

Aadhar Housing Finance (AADHARHF)

Diversified Financials

BUY

CMP(₹): 495

Fair Value(₹): 625

 Sector View: **Attractive**

NIFTY-50: 25,492

November 10, 2025

A good show

Aadhar reported a stable 2Q performance, with healthy AUM growth, sequentially improving spreads and a reduction in stressed loans. Disbursements were a tad lower, reflecting the stress in select pockets and a high base. Overall execution seems smooth, marching toward 17-18% medium-term RoE. Aadhar remains our favored pick in affordable HFCs; BUY; FV Rs625.

Lower credit costs drive earnings beat

Aadhar Housing Finance reported a PAT of Rs3.4 bn in 2QFY26, up 17% yoy and 3.6% above our estimates. The earnings beat was driven by lower-than-expected credit costs (10 bps below our estimates). NII was up 18% yoy, driven by 21% AUM growth. Reported spreads expanded 10 bps qoq to 5.9%, driven by a moderation in the cost of borrowings to 7.9%.

A tad weak disbursements; spreads normalize and stressed loans decline

Aadhar's 2QFY26 performance was encouraging, with expanding spreads (a trend similar to peers) and a sharp reduction in stressed loans (down 26-29 bps, qoq and yoy). Disbursement growth was moderate at 4%, reflecting the high base; disbursement growth for 1H was moderate at 16% (9% in home loans due to reclassification). Aadhar seems to be on track for 20%+ loan growth.

NII growth in 2QFY26 was 18%, 300 bps below loan growth, reflecting yield pressure in the preceding quarters. With falling costs, the same will come back to parity in 2H. As of now, we understand that affordable HFCs are not under pressure to cut home loan rates. Many peers are facing challenges in multiple pockets, which may reduce competitive pressure. While Aadhar acknowledges similar pressure, its book is well diversified (largest state at 14% of AUMs) and has generally maintained focus on lower-risk salaried customers.

Overall execution remains smooth; best placed in the pack

Aadhar accelerated its growth trajectory to 20-22% from FY2024 despite a higher base, up from the high teens in the preceding five years that reflected challenges due to promoter changes and Covid. Its execution engine seems to run smoothly, with 20%+ loan growth sustained in the medium term despite its bigger balance sheet size. Most peers may seem to slow down due to challenges in pockets or segments. Aadhar's borrower profile reflects lower risk (high share of salaried and home loans) and hence the impact of macro challenges, especially in self-employed and non-home loans, will have a lower hit than peers. We, hence, believe that the company is well placed both on asset quality and growth trajectory over most peers.

Retain BUY with FV of Rs625

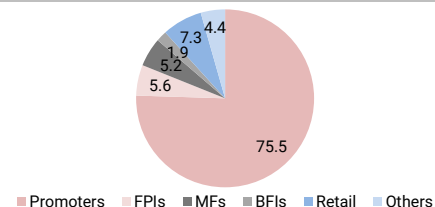
We revise estimates by -1.7% to +1.9% to reflect the slightly slower benefit of rate cuts. With smooth growth execution, tailwinds to margins and lower asset quality challenges, we expect RoE to inch back to 17-18% (pre-IPO levels) by FY2027E. Retain BUY with an RGM-based FV, rolled forward to Rs625.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	495/625/BUY
52-week range (Rs) (high-low)	548-341
Mcap (bn) (Rs/US\$)	214/2.4
ADTV-3M (mn) (Rs/US\$)	250/2.8

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	(4)	(2)	7
Rel. to Nifty	(5)	(6)	1
Rel. to MSCI India	(5)	(6)	3

Forecasts/Valuations	2026E	2027E	2028E
EPS (Rs)	25.0	31.2	38.9
EPS growth (%)	19.8	24.4	24.8
P/E (X)	19.8	15.9	12.7
P/B (X)	2.9	2.4	2.0
BVPS (Rs)	173.0	204.6	243.9
RoE (%)	15.8	16.7	17.5
Div. yield (%)	0.0	0.0	0.0
NII (Rs bn)	19	22	27
PPOP (Rs bn)	13	16	20
Net profits (Rs bn)	11	14	17

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of November 07, 2025

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Broadly in-line earnings, lower credit costs

Exhibit 1: Aadhar Housing Finance - quarterly summary, March fiscal year-ends, 2025-26

		Change (%)												
	2QFY26	2QFY26E	2QFY25	1QFY26	2QFY26E	2QFY25	1QFY26	1HFY26	1HFY25	YoY (%)	2026E	2025	YoY (%)	2027E
Income statement (Rs mn)														
Operational income	8,971	8,779	7,643	8,482	2.2	17	5.8	17,453	14,774	18	37,067	31,076	19	44,332
Interest income	7,994	7,879	6,726	7,601	1.5	19	5.2	15,595	13,070	19	32,728	27,190	20	39,014
Fee and commission income	496	500	434	508	(0.8)	14	(2.4)	1,004	846	19	2,359	1,994	18	2,817
Net gain on FV change	41	50	57	48	(18.0)	(28)	(14.6)	89	112	(21)	180	222	(19)	400
Assignment income	441	350	427	325	25.9	3	35.6	766	746	3	1,800	1,671	8	2,100
Interest expense	3,416	3,363	2,852	3,319	1.6	20	2.9	6,736	5,622	20	14,074	11,738	20	16,631
Net interest income	4,578	4,516	3,874	4,282	1.4	18	6.9	8,859	7,448	19	18,654	15,452	21	22,383
Net operational income	5,555	5,416	4,791	5,162	2.6	16	7.6	10,718	9,152	17	22,993	19,339	19	27,700
Other income	21	—	0	32	NM	21,200	(32.6)	53	0	26,350	100	13	681	120
Total income	5,576	5,416	4,791	5,194	3.0	16	7.4	10,770	9,152	18	23,093	19,351	19	27,820
Operating expenses	2,017	1,920	1,734	1,875	5.1	16	7.6	3,893	3,336	17	8,283	7,048	18	9,477
Employee expenses	1,360	1,250	1,142	1,284	8.8	19	5.9	2,643	2,249	18	5,401	4,645	16	6,176
Depreciation and amortization expense	73	70	62	71	3.6	17	1.8	144	123	17	300	252	19	350
Other expenses	585	600	529	520	(2.5)	11	12.5	1,106	964	15	2,582	2,151	20	2,952
PPOP	3,538	3,496	3,057	3,287	1.2	16	7.6	6,825	5,817	17	14,709	12,291	20	18,223
Provisions	132	198	133	267	(33.4)	(1)	(50.7)	399	320	25	750	571	31	850
PBT pre-extraordinary	3,427	3,298	2,924	3,052	3.9	17	12.3	6,479	5,497	18	14,059	11,733	20	17,493
Extraordinary items	—	—	—	—	NM	NM	NM	—	—	NM	—	—	NM	—
Profit before tax	3,427	3,298	2,924	3,052	3.9	17	12.3	6,479	5,497	18	14,059	11,733	20	17,493
Tax	763	726	649	679	5.1	17	12.4	1,441	1,220	18	3,133	2,614	20	3,898
Profit after tax	2,665	2,573	2,275	2,373	3.6	17	12.3	5,038	4,277	18	10,927	9,118	20	13,595
Tax rate (%)	22	22	22	22				22	22		22	22		22
Core PBT	3,056	3,096	2,574	2,914	(1.3)	19	4.9	5,970	4,958	20	12,729	10,398	22	15,723
Key calculated ratios (%)														
Yield on loans	14.5	14.3	14.9	14.3	16 bps	-45 bps	12 bps	14.4	14.7	-27 bps	14.3	14.4	-4 bps	14.2
Cost of borrowings	7.9	7.9	8.0	8.0	5 bps	-7 bps	-10 bps	7.9	7.9	4 bps	7.8	7.8	1 bps	7.5
Spread	6.6	6.5	6.9	6.3	11 bps	-39 bps	22 bps	6.5	6.8	-32 bps	6.6	6.6	-5 bps	6.6
NIM	8.3	8.2	8.6	8.1	8 bps	-31 bps	20 bps	8.2	8.4	-18 bps	8.2	8.2	0 bps	8.1
Cost-to-income	36	35	36	36	73 bps	0 bps	7 bps	36	36	-30 bps	36	36	-55 bps	34
Cost-to-average AUM	3.0	2.8	3.1	2.9	15 bps	-13 bps	10 bps	2.9	3.0	-10 bps	2.9	3.0	-8 bps	2.8
Credit cost	0.2	0.3	0.2	0.4	-10 bps	-4 bps	-22 bps	0.3	0.3	1 bps	0.3	0.2	2 bps	0.2
AUM														
AUM (Rs mn)	275,537	276,510	228,175	265,241	(0.4)	21	3.9	275,537	228,175	21	307,902	255,307	21	372,113
Disbursements (Rs mn)	21,104	22,188	20,356	19,786	(4.9)	4	6.7	40,890	35,323	16	96,668	81,922	18	117,382
Repayment rate (%)	16.3	16.5	17.4	15.4	-17 bps	-109 bps	86 bps				17.3	17.9	-65 bps	17.3
Balance sheet														
Investments and Cash	22,819	22,500	23,427	21,905	1.4	(3)	4.2	22,819	23,427	(3)	24,859	22,366	11	30,314
Loans	222,606	221,224	182,528	214,201	0.6	22	3.9	222,606	182,528	22	249,400	204,841	22	301,411
Other assets	5,410	5,000	4,868	5,156	8.2	11	4.9	5,410	4,868	11	5,716	5,033	14	6,558
Net assets	250,835	248,724	210,823	241,262	0.8	19	4.0	250,835	210,823	19	279,975	232,240	21	338,283
Borrowings	177,131	173,992	146,093	168,763	1.8	21	5.0	177,131	146,093	21	199,333	163,224	22	243,118
Other liabilities	4,759	6,000	6,007	6,340	(20.7)	(21)	(24.9)	4,759	6,007	(21)	5,992	5,293	13	6,920
Total liabilities	181,890	179,992	152,100	175,103	1.1	20	3.9	181,890	152,100	20	205,325	168,517	22	250,038
Shareholders' funds	68,945	68,732	58,722	66,159	0.3	17	4.2	68,945	58,722	17	74,650	63,723	17	88,245
Asset quality														
Gross stage-1 (%)	95	95	95	95	13 bps	6 bps	7 bps	95	95	6 bps	95	95	-14 bps	95
Gross stage-2 (%)	3.5	3.7	3.7	3.7	-20 bps	-19 bps	-16 bps	3.5	3.7	-19 bps	4.0	4.0	1 bps	4.0
Gross stage-3 (%)	1.5	1.4	1.3	1.4	7 bps	13 bps	9 bps	1.5	1.3	13 bps	1.2	1.1	12 bps	1.2
Overall ECL coverage (%)	1.3	1.2	1.2	1.2	3 bps	4 bps	4 bps	1.3	1.2	4 bps	1.2	1.2	5 bps	1.2
ECL coverage on stage-1 (%)	0.3	0.3	0.3	0.3	0 bps	-2 bps	0 bps	0.3	0.3	-2 bps	0.3	0.3	0 bps	0.3
ECL coverage on stage-2 (%)	13.2	13.0	11.8	13.0	19 bps	135 bps	15 bps	13.2	11.8	135 bps	13.0	12.9	8 bps	13.0
ECL coverage on stage-3 (%)	34	33	35	32	128 bps	-110 bps	182 bps	34	35	-110 bps	35	34	55 bps	35

Source: Company, Kotak Institutional Equities estimates

2QFY26 highlights

- ▶ Aadhar Housing Finance reported a PAT of Rs3.4 bn in 2QFY26, up 17% yoy and 3.6% above our estimates. Core PBT was up 19% yoy and broadly in line with our estimates. The earnings beat was driven by lower-than-expected credit costs (10 bps below our estimates).
- ▶ NII was up 18% yoy, driven by 21% AUM growth.
 - Disbursement growth was lower at 4% yoy in 2QFY26, on a higher base (up 18% yoy in 2QFY25). However, growth for 1HFY26 was strong 16% yoy. The repayment rate declined in 1HFY26 by 120 bps yoy to 16.2%, driven by a decline in BT out rate to 5.4% (5.9% in 1HFY25).
 - Home loan disbursements were tad weak even on a 1H basis (up 9% yoy), as a part of the home loans (about Rs1.5 bn) was classified as non-home loans. These are loans that were disbursed immediately upon construction and were earlier classified as home loans.
- ▶ Calculated NIM expanded 20 bps qoq to 8.3%, driven by a 10 bps qoq moderation in cost of borrowings to 7.9% and a 12 bps qoq rise in yields.

- ▶ Reported spreads expanded 10 bps qoq to 5.9%, driven by a moderation in the cost of borrowings to 7.9%. Yields were flat qoq at 13.8%.
- ▶ Operating expense growth at 16% yoy was lower than AUM growth, leading to a 13 bps yoy moderation in the cost-to-AAUM ratio to 3% (down 13 bps yoy).
- ▶ Credit costs declined 4 bps yoy and 22 bps qoq to 0.2% despite a 4 bps qoq rise in overall ECL coverage to 1.3%. This was primarily driven by a recovery of Rs60-80 mn within the old project finance portfolio, which was written off (Rs250 mn pool still left). Excluding this recovery, the normalized credit cost for the quarter would have been 0.3%, with negligible write-offs.

Aadhar carries lower risk than peers

Exhibit 2: Risk-adjusted yields and spreads of select peers, March fiscal year-ends, 2018-25 (%)

	Risk adjusted yields								Risk adjusted spreads							
	2018	2019	2020	2021	2022	2023	2024	2025	2018	2019	2020	2021	2022	2023	2024	2025
Aadhar Housing Finance	10.9	13.4	12.2	12.7	12.4	12.5	13.6	13.5	1.7	3.4	3.3	4.5	5.2	5.5	6.0	5.8
Aavas Financiers	14.2	13.7	13.2	12.6	12.5	12.4	12.3	12.3	5.3	5.7	5.3	4.8	5.9	5.8	4.8	4.7
Aptus Housing	13.8	17.2	17.4	16.9	16.0	16.7	16.4	16.6	4.6	7.7	7.3	7.8	8.1	8.3	7.8	7.7
Grihum Housing	11.9	13.2	13.2	11.2	8.8	9.1	10.2	11.0	1.4	4.5	3.3	1.2	1.5	1.9	1.6	2.7
Manappuram Home Finance	13.1	14.1	13.4	12.7	14.5	17.7	17.3	17.9	4.3	4.3	3.8	3.1	5.3	9.1	8.0	7.8
Svatantra Micro Housing	11.3	11.3	11.3	11.3	11.0	12.0	12.4	12.3	1.2	1.4	1.1	2.0	2.8	3.4	3.2	3.3
Can Fin Homes	10.1	10.0	10.0	9.0	7.7	8.8	9.9	9.9	2.5	2.4	2.5	2.7	2.5	2.5	2.5	2.4
GIC Housing	10.1	9.8	8.7	7.9	8.4	9.9	10.0	10.1	2.3	1.8	0.6	0.7	1.9	2.7	1.9	1.9
Home First	11.8	12.8	12.7	11.8	11.8	12.8	13.3	13.3	4.0	4.3	3.9	4.0	5.2	5.4	5.0	4.8
India Shelter Finance	15.5	14.4	14.4	13.6	14.5	14.2	14.1	14.5	2.3	4.1	3.9	4.9	6.1	5.9	5.1	6.0
Mahindra Rural Housing	16.5	17.8	15.2	14.3	13.2	14.6	14.6	9.1	7.2	8.8	6.0	5.4	5.6	6.8	6.4	0.9
Motital Oswal Housing Finance	10.1	5.6	11.5	11.3	10.9	12.4	12.4	12.8	(0.9)	(5.1)	1.0	1.4	2.5	4.4	3.9	4.8
Muthoot Home Finance	10.3	12.3	10.5	10.8	8.8	10.9	11.5	12.1	3.9	4.2	0.9	1.4	0.6	2.6	3.3	3.3
Repco Home Finance	10.8	11.0	11.0	10.6	8.6	9.9	11.5	12.0	2.5	2.7	2.5	2.7	1.6	2.8	3.3	3.2
Shubham Housing	15.2	15.9	16.7	15.7	14.1	15.3	14.9	14.1	1.7	4.6	5.8	6.0	4.8	6.3	6.3	5.7
Truhome Finance	13.7	13.6	12.8	11.1	10.9	11.3	11.8	11.3	4.9	5.5	3.8	3.0	3.0	3.6	2.6	2.3
Srg Housing	19.0	21.4	22.9	21.4	21.5	20.0	20.5	19.3	9.6	10.4	10.7	9.8	10.8	8.5	8.6	7.8
Sundaram Home Finance	10.4	10.5	10.4	9.9	8.8	9.4	10.4	10.1	2.4	2.4	2.1	2.5	2.4	2.7	2.6	2.4
Vastu Housing Finance	11.8	15.0	14.8	13.8	13.7	13.9	14.8	13.8	5.0	5.5	5.1	4.9	5.1	7.0	5.0	5.1

Source: Company, Kotak Institutional Equities

Aadhar has a higher share of salaried borrowers compared to peers despite recent moderation

Exhibit 3: Share of salaried borrowers in AUM of select peers, March fiscal year-ends, 2018-25 (%)

	2018	2019	2020	2021	2022	2023	2024	2025
Aadhar Housing Finance	66	66	65	64	62	59	57	56
Aavas Financiers	36	35	35	40	40	40	40	40
Aptus Housing	17	23	27	28	28	29	26	22
Manappuram Home Finance	5	16	20	25	25	25	20	20
Can Fin Homes	73	71	71	73	74	73	72	70
Home First	74	73	73	74	72	69	68	68
India Shelter Finance	56	50	47	43	32	30	28	25
Mahindra Rural Housing	52	NA	58	64	64	64	64	64
Repco Home Finance	43	46	48	49	49	48	NA	NA
Truhome Finance	NA	NA	17	17	19	22	22	23
Srg Housing	18	20	22	19	22	24	NA	NA

Source: Company, Kotak Institutional Equities

Aadhar has lower share of non-home loans compared to peers

Exhibit 4: Share of non-home loans for select peers, March fiscal year-ends, 2018-25 (%)

	2020	2021	2022	2023	2024	2025
Aadhar Housing Finance	15	15	18	22	25	26
Aavas Financiers	27	27	28	30	31	32
Aptus Housing	48	48	44	42	40	40
Can Fin Homes	10	10	10	11	11	12
Home First	8	8	9	13	14	16
India Shelter Finance	41	43	46	43	42	43
Grihum Housing	45	32	31	28	25	22
Manappuram Home Finance	26	27	33	34	30	32
Repco Home Finance	19	19	19	23	21	25
Truhome Finance	40	36	35	36	38	39
Sundaram Home Finance	30	30	31	37	36	35
Svatantra Micro Housing	3	8	8	12	15	24
Vastu Housing Finance	36	43	44	44	42	49

Source: Company, Kotak Institutional Equities

Aadhar's growth was in line with industry

Exhibit 5: AUM and disbursement growth of select peers, March fiscal year-ends, 2018-25

	AUM growth (%)								Disbursements growth (%)							
	2018	2019	2020	2021	2022	2023	2024	2025	2018	2019	2020	2021	2022	2023	2024	2025
Aadhar Housing Finance	60	26	14	17	11	17	23	21	67	(18)	(0)	11	13	48	20	16
Aavas Financiers	51	46	31	21	20	25	22	18	47	30	10	(9)	36	40	11	10
Aptus Housing	67	59	42	28	27	30	29	25	79	47	16	1	26	46	31	15
GIC Housing	21	16	1	(3)	(13)	(1)	(7)	5	31	(3)	(49)	(31)	(9)	(5)	19	40
Home First	60	80	48	14	30	34	35	31	76	111	3	(32)	85	48	32	21
India Shelter Finance	46	47	29	45	40	42	40	35	—	45	52	35	27	19	24	24
Grihum Housing	1	34	35	21	27	24	32	13	18	93	21	(5)	57	31	13	(18)
Mahindra Rural Housing	30	29	5	(9)	(1)	(5)	0	4	32	(7)	(27)	(58)	101	25	3	(2)
Manappuram Home Finance	21	38	21	6	27	30	38	21			(17)	(34)	160	51	43	2
Motital Oswal Housing Finance	17	(10)	(16)	(4)	(0)	9	6	20	(43)	(80)	(34)	44	136	57	(0)	78
Muthoot Home Finance	232	31	3	(14)	(14)	(2)	42	47		(40)	(37)	(76)	33	67	264	52
Repco Home Finance	10	12	7	2	(3)	6	9	7	6	10	(15)	(30)	(4)	65	7	5
Truhome Finance	1	3	25	70	36	50	71	29	(21)	0	62	79	25	51	83	(6)
Shubham Housing	33	21	28	23	16	30	48	31		37	(10)	4	21	74	31	7
Srg Housing	145	41	(3)	19	4	29	37	26	201	(13)	(61)	85	(6)	125	(2)	21
Sundaram Home Finance	9	8	6	(5)	4	18	24	26	43	(7)	(14)	(41)	84	69	29	30
Svantantra Micro Housing	27	28	19	17	39	35	33	12	30	23	10	(3)	148	23	46	(45)
Vastu Housing Finance	270	80	33	44	43	67	50	25	218	20	(3)	49	60	105	37	2
Total of the above	24	19	12	8	12	18	20	17	30	2	(4)	(11)	46	34	20	10

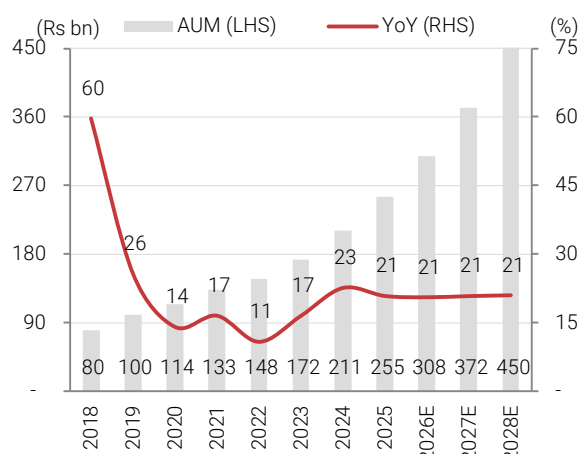
Source: Company, Kotak Institutional Equities

Strong disbursement growth to sustain over the medium term

- **Deeper penetration a key driver of growth.** We expect disbursement growth to remain strong at 20% in 2HFY26E (16% in 1HFY26) and 21% over FY2027-28E, driven by an expansion of footprint. Aadhar currently operates in 22 states and has achieved >90% district penetration in nine states. Management plans to open 50-55 new branches per year, of which 35 will be in emerging markets to increase penetration into smaller towns and districts with sufficient demand for affordable housing.
- **Repayment rate to remain range-bound.** Aadhar's repayment rate (adjusted for CLSS subsidy) has been stable at 18% in FY2022-24. We expect this trend to continue over FY2026-28E, leading to 21% AUM growth for the company.
- **GST 2.0 expected to drive affordable housing demand.** The rationalization of GST rates on key construction inputs such as cement, marble, granite and bricks will lower the cost of construction for developers/self-construction. This reduction directly enhances housing affordability by allowing for lower EMIs for homebuyers. This will expand the low and middle-income housing segments and affordable housing categories, particularly benefiting projects under government schemes such as PMAY 2.0 and Agni Card 2025.
- **Faster growth in lower-tier cities.** Aadhar has reorganized its branches as urban and emerging markets to increase focus on lower-tier cities. While emerging markets contribute 45% of AUM in 1HFY26, management aims to take this to 50% in the near term and 55% in the medium term. The company has devised an individualized strategy for each segment, with different underwriting guardrails to balance growth, margins and asset quality. While incremental focus will be on growing the emerging markets business, it also operates with tighter guidelines on LTV and FOIR, among others.

AUM growth to remain strong at 21%...

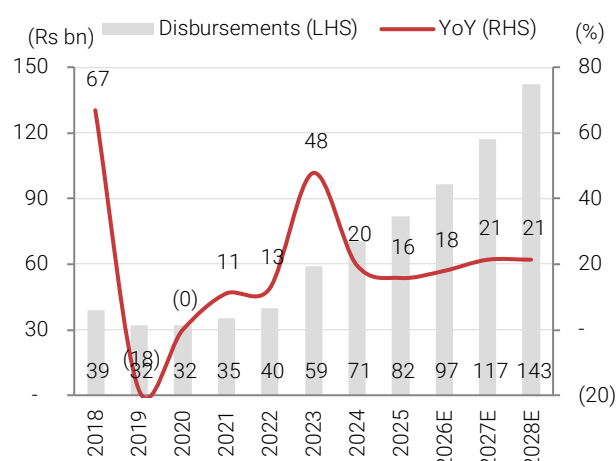
Exhibit 6: AUM and yoy growth, March fiscal year-ends, 2018-28E



Source: Company, Kotak Institutional Equities estimates

... driven by strong growth in disbursements

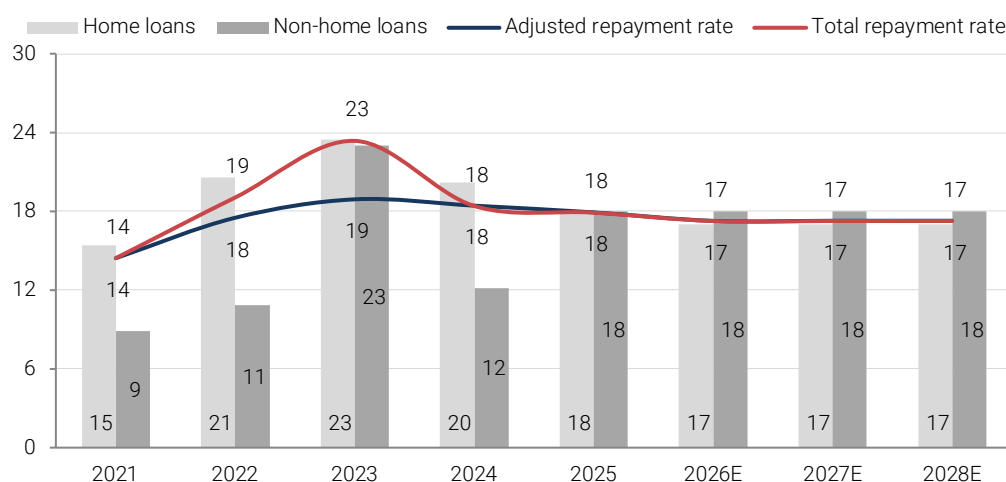
Exhibit 7: Disbursement and yoy growth, March fiscal year-ends, 2018-28E



Source: Company, Kotak Institutional Equities estimates

Repayment rate to remain range bound

Exhibit 8: Repayment rates across segments, March fiscal year-ends, 2021-28E (%)



Source: Company, Kotak Institutional Equities estimates

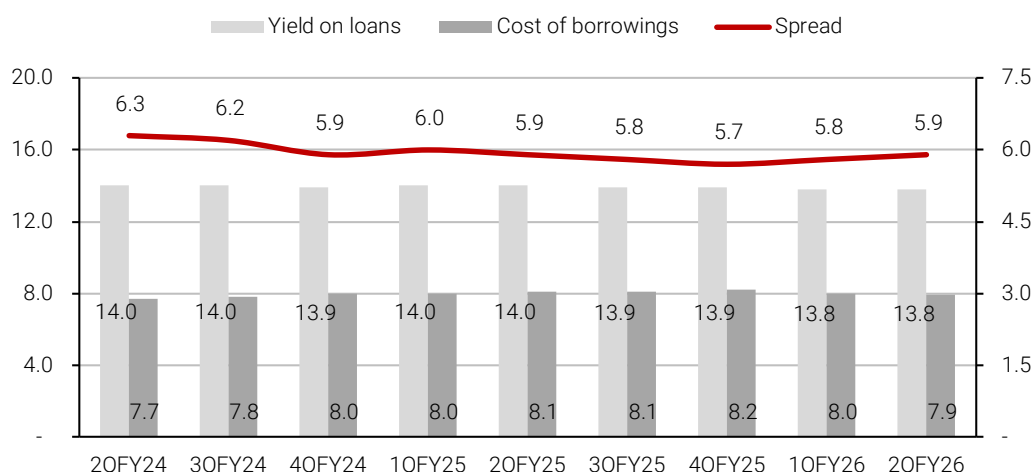
Spreads to remain stable in the medium term

- Moderate spread expansion in 2Q.** Aadhar reported a moderate 10 bps qoq spread expansion to 5.9%, driven by a 10 bps decline in cost of borrowings, while yield remained stable at 13.8%. Management anticipates a 10-bps reduction in the overall COF, as MCLR benefits flow through over 2HFY26E. The company intends to pass these benefits on to customers in 4QFY26E. The company has not cut its PLR since April 2025.
 - Spreads have been weak yoy, as yields were on a declining trend—as such, NII growth (up 18% yoy) was below loan growth (up 21% yoy) in 2Q. This should turn to positive in 2H and hence it may consider a rate cut by March 2026.
- Yields to remain broadly stable in 2HFY25E.** We bake in stable yields of 14.4% in 2HFY26E (14.4% in 1HFY26), driven by an interplay of (1) higher growth in the emerging market business, which operates at higher yields and (2) lagged PLR cuts. Loans originated in emerging markets have 200-400 bps higher yield than urban markets.

- **We model broadly stable cost of borrowings in 2HFY26E.** Aadhar has a low share of floating rate borrowings and are largely linked to the MCLR of banks. Banks have been reluctant in passing on rate cuts through MCLR; hence, the moderation in cost of borrowings will be moderate at 10 bps to 7.8%.
- **Stable spreads in the medium term.** Spreads will likely remain stable at 6.6-6.7%, as Aadhar passes on the benefit in cost of borrowing to its customers. Since most loans (76% of AUM on floating rate) are linked to internal PLR, the company has a leeway on passing on the rate hike. It will likely use this buffer to smoothen the rate transmission and maintain stable spreads and margins.
- **Rating upgrade poised to lower COF and enhance debt market access.** Aadhar's strengthened credit profile is expected to facilitate a lower COF and broaden its access to debt markets. CARE Ratings upgraded the company to 'AA+' from 'AA' in 1QFY26 and ICRA revised its outlook from 'Stable' to 'Positive'. Management expects the full 20-25 bps COF benefit (typical between AA and AA+ ratings) to flow in the FY2027E. The upgrades enhance debt market access for Non-Convertible Debentures (NCDs, 22% of borrowing mix) and secure longer-tenor funding from institutional investors such as insurance and pension funds.

Reported spreads expanded 10 bps qoq in 2QFY26

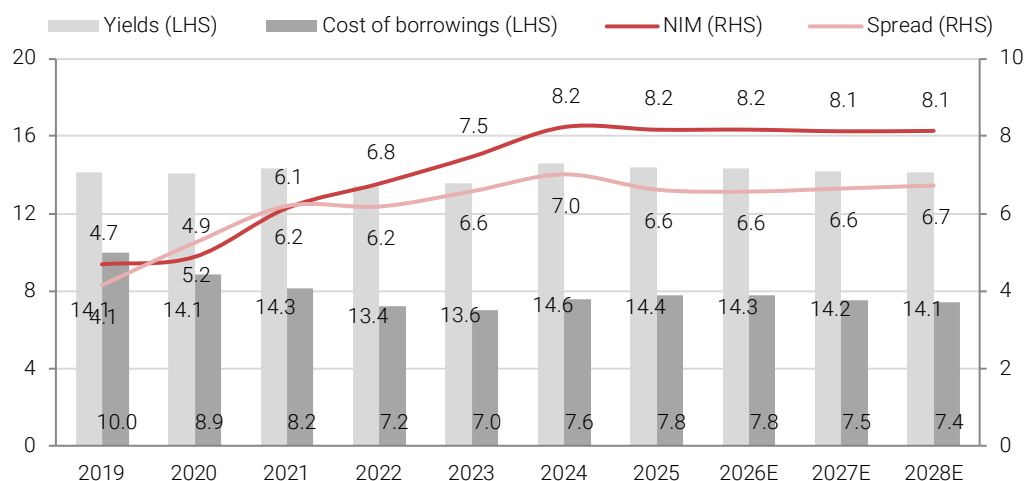
Exhibit 9: Reported yields, cost of borrowings and spreads, March fiscal year-ends, 2024-26 (%)



Source: Company, Kotak Institutional Equities

We model stable spreads in the medium term

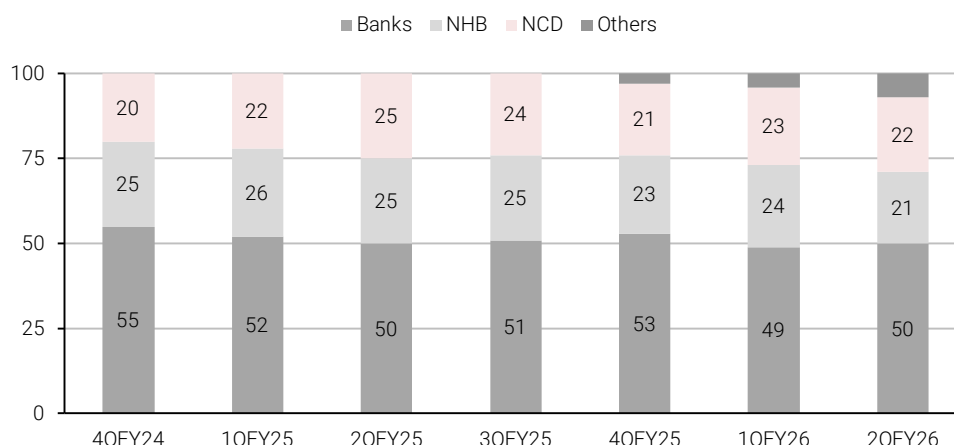
Exhibit 10: Yields, cost of borrowings, spreads and NIM for Aadhar Housing Finance, March fiscal year-ends, 2019-28E (%)



Source: Company, Kotak Institutional Equities estimates

Stable borrowing mix

Exhibit 11: Borrowings mix for Aadhar Housing Finance, March fiscal year-ends, 2024-26 (%)



Source: Company, Kotak Institutional Equities

Asset quality holds on

Stressed loans reduced. Aadhar's asset quality metrics showed mixed trends during the quarter. While stressed loans moderated 14 bps qoq to 5.0%, this was largely driven by a decline in the gross stage-2 ratio (down 16 bps qoq to 3.5%). Conversely, the gross stage 3 ratio was up 9 bps qoq to 1.5%. The company also benefited from a one-time recovery of Rs60-80 mn from an old project finance portfolio that had been previously written off. The company still has a written off pool of Rs250 mn.

Concerted efforts to reduce gross stage-2 loans. Aadhar's gross stage-2 ratio declined to 3.5% in 2QFY26 from 3.7% in 1QFY26 and 4% in 4QFY25. Typically, collection trends tend to be subdued in the first two quarters, but focused efforts by management led to a sequential improvement in early delinquencies.

Geographical diversification mitigates state-specific risks. Aadhar Housing Finance demonstrated resilience to recent state-specific issues (such as the Karnataka e-Khata issue and tariff impacts in regions such as Coimbatore, Surat and Tirupur) that affected other HFCs. Management noted that the company's robust geographical diversification strategy was key to this insulation. No single state accounts for more than 15% of its total AUM. This balanced exposure across 22 states, combined with a centralized risk management framework, allowed the company to maintain stable asset-quality metrics. Aadhar improved its overall 1+dpd ratio by 80-100 bps qoq in Coimbatore, Surat and Tirupur in 2QFY26.

Credit costs to remain moderate. We expect Aadhar's credit cost to remain moderate at 0.2-0.3% over the medium term (0.2-0.3% in FY2022-24), driven by moderate write-offs of 6-8 bps (10 bps over FY2024-25) and flat overall ECL coverage of 1.2%. We expect delinquency ratios to remain largely stable, with a gross stage-3 ratio of 1.2% and a gross stage-2 ratio of 4%.

Stressed loans down 26 bps qoq to 4.9%

Exhibit 12: Stressed loans of Aadhar Housing Finance, March fiscal year-ends, 2021-26 (%)

	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	YoY (bps)	QoQ (bps)	2021	2022	2023	2024	2025	YoY (bps)
Gross stage-2	3.7	3.7	3.8	4.0	3.7	3.5	(19)	(16)	6.3	5.4	4.1	3.6	4.0	37
Gross stage-3	1.3	1.3	1.4	1.1	1.4	1.5	13	9	1.2	1.5	1.2	1.1	1.1	(2)
Write-offs	0.2	0.1	0.0	0.1	0.1	(0.1)	(23)	(19)	0.3	0.2	0.2	0.1	0.1	(1)
Stressed loans	5.2	5.2	5.3	5.1	5.1	4.9	(29)	(26)	7.9	7.1	5.5	4.8	5.2	35

Source: Company, Kotak Institutional Equities

Credit cost to remain moderate

Exhibit 13: Detailed asset quality data for Aadhar Housing Finance, March fiscal year-ends, 2021-28E

	2021	2022	2023	2024	2025	2026E	2027E	2028E
Gross loan mix (Rs mn)								
Gross stage-1	99,848	112,973	132,944	163,054	196,774	236,431	285,738	345,841
Gross stage-2	6,849	6,512	5,806	6,189	8,269	9,976	12,056	14,592
Gross stage-3	1,350	1,837	1,626	1,869	2,229	2,993	3,617	4,378
Overall gross loans	108,047	121,322	140,376	171,112	207,272	249,400	301,411	364,812
Gross loan mix (%)								
Gross stage-1	92	93	95	95	95	95	95	95
Gross stage-2	6.3	5.4	4.1	3.6	4.0	4.0	4.0	4.0
Gross stage-3	1.2	1.5	1.2	1.1	1.1	1.2	1.2	1.2
ECL provisions (Rs mn)								
Stage-1	249	355	529	538	594	709	857	1,038
Stage-2	796	817	775	772	1,068	1,297	1,567	1,897
Stage-3	434	546	557	771	768	1,047	1,266	1,532
Overall ECL provisions	1,478	1,718	1,861	2,081	2,430	3,054	3,690	4,467
ECL coverage (%)								
Stage-1	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Stage-2	11.6	12.5	13.3	12.5	12.9	13.0	13.0	13.0
Stage-3 (%)	32	30	34	41	34	35	35	35
Overall ECL coverage	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2
Credit cost break-up (%)								
Credit cost (%)	0.4	0.3	0.3	0.2	0.2	0.3	0.2	0.2
Provision for loans	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Write-offs	0.3	0.2	0.2	0.1	0.1	0.0	0.1	0.1

Source: Company, Kotak Institutional Equities estimates

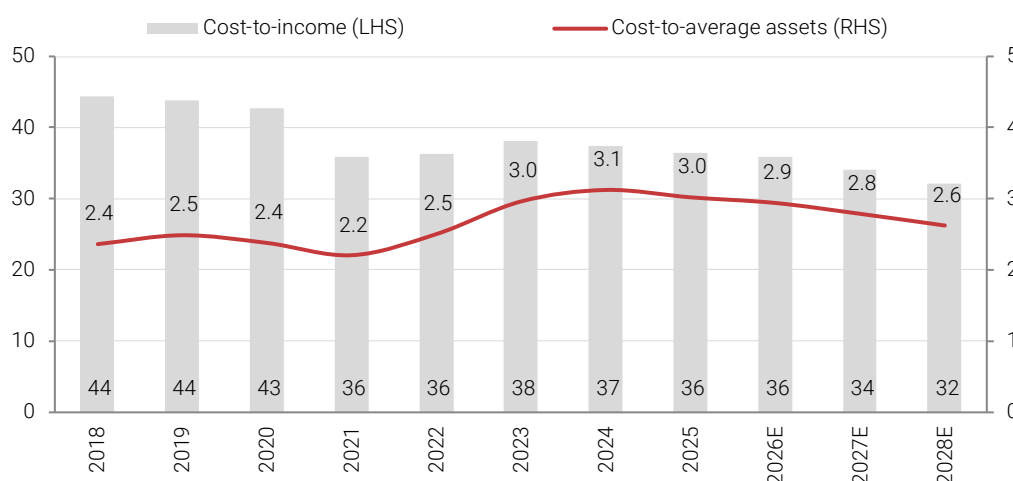
We model moderate decline in cost-to-AAUM ratio in the medium term

While operating leverage will lead to a gradual moderation in cost-to-AAUM ratio to 2.6% by FY2028E (3.0% in FY2025), it will remain higher than 2.2-2.5% reported in FY2018-20. Aadhar's cost-to-AAUM ratio was elevated at 3.0% in FY2023-25 due to continued investments in distribution. Incremental branch growth will be through low-cost branches in emerging markets, leading to lower investments in FY2026E tapering off over the later years.

Branch additions will likely remain strong at 50-55 per year and employee count will also rise at ~9% to man the additional branches. Inflationary growth in per-employee costs and branch/establishment expenses will result in a moderate 14-15% growth in operating expenses over FY2027-28E.

Cost ratios to decline over the medium term

Exhibit 14: Cost ratios of Aadhar Housing Finance, March fiscal year-ends, 2018-28E (%)



Source: Company, Kotak Institutional Equities estimates

We tweak our estimates

Exhibit 15: Changes in estimates: Aadhar Housing Finance, March fiscal year-ends, 2026-28E

	New estimates			Old estimates			Change in estimates (%)		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Key business parameters									
AUM (Rs mn)	307,902	372,113	450,385	307,902	372,113	450,385	-	-	-
YoY (%)	21	21	21	21	21	21	0 bps	0 bps	0 bps
Disbursements (Rs mn)	96,668	117,382	142,541	96,668	117,382	142,541	-	-	-
YoY (%)	18	21	21	18	21	21	0 bps	0 bps	0 bps
Repayment rate (%)	17	17	17	17	17	17	0 bps	0 bps	0 bps
Key ratios (%)									
Yield on loans	13.8	13.6	13.6	13.9	13.7	13.6	-12 bps	-5 bps	0 bps
Cost of borrowings	7.8	7.5	7.4	7.8	7.5	7.4	0 bps	4 bps	0 bps
Spread	6.0	6.1	6.2	6.1	6.2	6.2	-12 bps	-9 bps	0 bps
NIM	6.6	6.6	6.6	6.7	6.7	6.6	-10 bps	-7 bps	0 bps
Cost-to-income	36	34	32	35	34	32	42 bps	7 bps	-34 bps
Cost-to-average AUM	2.9	2.8	2.6	2.9	2.8	2.6	0 bps	-1 bps	0 bps
Credit cost	0.27	0.25	0.24	0.28	0.26	0.27	-2 bps	-1 bps	-2 bps
ROA	4.3	4.4	4.5	4.3	4.4	4.5	-7 bps	-2 bps	9 bps
ROE	15.8	16.7	17.5	16.0	16.7	17.2	-25 bps	-3 bps	34 bps
Core PBT ratio	4.9	5.0	5.2	5.0	5.1	5.3	-12 bps	-9 bps	-2 bps
Key income statement items (Rs mn)									
Net interest income	18,654	22,383	27,107	18,935	22,625	27,113	(1.5)	(1.1)	(0.0)
Total income	23,093	27,820	33,618	23,390	27,982	33,329	(1.3)	(0.6)	0.9
Operating expenses	8,283	9,477	10,778	8,292	9,514	10,798	(0.1)	(0.4)	(0.2)
Employee expenses	5,401	6,176	7,076	5,351	6,115	6,961	0.9	1.0	1.6
Others	2,882	3,302	3,702	2,941	3,399	3,837	(2.0)	(2.9)	(3.5)
Provisions	750	850	1,000	800	900	1,100	(6.3)	(5.6)	(9.1)
Profit before tax	14,059	17,493	21,840	14,298	17,568	21,431	(1.7)	(0.4)	1.9
Profit after tax	10,927	13,595	16,974	11,112	13,654	16,656	(1.7)	(0.4)	1.9
Core PBT	12,629	15,603	19,610	12,928	15,888	19,691	(2.3)	(1.8)	(0.4)
Other data									
EPS (Rs)	25	31	39	25	31	38	(1.7)	(0.4)	1.9
BVPS (Rs)	173	205	244	173	205	244	(0.2)	(0.3)	0.1

Source: Company, Kotak Institutional Equities estimates

RoE to inch up to 17-18%

Exhibit 16: Key growth rates and ratios – Aadhar Housing Finance, March fiscal year-ends, 2021-28E

	2021	2022	2023	2024	2025	2026E	2027E	2028E
Key income statement growth rates (%)								
Net interest income	45	27	26	31	20	21	20	21
Total income	28	27	29	29	21	19	20	21
Operating expenses	7	29	35	26	18	18	14	14
Pre-provision operating profit	43	26	25	30	23	20	24	25
PBT	87	31	23	38	22	20	24	25
PAT	80	31	22	38	22	20	24	25
Core PBT	79	20	22	41	21	22	24	26
Key balance sheet items growth rates (%)								
Loans	19	13	16	22	21	22	21	21
Net assets	10	5	16	15	22	21	21	21
Borrowings	8	3	14	15	17	22	22	22
Net worth	15	17	18	20	43	17	18	19
Other key growth rates and ratios (%)								
Disbursements	11	13	48	20	16	18	21	21
AUM	17	11	17	23	21	21	21	21
Repayment rate (%)	14	19	23	18	18	17	17	17
Key ratios (%)								
Yield on loanbook	13.1	12.8	12.8	13.8	13.8	13.8	13.6	13.6
Cost of borrowings	8.2	7.2	7.0	7.6	7.8	7.8	7.5	7.4
Spread	5.0	5.5	5.8	6.2	6.0	6.0	6.1	6.2
Net interest margin	6.1	6.8	7.5	8.2	8.2	8.2	8.1	8.1
Cost-to-income	36	36	38	37	36	36	34	32
Cost-to-average assets	2.2	2.5	3.0	3.1	3.0	2.9	2.8	2.6
Credit cost	0.4	0.3	0.3	0.2	0.2	0.3	0.2	0.2
Key asset quality ratios (%)								
Gross stage 2	6.3	5.4	4.1	3.6	4.0	4.0	4.0	4.0
Gross stage 3	1.2	1.5	1.2	1.1	1.1	1.2	1.2	1.2
ECL coverage on stage 1	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3
ECL coverage on stage 2	11.6	12.5	13.3	12.5	12.9	13.0	13.0	13.0
ECL coverage on stage 3	32	30	34	41	34	35	35	35
Overall ECL coverage	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2
Du Pont analysis (% of average total assets)								
Total income	12.1	12.3	13.2	14.5	14.7	14.5	14.3	14.3
Interest expense	6.3	5.4	5.2	5.5	5.5	5.5	5.4	5.3
Net interest income	4.7	5.5	6.3	7.2	7.3	7.3	7.2	7.3
Operating expenses	2.1	2.5	3.1	3.4	3.3	3.2	3.1	2.9
Pre-provision operating profit	3.7	4.4	5.0	5.6	5.8	5.7	5.9	6.1
Provisions	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.3
PBT	3.3	4.1	4.5	5.4	5.5	5.5	5.7	5.8
(1-tax rate)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
ROA	2.6	3.2	3.5	4.2	4.3	4.3	4.4	4.5
Leverage (X)	5.2	4.8	4.5	4.4	3.9	3.7	3.8	3.9
ROE	13.5	15.2	15.9	18.4	16.9	15.8	16.7	17.5

Source: Company, Kotak Institutional Equities estimates

We expect the company to deliver 22% earnings CAGR over FY2025-28E
Exhibit 17: Financial summary – Aadhar Housing Finance, March fiscal year-ends, 2021-28E

	2021	2022	2023	2024	2025	2026E	2027E	2028E
Income statement (Rs mn)								
Operational income	15,753	17,283	20,432	25,868	31,076	37,067	44,332	53,473
Interest income	14,269	15,383	17,763	22,693	27,190	32,728	39,014	47,102
Fee and commission income	758	736	1,047	1,742	1,994	2,359	2,817	3,421
Net gain on fair value change	88	235	318	224	222	180	400	450
Assignment income	638	930	1,304	1,209	1,671	1,800	2,100	2,500
Interest expense	8,160	7,612	7,992	9,867	11,738	14,074	16,631	19,995
Net interest income	6,110	7,771	9,771	12,826	15,452	18,654	22,383	27,107
Other income	2	3	3	2	13	100	120	140
Net operational income	7,594	9,671	12,440	16,001	19,339	22,993	27,700	33,478
Total income	7,596	9,674	12,443	16,003	19,351	23,093	27,820	33,618
Operating expenses	2,721	3,513	4,743	5,995	7,048	8,283	9,477	10,778
Employee expense	1,888	2,482	3,220	4,035	4,645	5,401	6,176	7,076
Other expenses	833	1,031	1,523	1,960	2,403	2,882	3,302	3,702
Pre-provision operating profit	4,872	6,158	7,697	10,007	12,291	14,709	18,223	22,700
Provisions	549	487	492	412	571	750	850	1,000
Profit before tax	4,325	5,674	6,958	9,596	11,733	14,059	17,493	21,840
Tax	924	1,225	1,511	2,100	2,614	3,133	3,898	4,866
Profit after tax	3,401	4,449	5,448	7,496	9,118	10,927	13,595	16,974
Core PBT	4,144	4,991	6,072	8,572	10,385	12,629	15,603	19,610
Balance sheet (Rs mn)								
Cash and bank balances	21,713	17,102	19,180	12,734	17,234	18,957	23,232	28,482
Loans	106,133	119,603	138,515	169,029	204,841	249,400	301,411	364,812
Investment	4,971	3,380	4,594	4,620	5,132	5,902	7,082	8,498
Property plant and equipment	164	208	248	300	315	362	417	479
Other assets	3,323	3,465	3,643	4,247	4,718	5,353	6,141	7,047
Net assets	136,303	143,758	166,179	190,931	232,240	279,975	338,283	409,318
Borrowings	103,745	106,746	121,535	139,596	163,224	199,333	243,118	296,346
Other liabilities	5,630	5,545	7,668	6,837	5,293	5,992	6,920	7,754
Total liabilities	109,375	112,291	129,202	146,433	168,517	205,325	250,038	304,100
Equity share capital	3,948	3,948	3,948	3,948	4,314	4,314	4,314	4,314
Reserves and surplus	22,981	27,519	33,029	40,550	59,409	70,336	83,931	100,905
Shareholders' funds	26,928	31,467	36,977	44,498	63,723	74,650	88,245	105,218
Total liabilities and shareholders' funds	136,303	143,758	166,179	190,931	232,240	279,975	338,283	409,318
AUM and disbursements (Rs mn)								
AUM	133,271	147,778	172,228	211,209	255,307	307,902	372,113	450,385
Home loan	112,960	120,918	134,593	157,951	188,181	225,188	271,084	327,697
Loan against property	20,293	26,849	37,635	53,258	67,126	82,713	101,029	122,688
Disbursements	35,447	39,919	59,026	70,702	81,922	96,668	117,382	142,541
Home loan	30,409	31,168	42,055	50,521	58,473	68,998	84,178	102,697
Loan against property	5,038	8,751	16,971	20,181	23,449	27,670	33,204	39,845

Source: Company, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Nischint Chawathe, Varun Palacharla, Chirayu Maloo."

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

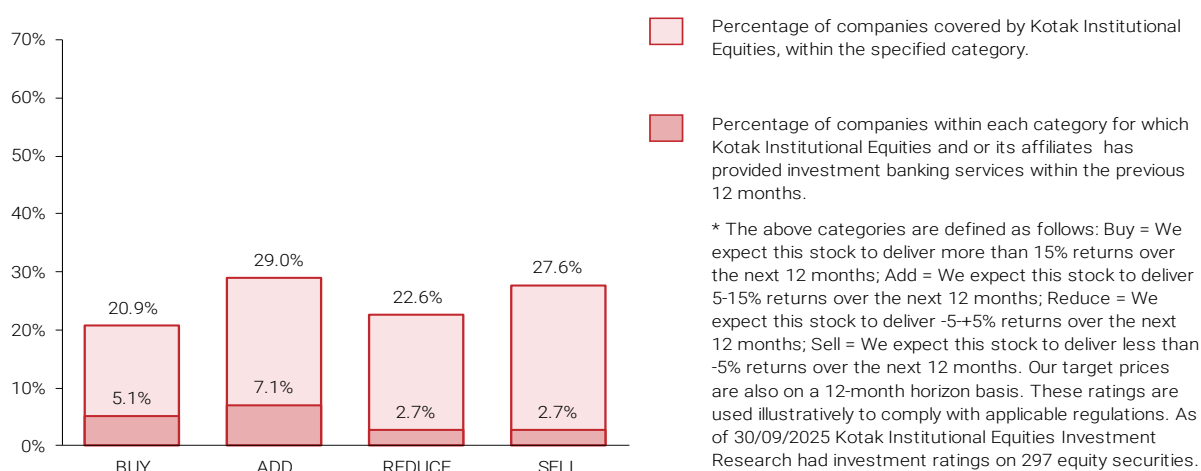
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

Distribution of ratings/investment banking relationships

Kotak Institutional Equities Research coverage universe



Source: Kotak Institutional Equities

As of September 30, 2025

Coverage view

The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: **Attractive, Neutral, Cautious.**

Other ratings/identifiers

NR = Not Rated. The investment rating and fair value, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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