandemic. Over the past five fiscals, the company is enhancing self-employed mix as it has built adequate understating of Indian credit market by widening presence across India's breadth. The share of self-employed in mix rose to 43% in FY24 vs 36% in FY21. Further a perfect mix of formal/in-formal customers (82% formal customers in salaried and 81% informal customers in self-employed) places AADHARHF in a better position in terms of resilience to business cycle and generating better yield.

Exhibit 31. Focus on scaling informal self-employed customer segment

(%)	FY21	FY22	FY23	FY24	1QFY25
Salaried	63.8	61.5	58.6	57.0	57.0
Formal Salaried	*82.4*	*81.7*	*81.6*	*82.5*	*82.5*
Informal Salaried	*17.6*	*18.3*	*18.4*	*17.5*	*17.5*
Self employed	36.2	38.5	41.4	43.0	43.0
Formal Self employed	*43.4*	*34.4*	*25.4*	*18.6*	*16.3*
Informal self employed	*56.6*	*65.6*	*74.6*	*81.4*	*83.7*

Source: Company data, MACM Research

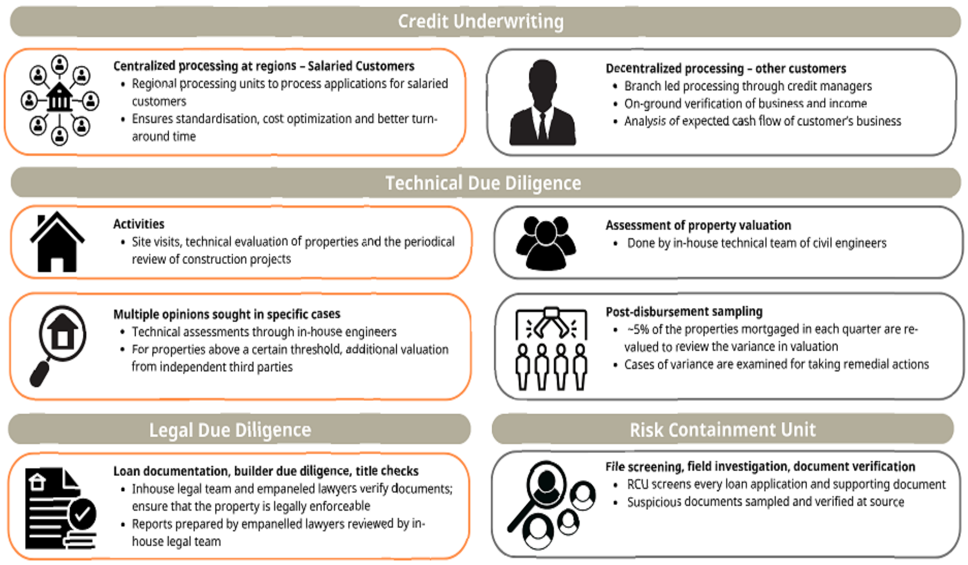
Exhibit 32. Occupation category of peers as of Q1FY25



Source: Company data, MACM Research

- **Robust credit underwriting system solidifies business model resilience**
  AADHARHF adopts combination of centralized/decentralized underwriting process with an aim to bring more efficiency in TAT and risk containment. Loan application from salaried customers are processed at regional processing unit ensuring standardization, cost optimization and better turn-around time (TAT). While for self-employed which require close understanding of the customers and their cash flows are managed regionally. The company adopts internally developed a four-pronged credit assessment model under which a sanction is approved if a loan application gets approval from four verticals namely - credit underwriting/technical due diligence/legal due diligence and risk containment unit.

Exhibit 33. Credit Assessment model



Source: Company data, MACM Research

3) Refine assets-liability management to sustain margin >6% over FY24-26E

AADHARHF adopts a strategic approach to sustain NIM at a healthy level through diversifying funding sourcing and effective assets liability management practices. It raised the share of cheap NHB financing in the borrowing mix to 25% by FY24 as compared to 16% in FY21 alternatively banks' share in borrowings mix reduced to 55% in FY24 from 62% in FY21 thereby immuning it to a larger impact from MCLR increase during last two fiscals. Diversification in funding sources with increase in number of borrowers (~23 banks) also helped it to contain CoB, which rose by ~30 bps over past two fiscals despite 200 bps increase in the repo rate during the same period. On the other hand, yield on advances (YoA) improved 250 bps to 14.0% in FY24 (vs 12.5% in FY21) on the back of following drivers **1)** significant presence in underpenetrated geographies provides pricing power **2)** higher exposure of relatively high yield EWS/LIG (70% of AUM) and **3)** rising share of informal customers in self-employed mix (81% in FY24 vs 57% in FY21). Yield in self-employed LAP remains ~400 bps higher than HL.

Exhibit 34. AADHARHF's ability to generate higher yield and contained CoB to keep spread at healthy level

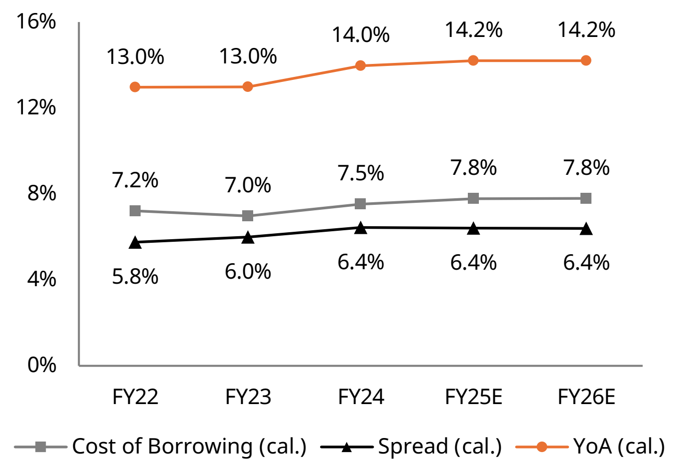


Exhibit 35. AADHAR generates higher spread than peers except APTUS as of FY24

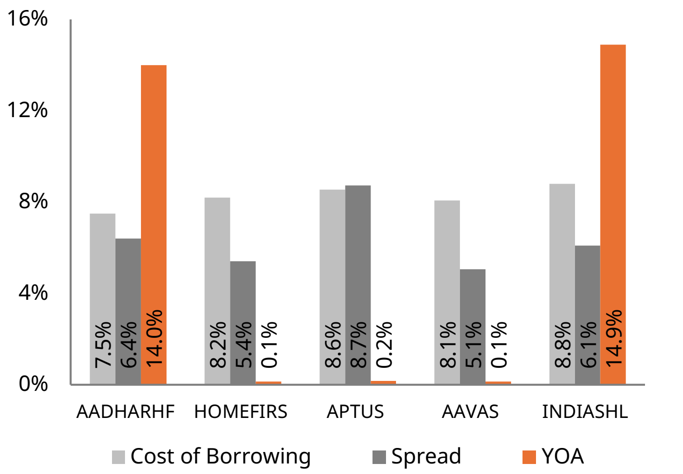


Exhibit 36. Borrowing mix of AADHARHF

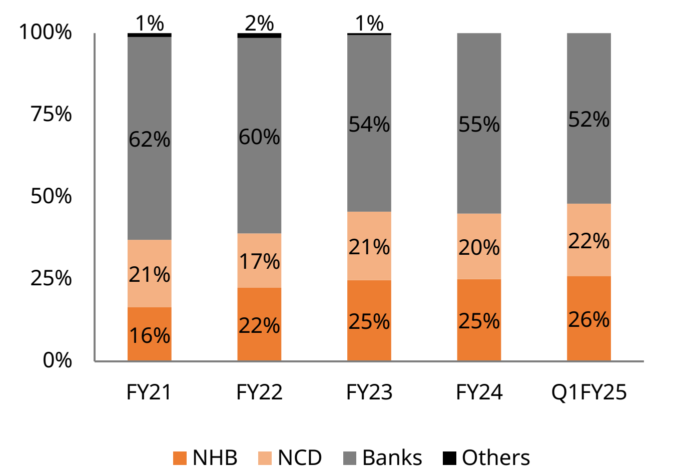
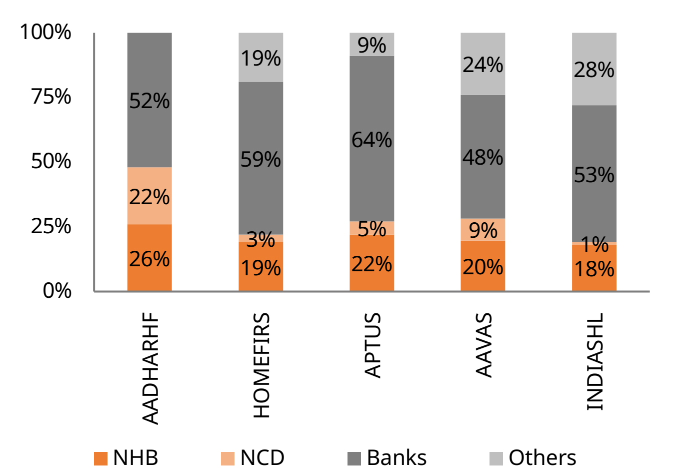


Exhibit 37. Borrowing mix of peers as of Q1FY25

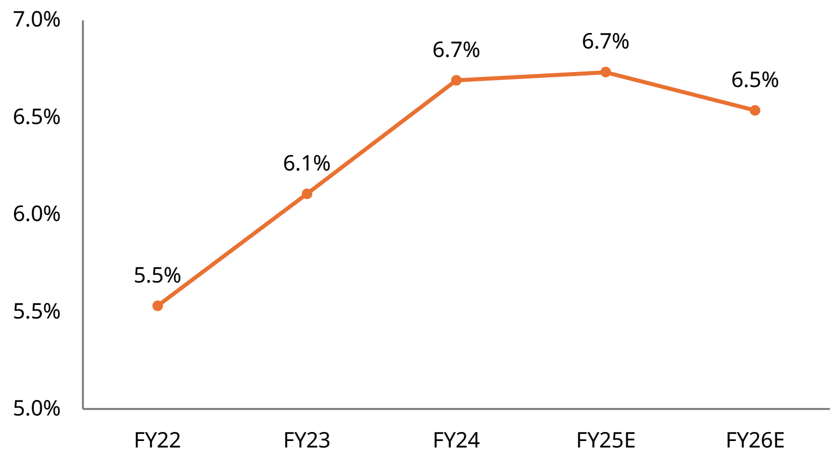


Source: Company data, MACM Research

- **NIM expects to remain at a healthy level on higher yield and contained CoB**
  NIM (on avg. AUM) is expected to remain healthy at 6.7% in FY25E (vs avg. NIM of 6.4% over past two fiscals) supported by lower borrowing cost as the company has raised fresh capital of INR 10bn through IPO in May'2024. With this capital raise, leverage has come down to <3.9x (HOMRFIRS at 3.7x, AAVAS at 4.1x) and expected to remain in same range over FY25-26E providing support to NIM amid expectation in increase in CoB.

  We estimate 20 bps increase in YoA to 14.2% over FY25-26E over FY24 on expanding reach in tier 4/5 towns through deep impact branches (bring higher pricing power due to less competition) and focus on informal self-employed segment. CoB is expected to rise to 7.8% over forecasted fiscals (vs 7.4% in FY24) on higher MCLR rate; though AADHARHF is likely to manage borrowings cost below <0.8% given active management of borrowings mix, higher NHB exposure, demonstration of better performance across cycles and improved capital positioning keeping leverage contained.

Exhibit 38. Estimated NIM (on avg. AUM) trajectory



Source: Company data, MACM Research

Incremental business scale coming at a lower cost boosting productivity

AADHARHF strategically places its branches from main to ultra-micro branches to efficiently cater to the diverse market demand. This structure approach not only helps controlling operating costs but also boost productivity by ensuring optimal services on aligning expansion with actual market needs. Cost/income ratio hovered ~35% over FY21-24 (lower than peer) which is expected to further reduce by 200 bps over next two fiscals as incremental business scale will come at lower cost. Despite remaining focused on deepening the distribution network, AADHARHF efficiently managed its opex (compared to peer having lower branch presence) which can be attributed to its cost-efficient expansion strategy. Strategically, it enters new geography by ultra-micro branch (small in size with less people) which ensures efficient use of capital as it provides flexibility of deciding for further expansion on judging the credit potential of a specific geography. Now the company is strategized to deepen the presence in favorite geographies and thus incremental expansion will come by opening of deep impact branches (one notch below the ultra-micro branch) in tier 4/ tier 5 cities.

Besides physical expansion, AADHARHF also made progress on digital front, appointed TCS in FY20 to develop digital infra, with a view to digitizing the entire life cycle of a loan from origination to closure. Over 95% of customers pay for their monthly installments through automated clearing house models. Progress on digital infra has improved operating efficiency through improving the processing times and productivity.

Exhibit 39. AADHARHF's C/I ratio to remain contained

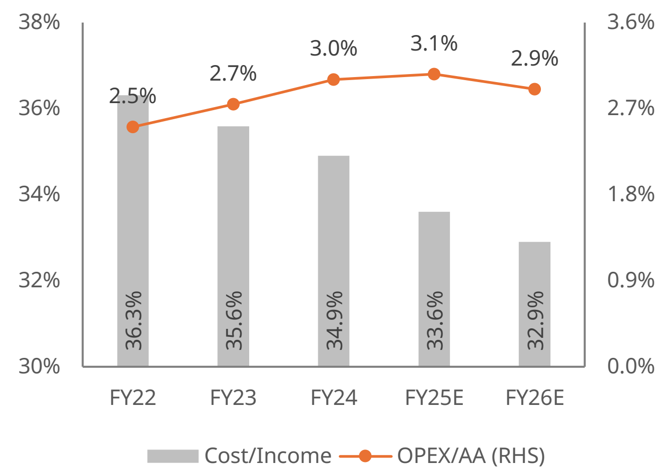
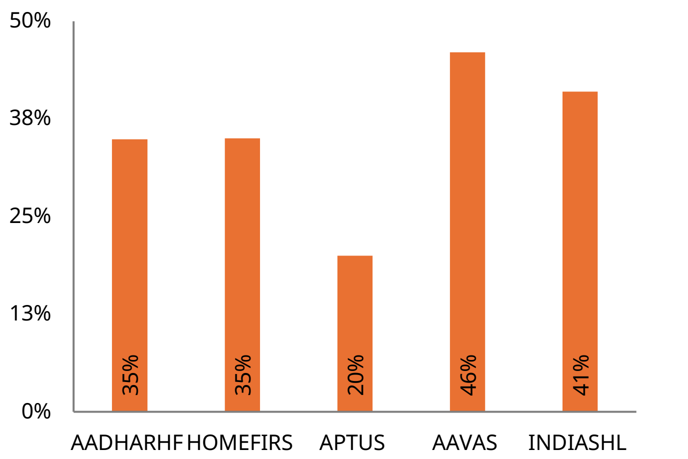


Exhibit 40. Cost-Income ratio comparison with peers in FY24



Source: Company data, MACM Research

Exhibit 41. Productivity table as of FY24

(INR mn)	AADHARHF	HOMEFIRS	APTUS	AAVAS	INDIASHL
AUM/Branch	403*	729	333	472	273
Disb./Branch	135*	298	119	152	119
AUM/Employee	35	78	30	28	18
Disb./Employee	12	32	11	9	8

Source: Company data, MACM Research

Note: AUM/Branch is INR 556mn and Disb/Branch is INR 38mn if recently opened 145 deep impact branches are excluded

4) Core PPOP/AA expects to reach 5.0% over FY25-26E driving RoA to ~4.5%

Sustained increase in core PPOP/AA to 4.8% in FY24 from 3.6% in FY21 (higher than peers i.e. HOMEFIRS at 3.8%, AAVAS at 3.0% in FY24) reflects superior strategies to achieve quality growth in cost-efficient way with the better margin. Core PPOP is expected to grow on healthy spread and low cost/opex. Despite high exposure to formal salaried customers and low non-HL mix, AADHARHF generates one of the highest assets yield/spread among peers. Cost/assets remained <3.0% over past three fiscals due to AADHARHF's cost efficient distribution strategies. We expect AADHARHF to generate core PPOP/AA of 5% over FY25-26E on the back of strong core PPOP growth of 23% CAGR over FY24-26E.

Exhibit 42. AADHARHF's Core Operating Profit Trend

(INR mn)	FY22	FY23	FY24	FY25E	FY26E
NII	7,771	9,771	12,826	15,770	18,602
Fee Income	736	556	1,112	1,415	1,716
Core Income	8,507	10,327	13,938	17,186	20,317
OPEX	3,513	4,253	5,364	6,435	7,467
Core PPOP	**4,994**	**6,074**	**8,574**	**10,751**	**12,850**
Growth	20.4%	21.6%	41.2%	25.4%	19.5%
Core PPOP/AA	3.6%	3.9%	4.8%	5.1%	5.0%

Source: Company data, MACM Research

Exhibit 43. Core Operating profit

(INR mn)	AADHARHF			HOMEFIRS			APTUS			AAVAS			INDIASHL		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
Interest income	15,383	17,763	22,693	5,056	7,222	10,277	7,917	10,580	13,200	11,288	13,882	17,347	3,776	5,023	7,016
Interest exp	7,612	7,992	9,867	2,181	3,043	4,999	2,086	2,760	3,880	4,775	5,910	8,284	1,483	2,099	2,885
Fee income	736	556	1,112	30	104	99	486	750	970	462	587	867	16	316	378
Core Income	8,507	10,327	13,938	2,905	4,283	5,378	6,316	8,570	10,290	6,975	8,558	9,930	2,309	3,240	4,509
Opex	3,513	4,253	5,364	1,263	1,746	2,313	1,171	1,652	2,067	3,506	4,577	5,430	1,335	1,815	2,360
Core PPOP	4,994	6,074	8,574	1,642	2,537	3,065	5,145	6,918	8,223	3,469	3,981	4,500	974	1,425	2,149
Av. Asset	140,031	154,945	178,494	48,135	59,279	81,365	51,021	64,300	80,900	98,938	121,617	149,650	28,419	37,582	50,441
Core PPOP/ Av. Asset	3.6%	3.9%	4.8%	3.4%	4.3%	3.8%	10.1%	10.8%	10.2%	3.5%	3.3%	3.0%	3.4%	3.8%	4.3%

Source: Company data, MACM Research

Assets Quality: Credit cost expects to remain contained

AADHARHF has proved itself to be a seasoned player with cycle-tested resilient business model reflecting from contained NPAs (avg. GNPA ~1.2% over FY21-24) despite facing several challenges like demonetization, IL&FS induced NBFC crises, Covid pandemic. Over the past four fiscals (FY21-24), AADHARHF's average GNPA at 1.2% with 33% avg. PCR and avg. credit cost of 33 bps reflects the resilience of its business model. GNPA remained <1% over FY21-24 for the salaried segment which accounts for 57% of AUM and is generally perceived to be less vulnerable to economic cycle.

The company uses an internally developed credit assessment model to make the credit decision under which a loan application approves by four verticals namely credit, technical, legal and risk containment departments for sanctioning. We believe the comprehensive credit assessment process helps AADHARHF to contain credit risk. The company has digitalized monthly collections to reduce the processing time and improve collection efficiency (~95% of customers pay their monthly installments through automated clearing houses modes). For overdue cases, field executives visit customers to collect collections which are reviewed at periodic intervals. We estimate credit cost to remain contained ~23 bps over FY24-26E on the back of stable asset quality.

Exhibit 44. Asset quality expects to remain stable

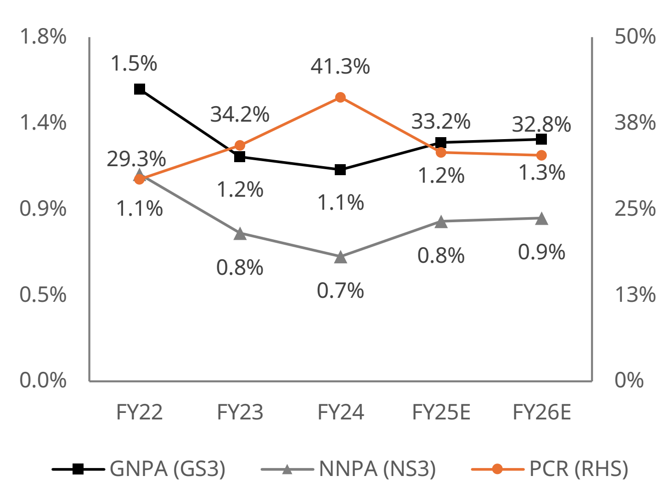


Exhibit 45. GNPA (GS3) in salary segment remains <1.0%

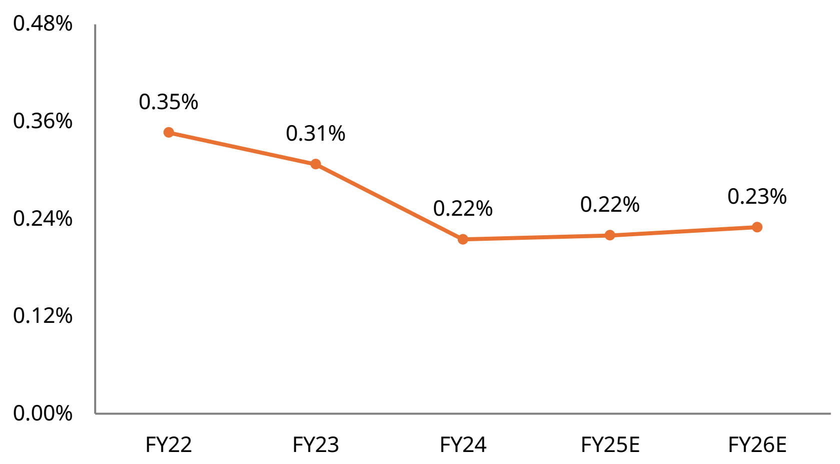
Source: Company data, MACM Research

Exhibit 46. Assets quality comparison with peers

(%)	GNPA				NNPA			
	FY22	FY23	FY24	1QFY25	FY22	FY23	FY24	1QFY25
AADHARHF	1.5	1.2	1.1	1.3	1.1	0.8	0.7	0.9
HOMEFIRS	2.3	1.6	1.7	1.7	1.8	1.1	1.2	1.3
APTUS	1.2	1.2	1.1	1.3	0.9	0.9	0.8	1.0
AAVAS	1.0	0.9	0.9	1.1	0.8	0.7	0.7	0.7
INDIASHL	2.1	1.1	1.0	1.1	1.6	0.9	0.7	0.9

Source: Company data, MACM Research

Exhibit 47. Credit Cost trajectory to remain benign on stable assets quality



Source: Company data, MACM Research

AADHARHF remains competitive on ROA drivers

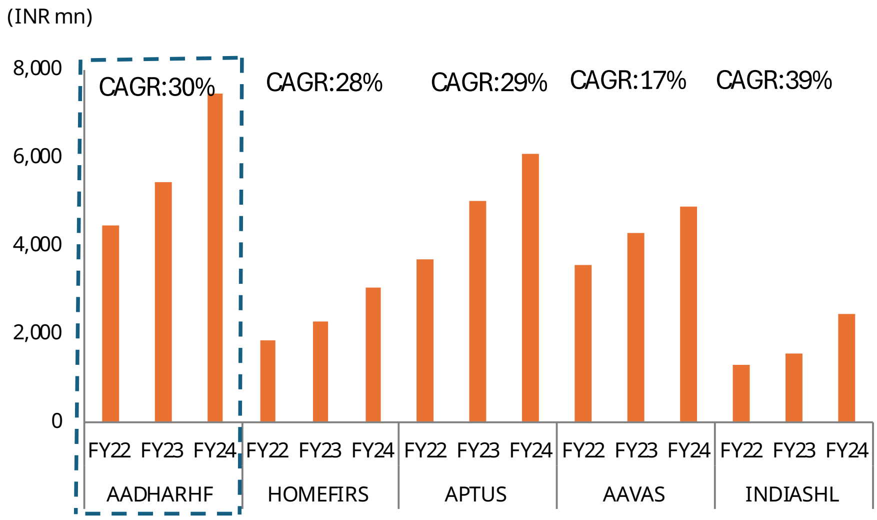
AADHARHF's demonstrated a healthy earnings trajectory as PAT grew by 30% CAGR over FY22-24, higher than peers except HOMEFIRS. RoA stood at 4.2% in FY24, better than HOMEFIRS of 3.8% and AAVAS at 3.3%. AADHARHF is more efficient than peers on managing borrowings cost and operating expenditure. Moreover risk adjusted yield also remained higher than peer such as AAVAS, HOMEFIRS.

Exhibit 48. AADHARHF - more efficient than peers on ROA drivers

FY24	AADHARHF	HOMEFIRS	AAVAS	APTUS	INDIASHL
CoB	7.5%	8.3%	8.1%	8.6%	8.8%
Opex/AA	3.0%	2.8%	3.6%	2.7%	4.5%
Loan cost	**10.5%**	**11.1%**	**11.7%**	**11.3%**	**13.3%**
Yield	14.0%	13.7%	13.1%	17.3%	14.9%
Credit Cost	0.2%	0.3%	0.2%	0.4%	0.4%
Risk adjusted return	**13.8%**	**13.4%**	**12.9%**	**16.9%**	**14.5%**
RoA	4.2%	3.8%	3.3%	7.6%	4.9%

Source: Company data, MACM Research

Exhibit 49. AADHARHF's delivers higher PAT CAGR than peers



Source: Company data, MACM Research

PAT to grow at a CAGR of 23.4% over FY24-26E

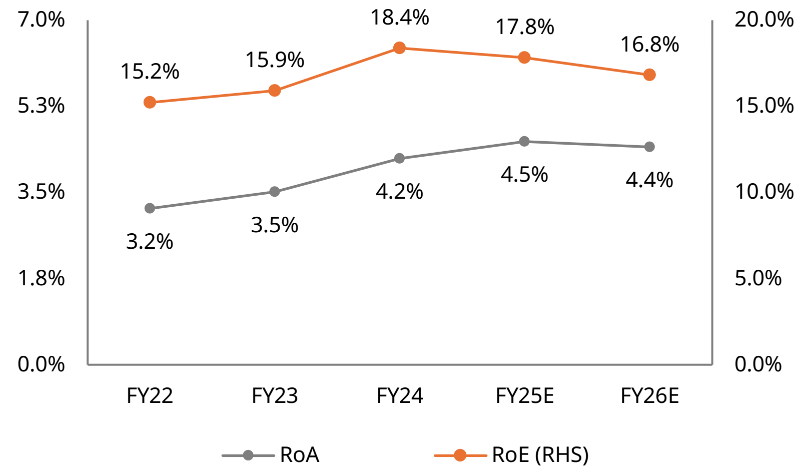
Diversified presence in underpenetrated markets and cost-efficient expansion drove AADHARHF's business scale gaining 2% market share in the affordable housing market. The company expects to continue delivering ~22% AUM growth in the coming fiscals. We expect PAT to grow at a CAGR of 23.4% over FY24-26E to INR 11.4bn.

Exhibit 50. Dupont Analysis

(%)	FY22	FY23	FY24	FY25E	FY26E
NII / Assets	5.4	5.9	6.7	6.9	6.5
Core operating growth	20.4	21.6	41.2	25.4	19.5
Other income / Assets	1.3	1.3	1.3	1.5	1.4
Total Income / Assets	6.7	7.2	8.1	8.3	8.0
Cost to Assets	2.4	2.6	2.8	2.8	2.6
PPOP / Assets	4.3	4.6	5.2	5.5	5.3
Provisions / Assets	0.3	0.3	0.2	0.2	0.2
PBT / Assets	3.9	4.2	5.0	5.3	5.1
Tax Rate	21.6	21.7	22.0	21.9	22.0
ROA	3.2	3.5	4.2	4.5	4.4
Leverage (x)	4.8	4.5	4.4	3.9	3.8
ROE	15.2	15.9	18.4	17.8	16.8

Source: Company data, MACM Research

Exhibit 51. Return ratios trajectory



Source: Company data, MACM Research

Exhibit 52. ROA/ ROE trajectory

(%)	ROA			ROE		
	FY22	FY23	FY24	FY22	FY23	FY24
AADHARHF	3.2	3.5	4.2	15.2	15.9	18.4
HOMEFIRS	3.9	3.9	3.8	12.6	13.5	15.5
APTUS	8.0	8.4	8.0	14.4	16.3	17.3
AAVAS	3.6	3.5	3.3	13.7	14.1	13.9
INDIASHL	4.5	4.1	4.9	12.8	13.4	14.0

Source: Company data, MACM Research

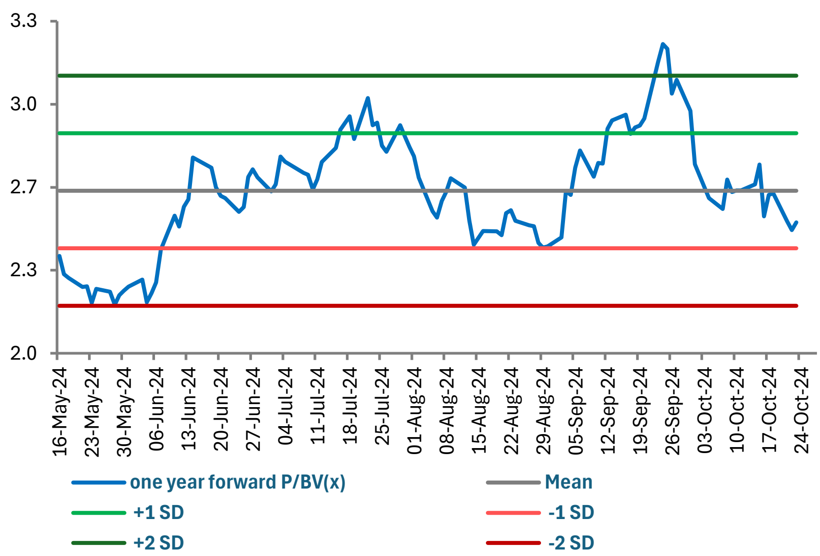
View & Valuation

Diversified book with no state constituting 15% of AUM and deeper presence in underpenetrated market helped AADHARHF to scale business faster than peers while remaining immune to micro-market risk. With an AUM of INR217bn, AADHARHF is leading the listed affordable HFCs pack commanding 2% market share of low-income housing market. Contained GNPA/credit cost at ~1.2%/~0.3% along with strong PAT growth (30% CAGR over FY21-24) is a testament of AADHARHF's resilient business model. RoA almost nearly double to 4.2% in FY24 from 2.6% in FY21 on steady improvement in risk adjusted yield (13.8% in FY24 vs 12.6% in FY21) and contained CoB (7.5% in FY24 vs 7.8 in FY21) & opex/AA (3.0% in FY24 vs 2.5% in FY22.

We view AADHARHF is better placed to deliver 21.5% AUM CAGR over FY24-26E driven by extensive distribution network, strong growth potential in targeted EWS/LIG segment and industry related tailwinds like PMAY scheme. NIM (on avg. AUM) is expected to be at a healthy level ~6.6% over next two fiscals (vs avg. 6.4% in FY23-24) given the ability to deliver higher yield and effective assets liabilities management. While credit cost is expected to remain contained ~23 bps on stable assets quality during forecasted fiscals. We expect AADHARHF to deliver 23.3% PAT CAGR over FY24-26E which will drive 20 bps expansion in avg. RoA to ~4.5% and generate avg. RoE ~17.3%.

Given AADHARHF's ability to generate excess return of 500 bps (over CoE) over the next two fiscals, current valuation of IY forward P/BV 2.4x looks attractive. We initiate coverage on AADHARHF with 'BUY' rating and assign target price of INR 555/sh valuing at P/BV 3.0xFY26E BV.

Exhibit 53. 1 One year forward P/BV



Source: Company data, MACM Research

Key Assumptions, Estimates and Output

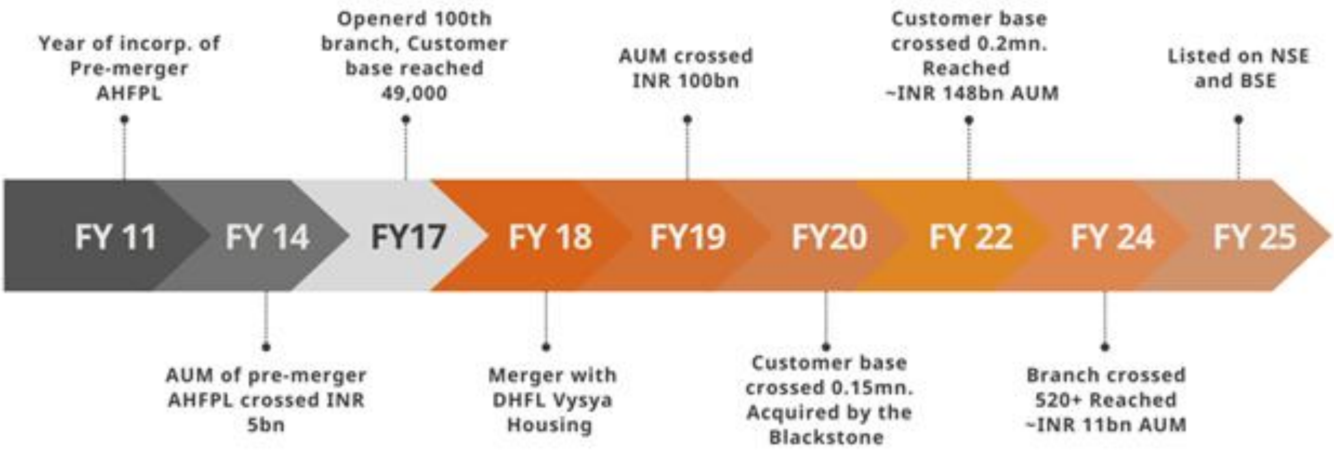
(%)	FY22	FY23	FY24	FY25E	FY26E	Comments
AUM Growth	10.9	16.6	22.6	21.8	21.2	AUM growth estimates at 21.5% CAGR over FY24 26E driven by disbursements growth & re-payment/pre-payment rate.
Disbursement	12.6	47.9	19.8	19.0	20.0	We built an estimate of 19.5% CAGR over FY24 26E in line with management's guidance. AADHARHF's extended presence across India, focus on low-cost housing and acumen sourcing/disbursements model to sustain healthy disbursements.
YoA	13.0	13.0	14.0	14.2	14.2	Expansion in YoA to be driven by higher pricing power due to presence in under penetrated markets, focus on high yield low-income housing and rising share of informal & self-employed in mix.
CoB	7.2	7.0	7.5	7.8	7.8	AADHARHF is expected to manage CoB <8.0% given higher share of NHB in mix, improved capital position post IPO and large pool of banks for financing
NIM/avg. AUM	5.5	6.1	6.7	6.7	6.5	Ability to generate better yield and contained borrowing cost to keep NIM at healthy trajectory
Cost/Income	36.3	35.6	34.9	33.6	32.9	C/I ratio is expected to trend lower as we believe incremental business scale to come at lower cost given AADHARHF's cost-efficient expansion approach
Core PPOP/AA	3.6	3.9	4.8	5.1	5.0	As per our estimates, core PPOP/AA to move >5.0% on healthy NIM, contained C/I and strong growth
Credit cost	0.35	0.31	0.22	0.22	0.23	Build an estimate of~23 bps credit cost (FY25-26E) on stable assets quality and relatively higher coverage ratio
Output						
RoA	3.2	3.5	4.2	4.5	4.4	
RoE	15.2	15.9	18.4	17.8	16.8	
EPS (INR)	11	13	18	22	26	
BVPS (INR)	77	91	108	147	170	
GS 3	1.5	1.2	1.1	1.2	1.2	
PCR	29.3	34.2	41.3	33.2	33.7	
P/BV (x)	5.4	4.5	3.8	2.8	2.4	

Source: Company data, MACM Research

Risks to investments

- Lower than expected disbursements may put downside risks to our AUM growth forecasts
- Since ~80% of the book is linked to floating rate, it is posing risk to margin amid likely easing interest rate cycle
- Risk of increase in borrowing cost due to higher MCLR rate charging by banks as they are facing elevated deposits cost.
- Higher than expected credit cost due to unexpected assets quality issues may impact the return ratios.

Major Milestones



Source: Company data, MACM Research

AADHARHF's Digital Infrastructure

Scalable Technology Platform and Digital Processes

Digital Onboarding

Digitizing loan life cycle management

Customer onboarding

Loan application processing

Loan Origination

Enabling credit team to underwrite applications through rule-based deviations and workflows based on customer profile.

Loan Servicing

Disbursal and repayment schedule management

NPA tracking

Interfacing with agencies such as CIBIL, CERSAI, PMAY etc.

Collection Management

Enabling real time solution to allocate accounts to agents

Handles payments and collections from agents

Mobility Solutions

Enables collection agents on field to capture customer payments electronically

Developing a sales mobility app to assist field sales team in submitting customer leads

Customer Engagement

Website and mobile application acting as convenient platforms for customers

Offers loan account tracking, payments, service requests etc

Finance & Accounting

Enabling an enterprise wise integrated accounting solution

Enabling, capturing and generation of GST data to be filed in various GST returns

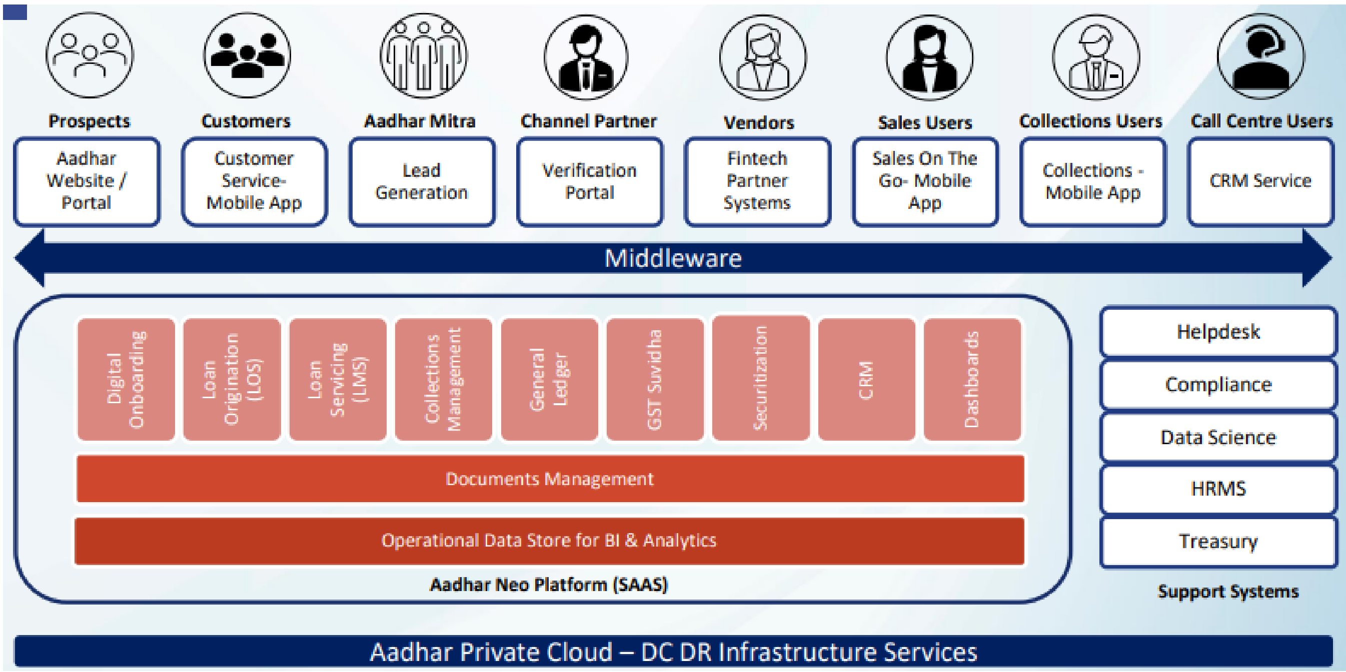
Analytics

Monitoring of loan portfolios

Servicing & performance management of pool investments on a continuous basis

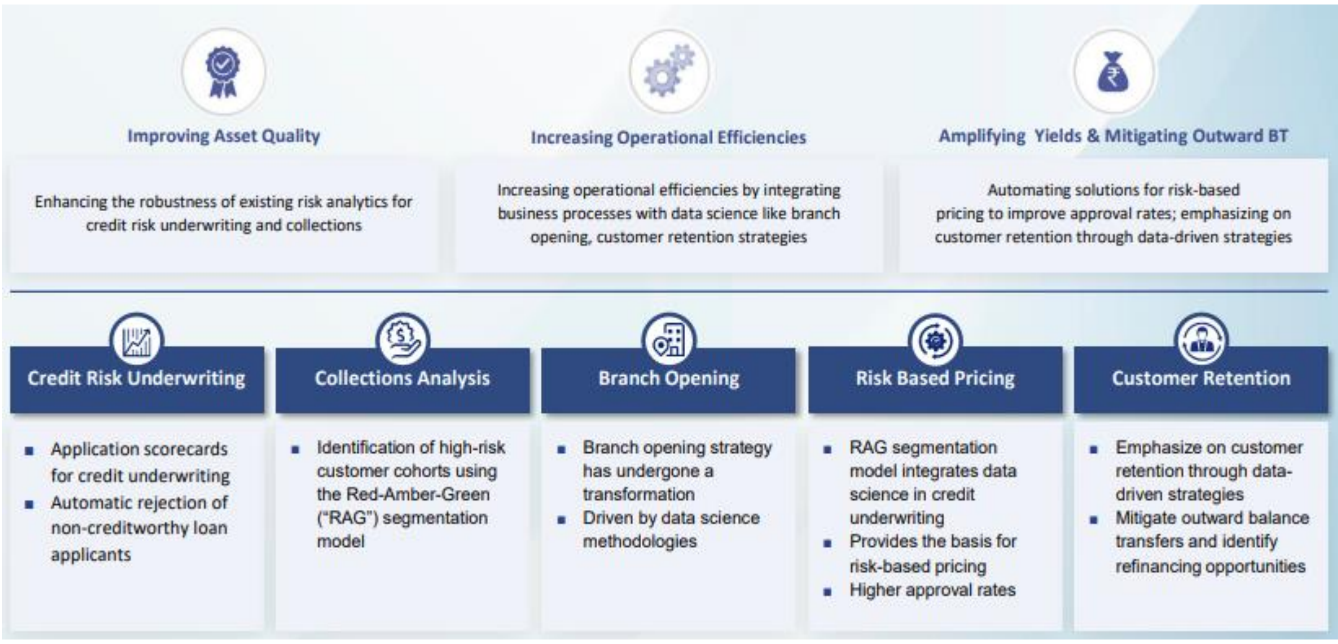
Source: Company data, MACM Research

Technology Architecture



Source: Company data, MACM Research

Business Transformation through data science



Source: Company data, MACM Research

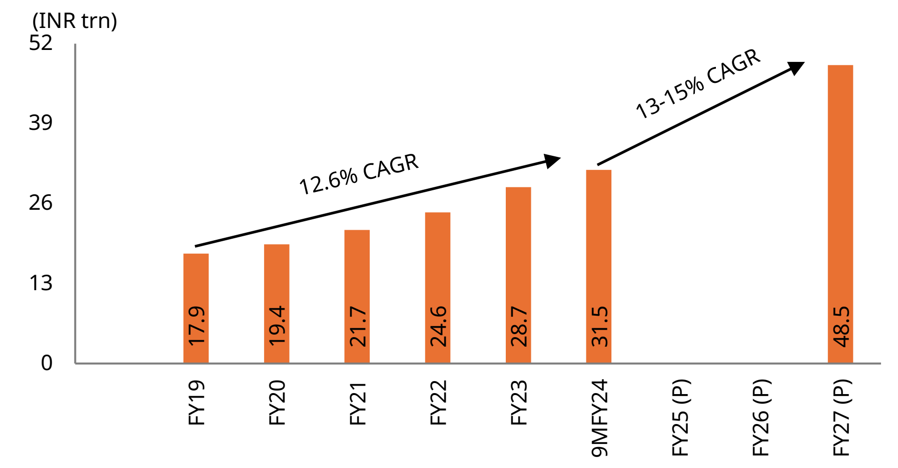
Experienced, cycle-tested and professional management team

Om Prakash Bhatt (Non-executive Chairman and Independent Director)		• He was appointed as the Non-Executive Chairman and Independent Director on the Board of the Company with effect from September 13, 2019, and has been re-appointed by the Shareholders at the Annual General Meeting held on August 18, 2022. • He previously served as the chairman of State Bank of India. • Apart from this he is also serving as a director on the boards of HUL and Tata Group companies, including Tata Motors Limited, Greenko Energy Holdings Mauritius, Tata Daewoo Commercial Vehicle Limited and Tata Consultancy Services Limited.
Deo Shankar Tripathi (Whole time Director and Executive Vice Chairman)		• 40+ years' experience • He was appointed as the Whole – Time Director and Executive Vice Chairman of the company with effect from January 3, 2023, till December 26, 2027. • He previously held the position of managing director & chief executive officer of the company. • Apart from this he is also serving as a director on the boards of ASSPL, Fort Finance Limited and Auxilo Finserve Private Limited. • Prior to joining the company, he was the chief executive officer of Pre-Merger AHFPL.
Rishi Anand (Managing Director and Chief Executive Officer)		• 27+ years' experience • He was appointed as Managing Director and Chief Executive Officer of company with effect from January 3, 2023 till December 26, 2027. • Prior to his current appointment, he held the position of the chief operating officer – business development of the Company and is associated with the company since 2012.. • 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.
Rajesh Viswanathan (Chief Financial Officer)		• 27+ years' experience • He has several years of experience in accounting, finance, strategy, planning, taxation, treasury, auditing, and managing investor relations. • Prior to joining the company, 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.
R. Anil Kumar Nair (Chief Business Officer)		• 25+ years' experience • He has previously worked with various organizations including Bata India Limited, MIRC Electronics Limited – ONIDA, ICICI Bank Limited, DHFL, Aspire Home Finance Corporation. • He is also a director on the board of one subsidiary. • He joined Company in February 2019, as Business Head – Business Development – Housing Loan.
Sreekanth V.N. (Chief Compliance Officer)		• 32+year experience • 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 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.
Nirav Shah (Chief Risk Officer)		• 19+ years' experience • 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 210 Prudential Life Insurance Company Limited and Tata Capital Housing Finance Limited

Industry Overview

The Indian housing market grew at ~12.6% CAGR during FY19-23 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 favorable affordability on account of stable property rates and improved annual income of individual borrowers. In FY24, housing credit grew by significantly by 16.7% driven by the aspirations of a growing young population with rising disposable income and faster growth in smaller districts. With relatively somber demand for high ticket housing in metros have led to increase in share of smaller districts in housing loans over the last couple of years. Credit rating agency CIRSIL expects overall housing segment to grow to a CAGR of 13-15% over FY23-27. The Government of India has been pursuing various social welfare schemes and initiatives to enhance the flow of credit to the housing sector and increase home ownership in India.

Exhibit 54. Housing Finance to grow at CAGR of 13-15% in the long term



Source: CRIF Highmark, Crisil, MI&A

Exhibit 55. India's population growth trajectory

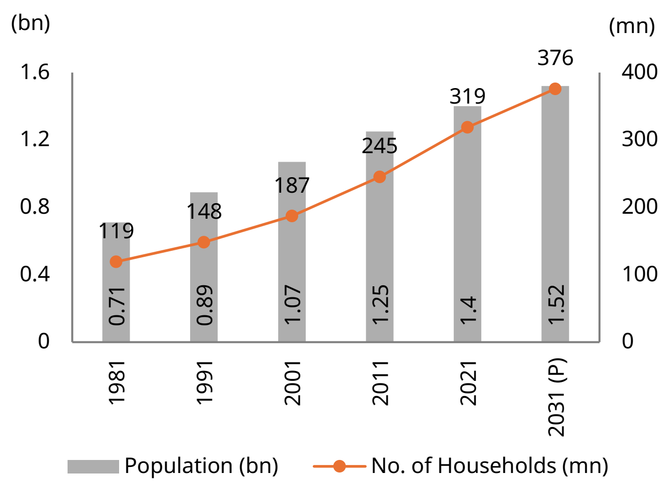
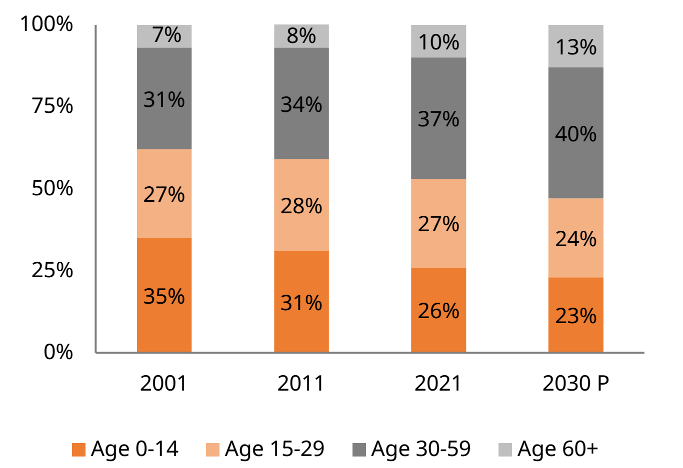


Exhibit 56. Favorable demographics with India having the largest young population



Source: Crisil, MI&A

Key growth drivers in Affordable Housing lending

Urbanisation leads to rise in number of nuclear families

India's urban population has been rising consistently over the decades. According to the World Urbanization Prospects, the percentage of the population residing in urban areas in India is expected to increase to 37.4% by 2025 which in turn is expected to create jobs, develop modern consumer services, increase the ability to mobilise savings and shifting towards nuclear families.

Nuclearization in urban areas is primarily driven by changing lifestyle of people, individualism, changing social/cultural attitudes, and increased mobility of labour in search of better employment opportunities with the ancestral house retained or partitioned to buy new houses.

Exhibit 57. Continuous increase in share of urban population to boost demand for housing in urban areas

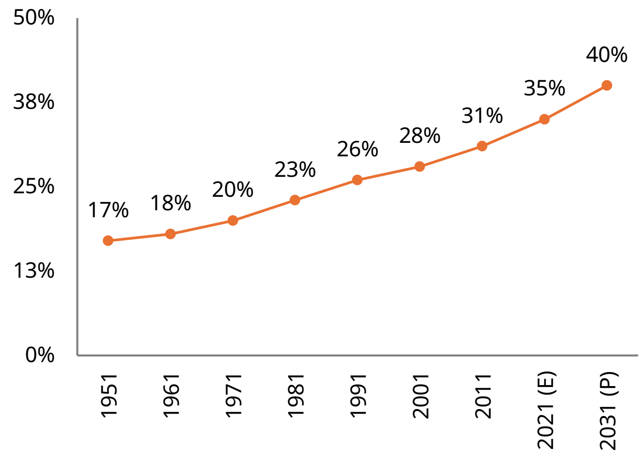
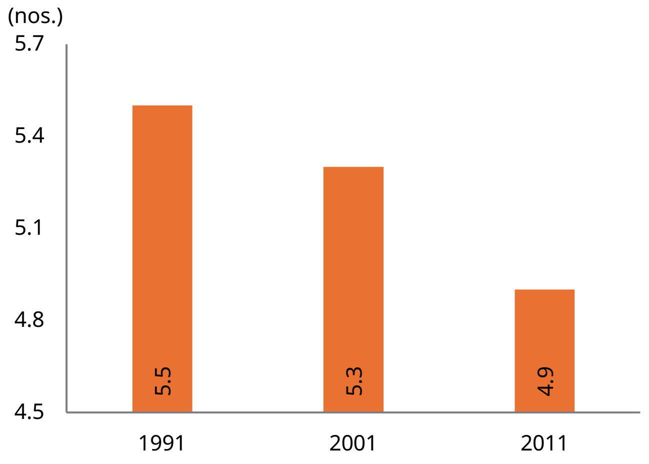


Exhibit 58. Trend in average household size

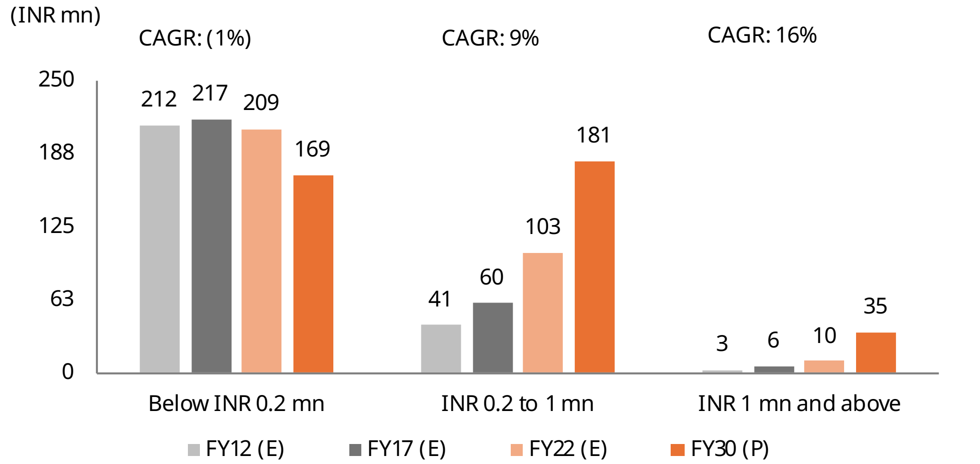


Source: Crisil, MI&A

Rising Middle class population to help sustain growth for the country

Proportion of the Middle class has been on a rise over the last decade and is expected to grow further with continuous increase in the GDP and household incomes. The improvement in the literacy levels, increasing access to information and awareness, increases in the availability of necessities, and the improvement in road infrastructure has led to rise in aspirations of Middle class, which is likely to translate into increased opportunities for financial service providers.

Exhibit 59. Middle class households (annual income between INR 0.2- 1mn) to witness high growth over FY12 to FY30



Source: CRIF Highmark, Crisil, MI&A

Exhibit 60. Affordable Housing Finance grew at 5.6% CAGR (FY19-23) in terms of credit ticket size

Size (INR trn)	FY19	FY20	FY21	FY22	FY23	9MFY24	CAGR (%)
Affordable Housing (Less than INR 2.5 mn)	8.2	8.6	9.1	9.6	10.2	10.6	5.6
Mass Market Housing (INR 2.5- 5.0 mn)	5.1	5.7	6.6	7.7	9.2	10.2	15.9
Prime Housing (More than INR 5.0 mn)	4.6	5.1	6	7.3	9.3	10.7	19.5

Exhibit 61. ..and at 13.9% CAGR (FY19-23) in terms of Disbursement ticket size

Size (INR trn)	FY19	FY20	FY21	FY22	FY23	9MFY24	CAGR (%)
Affordable Housing (Less than INR 2.5 mn)	1,345	1,372	1,486	1,961	2,262	1,652	13.9
Mass Market Housing (INR 2.5- 5.0 mn)	1,083	1,227	1,552	2,196	2,627	1,982	24.8
Prime Housing (More than INR 5.0 mn)	979	1,137	1,507	2,595	2,683	3,261	39.3

Source: CRIF Highmark, CRISIL MI&A

Housing shortage in India

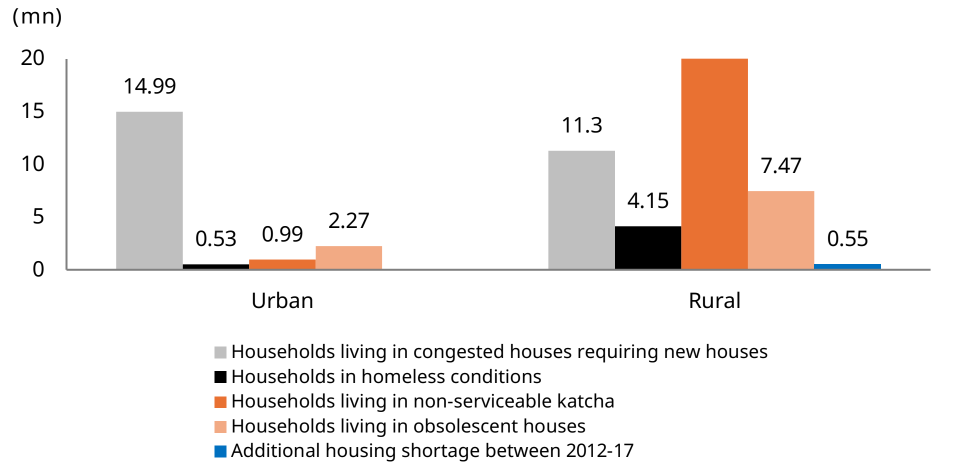
Total number of households in India stood at 246.6mn, with rural and urban regions accounting for 167.8mn and 78.8 mn respectively. The average household size in India stood at 4.9 persons per household with majority of the Indian households living in a one-room or two-room house. As per 2011 census, 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 62. Average Household size in urban regions stood at 4.8 persons per household and 4.9 persons per household in rural regions

	Rural	Urban	Total
Total population (mn)	833.0	377.1	1,210.1
Total households (mn)	167.8	78.8	245.4
Average household size	5.0	4.8	4.9

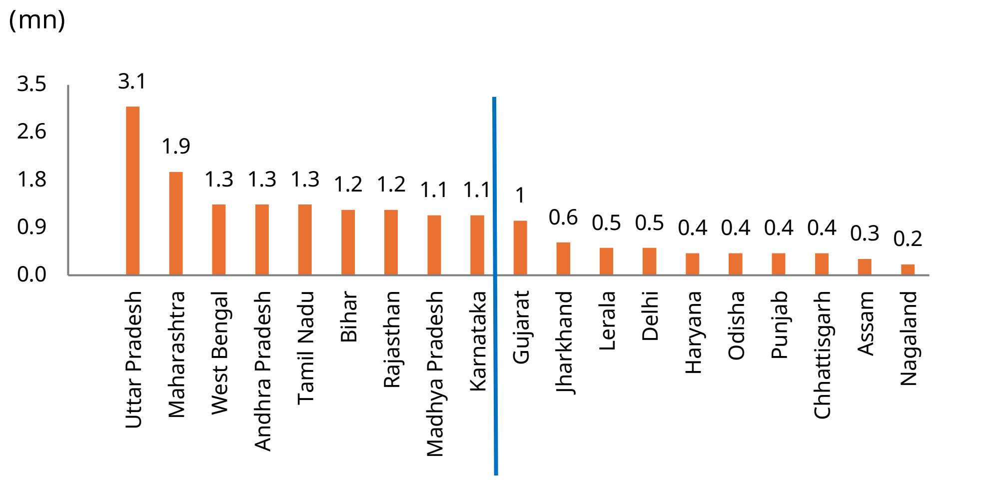
Source: Census 2011, State of Housing in India 2013, CRISIL MI&A

Exhibit 63. Housing Shortage split between rural- urban (2012)



Source: 2012 Estimates, Ministry of Rural development, Planning commission,CRISIL MI&A

Exhibit 64. 76% of total urban housing shortage is contributed by top 10 states



Source: Report of the Technical Urban Group on Urban Housing Shortage, CRISIL MI&A

Favorable regulatory Policies

PSL eligibility increased in Housing

The RBI has increased the eligibility for PSL in housing loans from INR 2.8 mn to INR 3.5 mn for metropolitan centers and from INR 2 mn to INR 2.5 mn for other centers. The cost of dwelling units has been capped at INR 4.5 mn in metropolitan centers and at INR 3 mn in other centers.

Implementation of RERA

The law was introduced in order to make the sector transparent and is expected to improve transparency, timely delivery, and organized operations over time. It does not permit developers to launch new projects before registering them with the real estate authority. It mandates 70% of the funds collected from customers for a specific project should be maintained in a separate escrow account and used only for the same project.

PMAY

The scheme aims to fill the supply-demand gap in the housing sector. On supply side, the scheme offers incentives for beneficiary-led housing, public private partnerships (PPP) in building homes for economically weaker sections (EWS) and low-income group (LIG) by offering incentives such as allowing higher floor space index and announcing grants and subsidies for slum redevelopment. On the demand side, the PMAY provides credit-linked subsidies to stimulate demand. In Union budget 2024-25, the govt has announced PMAY2.0 under which 30 mn more houses will be provided (20 mn for rural, 10 mn for urban).

Financials

Profit and Loss Account

(INR mn)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	15,383	17,763	22,693	27,437	32,731
Interest Expended	7,612	7,992	9,867	11,666	14,129
Net Interest Income	7,771	9,771	12,826	15,770	18,602
Growth (%)	27.2	25.7	31.3	23.0	18.0
Other Income	1,903	2,180	2,543	3,385	4,098
Total Income	9,674	11,951	15,369	19,155	22,700
Growth (%)	27.4	23.5	28.6	24.6	18.5
Operating & Other expenses	3,513	4,253	5,364	6,435	7,467
Pre-Prov. Operating Profit	6,161	7,698	10,005	12,720	15,233
Growth (%)	26.4	24.9	30.0	27.1	19.8
Provisions and contingencies (incl NPA)	487	492	412	515	655
Growth (%)	(11.3)	1.0	(16.2)	25.0	27.0
Operating Profit before Tax	5,674	6,956	9,592	12,205	14,578
Growth (%)	31.2	22.6	37.9	27.2	19.4
Pre-tax Margin %	58.7	58.2	62.4	63.7	64.2
Tax	1,225	1,510	2,107	2,674	3,207
% of PBT	21.6	21.7	22.0	21.9	22.0
Reported PAT	4,449	5,446	7,485	9,531	11,371
Extraordinary Items	-	-	-	-	-
Adjusted PAT	4,449	5,446	7,485	9,531	11,371
Growth (%)	30.8	22.4	37.4	27.3	19.3
Net Profit Margin (%)	46.0	45.6	48.7	49.8	50.1

Balance Sheet

(INR mn)	FY22	FY23	FY24	FY25E	FY26E
Cash and bank balance	17,102	19,162	12,714	12,636	21,839
Investments	3,380	4,582	4,578	5,146	6,239
Loans	119,603	138,515	169,029	205,844	249,540
Fixed assets	551	633	798	959	1,163
Other assets	3,122	3,240	3,737	5,134	6,050
Total Assets	**143,758**	**166,131**	**190,857**	**229,719**	**284,831**
Capital	3,948	3,948	3,948	3,948	3,948
Reserves and Surplus	27,519	33,008	40,513	58,643	68,877
Borrowings	107,051	121,914	140,107	159,529	202,752
Other liabilities and provisions	5,240	7,262	6,290	7,600	9,255
Total Capitals and Liabilities	**143,758**	**166,132**	**190,857**	**229,719**	**284,831**

Source: Company data, MACM Research

Key Financial ratio

	FY22	FY23	FY24	FY25E	FY26E
Return / Profitability Ratios (%)					
NIM (on AUM)	5.5	6.1	6.7	6.7	6.5
Yield on AUM	10.9	11.1	11.8	11.7	11.5
Cost of borrowings (CoB)	7.2	7.0	7.5	7.8	7.8
Yield on Advances (YoA)	13.0	13.0	14.0	14.2	14.2
RoA	3.2	3.5	4.2	4.5	4.4
RoE	15.2	15.9	18.4	17.8	16.8
Operating ratios (%)					
Cost-to-Income (C/I)	36.3	35.6	34.9	33.6	32.9
Opex/avg. assets	2.5	2.7	3.0	3.1	2.9
Investment / Borrowings	3.2	3.8	3.3	3.2	3.1
Non interest income / Loans	1.6	1.6	1.5	1.6	1.6
Capitalisation ratios (%)					
Capital adequacy ratio	45.4	42.7	38.5	41.7	40.0
Equity / Assets	21.9	22.2	23.3	27.2	25.6
Loans / Assets	83.2	83.4	88.6	89.6	87.6
Investments / Assets	2.4	2.8	2.4	2.2	2.2
Asset Quality ratios (%)					
Gross NPA	1.5	1.2	1.1	1.2	1.2
Net NPA	1.1	0.8	0.7	0.8	0.8
Coverage Ratio	29.3	34.2	41.3	33.2	33.7
Credit Cost	0.3	0.3	0.2	0.2	0.2
Per Share Data (INR)					
EPS (Diluted)	10.9	13.4	18.1	22.2	26.5
DPS	0.0	0.0	0.0	2.2	2.6
BVPS	77.1	90.8	107.7	146.5	169.6
Valuation ratios (x)					
P/E (x)	37.9	30.9	22.8	18.6	15.6
P/BV (x)	5.4	4.5	3.8	2.8	2.4
Growth ratios (%)					
AUM	10.9	16.6	22.6	21.8	21.2
Net interest income	27.2	25.7	31.3	23.0	18.0
Interest earned	7.8	15.5	27.8	20.9	19.3
PAT	30.8	22.4	37.4	27.3	19.3
Borrowings	2.9	13.9	14.9	13.9	27.1

Profit and Loss Account

(USD mn)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	183	211	270	326	389
Interest Expended	91	95	117	139	168
Net Interest Income	92	116	153	188	221
Growth (%)	27.2	25.7	31.3	23.0	18.0
Other Income	23	26	30	40	49
Total Income	115	142	183	228	270
Growth (%)	27.4	23.5	28.6	24.6	18.5
Operating & Other expenses	42	51	64	77	89
Pre-Prov. Operating Profit	73	92	119	151	181
Growth (%)	26.4	24.9	30.0	27.1	19.8
Provisions and contingencies (incl NPA)	6	6	5	6	8
Growth (%)	-11.3	1.0	-16.2	25.0	27.0
Operating Profit before Tax	67	83	114	145	173
Growth (%)	31.2	22.6	37.9	27.2	19.4
Pre-tax Margin %	58.7	58.2	62.4	63.7	64.2
Tax	15	18	25	32	38
% of PBT	21.6	21.7	22.0	21.9	22.0
Reported PAT	53	65	89	113	135
Extraordinary Items	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	53	65	89	113	135
Growth (%)	30.8	22.4	37.4	27.3	19.3
Net Profit Margin (%)	46.0	45.6	48.7	49.8	50.1

Balance Sheet

(USD mn)	FY22	FY23	FY24	FY25E	FY26E
Cash and bank balance	203	228	151	150	260
Investments	40	55	54	61	74
Loans	1,423	1,648	2,011	2,448	2,968
Fixed assets	7	8	9	11	14
Other assets	37	39	44	61	72
Total Assets	**1,710**	**1,976**	**2,270**	**2,732**	**3,388**
Capital	47	47	47	47	47
Reserves and Surplus	327	393	482	698	819
Borrowings	1,273	1,450	1,667	1,898	2,412
Other liabilities and provisions	62	86	75	90	110
Total Capitals and Liabilities	**1,710**	**1,976**	**2,270**	**2,732**	**3,388**

Key Financial ratio

	FY22	FY23	FY24	FY25E	FY26E
Return / Profitability Ratios (%)					
NIM (on AUM)	5.5	6.1	6.7	6.7	6.5
Yield on AUM	10.9	11.1	11.8	11.7	11.5
Cost of borrowings (CoB)	7.2	7.0	7.5	7.8	7.8
Yield on Advances (YoA)	13.0	13.0	14.0	14.2	14.2
RoA	3.2	3.5	4.2	4.5	4.4
RoE	15.2	15.9	18.4	17.8	16.8
Operating ratios (%)					
Cost-to-Income (C/I)	36.3	35.6	34.9	33.6	32.9
Opex/avg. assets	2.5	2.7	3.0	3.1	2.9
Investment / Borrowings	3.2	3.8	3.3	3.2	3.1
Non interest income / Loans	1.6	1.6	1.5	1.6	1.6
Capitalisation ratios (%)					
Capital adequacy ratio	45.4	42.7	38.5	41.7	40.0
Equity / Assets	21.9	22.2	23.3	27.2	25.6
Loans / Assets	83.2	83.4	88.6	89.6	87.6
Investments / Assets	2.4	2.8	2.4	2.2	2.2
Asset Quality ratios (%)					
Gross NPA	1.5	1.2	1.1	1.2	1.2
Net NPA	1.1	0.8	0.7	0.8	0.8
Coverage Ratio	29.3	34.2	41.3	33.2	33.7
Credit Cost	0.3	0.3	0.2	0.2	0.2
Per Share Data (USD)					
EPS (Diluted)	0.1	0.2	0.2	0.3	0.3
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	0.9	1.1	1.3	1.7	2.0
Valuation ratios (x)					
P/E (x)	37.9	30.9	22.8	18.6	15.6
P/BV (x)	5.4	4.5	3.8	2.8	2.4
Growth ratios (%)					
AUM	10.9	16.6	22.6	21.8	21.2
Net interest income	27.2	25.7	31.3	23.0	18.0
Interest earned	7.8	15.5	27.8	20.9	19.3
PAT	30.8	22.4	37.4	27.3	19.3
Borrowings	2.9	13.9	14.9	13.9	27.1

Source: Company data, MACM Research Note: *USD 1 = INR 84.01

Appendix 1

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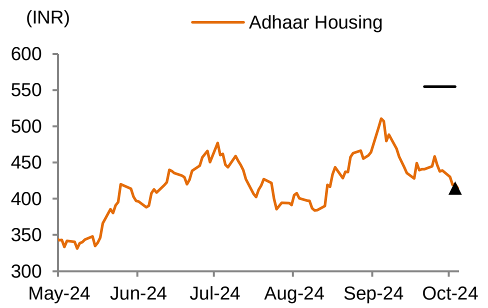
Two-year rating and TP history

Company	Date	Rating	TP (INR)
AADHARHF – Initiating Coverage	24/10/24	Buy	555

One Year Price Graph Chart from 14-05-24 to 24-10-24



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Buy	20% or greater	Overweight	Expected to outperform the market over 12 months
Add	10% to <20%	Neutral	Expected to perform in line with the market over 12 months
Hold	5% to <10%	Underweight	Expected to underperform the market over 12 months
Sell	Below 5%		

Rating and TP history: Share price (─), TP (▬), Not Rated (■), Buy (▲), Add (■), Hold (●), Sell (◆)
* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.
* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions

	Buy	Add	Hold	Sell
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