

27 November 2024

India | Equity Research | Company Update

## Aadhar Housing Finance

NBFCs

### Largest AHFC with deep distribution and industry leading spread

Aadhar Housing Finance (Aadhar) was amongst the first few AHFCs to get HFC licence, way back in 2010, and since then its execution track record under the leadership of Mr. Deo Shankar Tripathi (Executive VC) and Mr. Rishi Anand (MD & CEO) has been superior. It delivered 18% AUM CAGR between FY18–24 with AUM of INR 228bn, as of Sep'24, driven by an early entry into under-penetrated markets of UP, MP, Chhattisgarh and Jharkhand etc., complemented by its focus on diversification (no single state is contributing >15% of AUM) and one of the highest branch networks of 545; these have been key enablers for Aadhar. More importantly, incremental growth came in at higher spread of ~6% vs ~5-5.25% for peers. Maintain **BUY** with TP of INR 550, valuing the stock at ~3x FY26E BVPS.

### Early entry into under-penetrated markets and then focus on deepening helped in sustaining disbursements...

Building a pan-India mortgage business is challenging given the state-wise legal divergence and complexity. Hence, even after a decade in mortgage business, most players are still geographically concentrated with home state / single state contributing >30% of AUM. Aadhar stands out on geographical diversification with no single state contributing >15% of AUM.

Immediately post getting HFC license in 2010, it entered low-income under-penetrated markets such as UP, MP, Chhattisgarh, Jharkhand etc. unlike competition which focused on Southern and Western markets. During FY11-17, it focused on widening its presence vs competition, which focused on deepening in home state/single state. As a result, by FY18, it was already present in >15 states. After getting familiar with local economic dynamics and legal understanding, between FY18-24 it focused on going deeper in those markets, and thereby, remaining ahead of the competition in terms of coverage.

The same has enabled it in sustaining strong growth momentum as reflected in 18% AUM CAGR between FY18-24 even on a high base. Its AUM as on Sep'24 at INR 228bn is one of the highest within listed peer set.

Its quarterly disbursements stood at INR 20.3bn during Q2FY25 vs INR 12.9bn for Aavas vs INR 11.8bn for Home First vs INR 9.4bn for Aptus and INR 8.3bn for India Shelter.

### Financial Summary

| Y/E March (INR mn)        | FY23A  | FY24A  | FY25E  | FY26E  |
|---------------------------|--------|--------|--------|--------|
| Net Interest Income (NII) | 11,393 | 14,257 | 17,765 | 20,990 |
| PAT (INR mn)              | 5,446  | 7,485  | 9,629  | 11,355 |
| EPS (INR)                 | 13.8   | 19.0   | 22.6   | 26.6   |
| % Chg YoY                 | 22.4   | 37.4   | 19.1   | 17.9   |
| BVPS (INR)                | 94     | 113    | 149    | 176    |
| P/E (x)                   | 30.8   | 22.4   | 18.8   | 16.0   |
| P/BV (x)                  | 4.5    | 3.8    | 2.9    | 2.4    |
| Gross Stage - 3 (%)       | 1.2    | 1.2    | 1.3    | 1.3    |
| RoA (%)                   | 3.7    | 4.2    | 4.6    | 4.5    |
| RoE (%)                   | 16.7   | 18.4   | 17.8   | 16.4   |

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#### Market Data

|                     |             |
|---------------------|-------------|
| Market Cap (INR)    | 182bn       |
| Market Cap (USD)    | 2,159mn     |
| Bloomberg Code      | AADHARHF IN |
| Reuters Code        | AADA.BO     |
| 52-week Range (INR) | 517 /292    |
| Free Float (%)      | 23.0        |
| ADTV-3M (mn) (USD)  | 6.5         |

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

| ESG Score   | 2022 | 2023 | Change |
|-------------|------|------|--------|
| ESG score   | NA   | NA   | NA     |
| Environment | NA   | NA   | NA     |
| Social      | NA   | NA   | NA     |
| Governance  | NA   | NA   | NA     |

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

#### Previous Reports

07-11-2024: [Q2FY25 results review](#)

09-08-2024: [Q1FY25 results review](#)

### ...as well as spreads

Aadhar's initial focus on scaling affordable housing finance business in relatively credit-untested markets like UP, Chhattisgarh, Jharkhand and Odisha etc. provided it a strong pricing power. Further, even in highly-penetrated states, its early entry into those states enabled it to go deeper over a period of time before competition's entry, and hence, it onboarded customers at desired yields. Further, increased share of LAP to 25% by FY24 from 14% in FY20 also supported spreads given yields in LAP are much higher at ~16.5-17.0% vs ~12.5-13.5% in HL. This inherent advantage helped it in sustaining industry-leading spread at ~6% despite being one of the largest AHF players.

What stands out for Aadhar is its ability to sustain disbursement volume with industry-leading spreads. While its disbursements yield was lower at ~13.5% vs blended yield at 14% during Q2FY25, the same was still higher than peers as reflected in ~12.7% for Aavas, ~13.4% for Home First and ~15% for India Shelter. Further, PLR hike of 75bps on 1 Apr, '23 supported yields over the past 1 year and the 25bps PLR hike in Jun'24 was likely to support spreads in coming quarters.

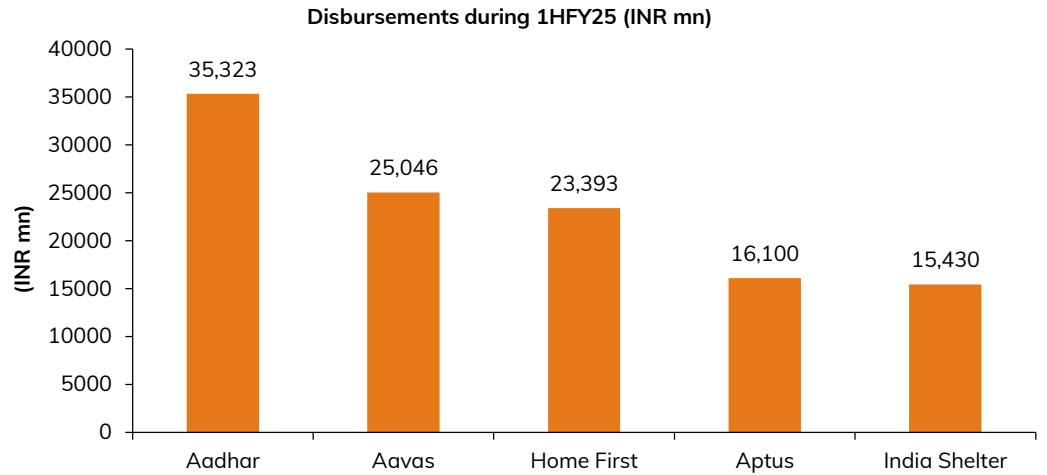
While incremental cost of fund increased sharply to 8.4%, management highlighted NHB borrowing during H1FY25 remained negligible and it expects sizable NHB borrowing in H2FY25 which should drive CoF in the range of 8.1-8.15%. Currently, ~22% of the company's borrowings are fixed in nature and ~20% of asset side is fixed, and hence, it is unlikely to have any significant impact on its margins, in case of any change in repo rate.

### Asset quality improved sequentially

The most preferred customer segment for NBFCs in any asset class – vehicle, LAP, gold, home loan etc. – is the self-employed segment; within affordable housing too, most players are catering to the self-employed segment. However, Aadhar challenged the status quo and targeted formal salaried segment (not white collar), but in under-penetrated markets. While mainstream banks were actively serving the formal salaried segment, its focus was more on high-ticket loans mainly in metro and tier-1/2 cities. Hence, Aadhar chose to serve the salaried segment beyond tier-2 cities; it focuses more on low-ticket loans (<INR 1.5mn). Early entry into underserved markets and affordable housing provide Aadhar the flexibility of choosing its customer segment – the company rightly chose the less vulnerable formal salaried segment to start its lending journey. Average GNPL, at 1.2%, and credit cost at average 40bps with FY21-24 coverage ratio of ~30% despite Covid, are testimony of its resilient model.

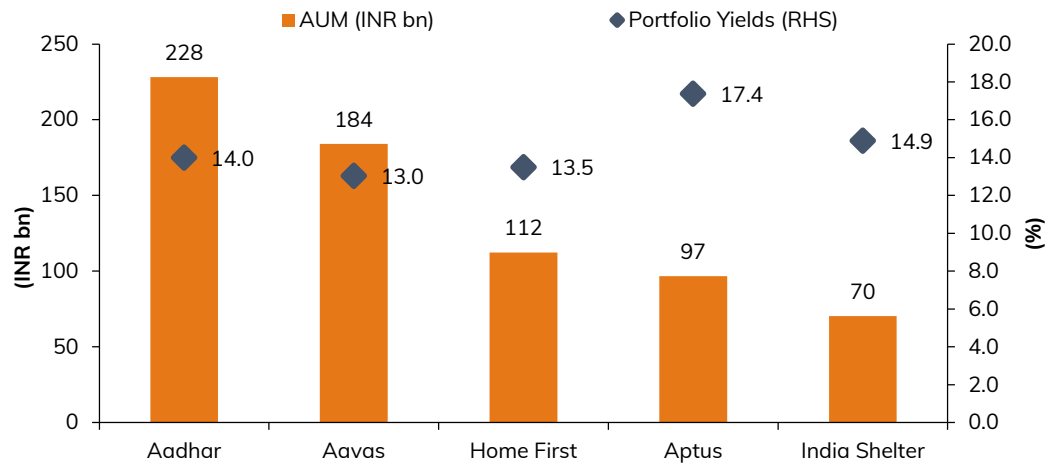
**Key risks:** 1) Slower than expected AUM growth and 2) spreads coming under pressure due to competition.

**Exhibit 1: Aadhar's disbursements remained highest at INR 35bn in H1FY25...**



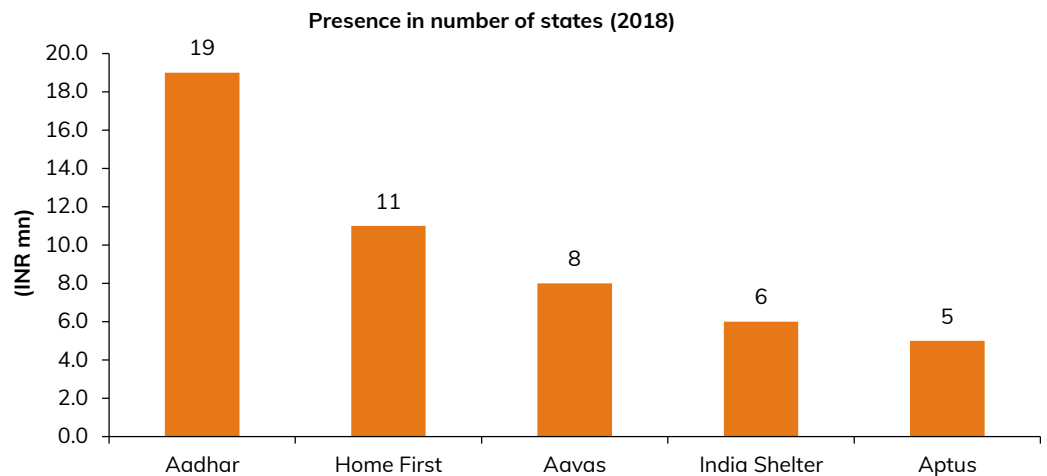
Source: Company data, I-Sec research

**Exhibit 2: Its AUM at INR 228bn as on Sep'24 is highest among AHFC players, notably with better portfolio yields**



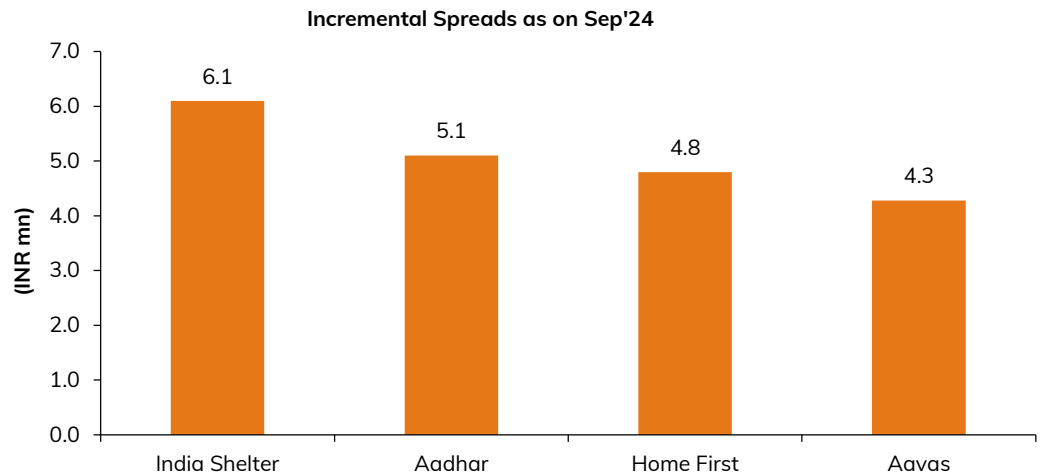
Source: Company data, I-Sec research

**Exhibit 3: Early entry into under-penetrated states, as reflected in its presence in 19 states by 2018, enabled it to onboard new customers at its desired yields**



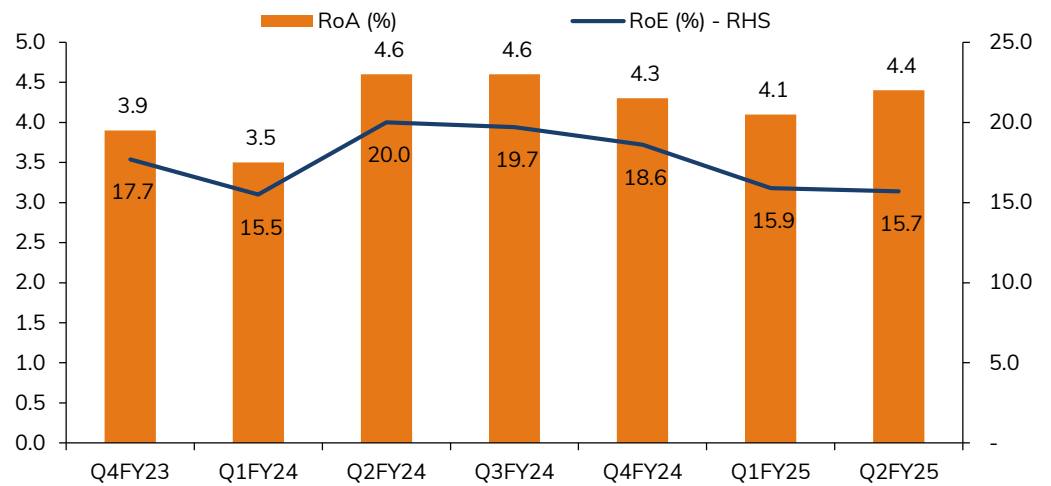
Source: Company data, I-Sec research

**Exhibit 4: Aadhar's incremental spread continued to be one of the best even during rising rate cycle**



Source: Company data, I-Sec research

**Exhibit 5: Dip in RoE on account of IPO proceeds in Q1FY25**



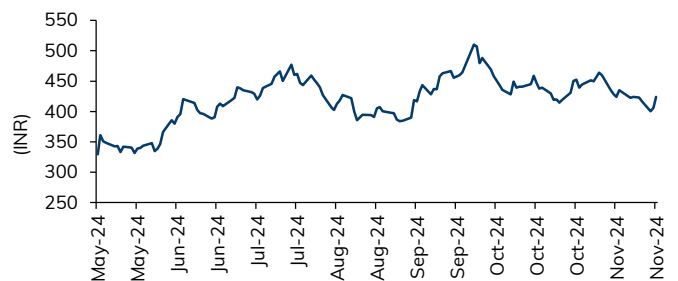
Source: Company data, I-Sec research

**Exhibit 6: Shareholding pattern**

| %                       | May-24 | Jun-24 | Sep-24 |
|-------------------------|--------|--------|--------|
| Promoters               | 76.5   | 76.5   | 75.9   |
| Institutional investors | 11.7   | 12.7   | 13.8   |
| MFs and others          | 2.7    | 5.0    | 5.8    |
| FIs/Banks               | 2.6    | 2.4    | 2.4    |
| Insurance               | 1.1    | 1.1    | 1.2    |
| FIIIs                   | 5.3    | 4.2    | 4.3    |
| Others                  | 11.8   | 10.8   | 10.3   |

Source: Bloomberg

**Exhibit 7: Price chart**



Source: Bloomberg

## Financial Summary

### Exhibit 8: Profit & Loss

(INR mn, year ending March)

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

Source Company data, I-Sec research

### Exhibit 9: Balance sheet

(INR mn, year ending March)

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

Source Company data, I-Sec research

## Exhibit 10: Key Ratios

(Year ending March)

|   | FY23A    | FY24A    | FY25E    | FY26E    |
|---|----------|----------|----------|----------|
| <b>AUM and Disbursements</b>                  |          |          |          |          |
| AUM (INR mn)                                  | 1,72,228 | 2,11,000 | 2,57,118 | 3,10,462 |
| On-book Loans (INR mn)                        | 1,38,515 | 1,69,029 | 2,05,694 | 2,48,370 |
| Off-book Loans (INR mn)                       | 33,714   | 41,971   | 51,424   | 62,092   |
| Disbursements (INR mn)                        | 59,026   | 70,720   | 85,118   | 99,680   |
| Sanctions (INR mn)                            | -        | -        | -        | -        |
| Repayments (INR mn)                           | 34,565   | 31,948   | 39,000   | 46,336   |
| <b>Growth (%):</b>                            |          |          |          |          |
| Total AUM (%)                                 | 17       | 23       | 22       | 21       |
| Disbursements (%)                             | 48       | 20       | 20       | 17       |
| Sanctions (%)                                 | -        | -        | -        | -        |
| Repayments (%)                                | 23       | 19       | 18       | 18       |
| Loan book (on balance sheet) (%)              | 16       | 22       | 22       | 21       |
| Total Assets (%)                              | 16       | 15       | 21       | 21       |
| Net Interest Income (NII) (%)                 | 28       | 25       | 25       | 18       |
| Non-interest income (%)                       | -24      | 99       | 34       | 10       |
| Total Income (net of interest expenses) (%)   | 24       | 29       | 25       | 18       |
| Operating Expenses (%)                        | 21       | 26       | 19       | 18       |
| Employee Cost (%)                             | 12       | 24       | 18       | 17       |
| Non-Employee Cost (%)                         | 42       | 30       | 21       | 19       |
| Pre provisioning operating profits (PPoP) (%) | 25       | 30       | 29       | 17       |
| Provisions (%)                                | 1        | -16      | 33       | 6        |
| PBT (%)                                       | 23       | 38       | 29       | 18       |
| PAT (%)                                       | 22       | 37       | 29       | 18       |
| EPS (%)                                       | 22       | 37       | 19       | 18       |
| <b>Yields, interest costs and spreads (%)</b> |          |          |          |          |
| NIM on loan assets (%)                        | 8.8      | 9.3      | 9.5      | 9.2      |
| NIM on IEA (%)                                | 7.5      | 8.2      | 8.6      | 8.4      |
| NIM on AUM (%)                                | 7.1      | 7.4      | 7.6      | 7.4      |
| Yield on loan assets (%)                      | 13.8     | 14.8     | 14.8     | 14.6     |
| Yield on IEA (%)                              | 11.8     | 13.0     | 13.5     | 13.3     |
| Yield on AUM (%)                              | 12.1     | 12.6     | 12.5     | 12.3     |
| Cost of borrowings (%)                        | 7.1      | 7.6      | 7.8      | 7.9      |
| Interest Spreads (%)                          | 6.7      | 7.2      | 7.1      | 6.7      |
| <b>Operating efficiencies</b>                 |          |          |          |          |
| Non interest income as % of total income      | 4.7      | 7.2      | 7.7      | 7.2      |
| Cost to income ratio                          | 37.7     | 34.9     | 33.1     | 33.1     |
| Op.costs/avg assets (%)                       | 2.7      | 3.0      | 3.0      | 2.9      |
| Op.costs/avg AUM (%)                          | 2.7      | 2.8      | 2.7      | 2.6      |
| Number of employees                           | 5,618    | 5,985    | 6,642    | 7,067    |
| No of branches (x)                            | 469      | 523      | 583      | 623      |
| Salaries as % of non-interest costs (%)       | 68       | 64       | 64       | 64       |
| NII /employee (INR mn)                        | 2.0      | 2.4      | 2.7      | 3.0      |
| AUM/employee(INR mn)                          | 31       | 35       | 39       | 44       |
| AUM/ branch (INR mn)                          | 367      | 403      | 441      | 498      |
| <b>Capital Structure</b>                      |          |          |          |          |
| Average gearing ratio (x)                     | 3.3      | 3.2      | 2.8      | 2.6      |
| Average leverage ratio (x)                    | 4.5      | 4.4      | 3.9      | 3.7      |
| CAR (%)                                       | 42.7     | 45.6     | 57.0     | 55.5     |
| Tier 1 CAR (%)                                | 41.7     | 44.7     | 56.2     | 54.9     |
| Tier 2 CAR (%)                                | 1.1      | 0.9      | 0.8      | 0.7      |
| RWA (estimate) - INR mn                       | 83,391   | 99,467   | 1,13,132 | 1,36,603 |
| RWA as a % of loan assets                     | 59       | 59       | 55       | 55       |

Source Company data, I-Sec research

|  | FY23A | FY24A | FY25E | FY26E |
|--|-------|-------|-------|-------|
| <b>Asset quality and provisioning</b>          |       |       |       |       |
| GNPA (%)                                       | 1.2   | 1.2   | 1.3   | 1.3   |
| NNPA (%)                                       | 0.8   | 0.8   | 0.9   | 0.9   |
| GNPA (INR mn)                                  | 1,625 | 1,983 | 2,674 | 3,229 |
| NNPA (INR mn)                                  | 1,068 | 1,304 | 1,765 | 2,131 |
| Coverage ratio (%)                             | 34    | 34    | 34    | 34.00 |
| Credit Costs as a % of avg AUM (bps)           | 102   | 44    | 35    | 31    |
| Credit Costs as a % of avg on book loans (bps) | 129   | 56    | 43    | 38    |
| <b>Return ratios</b>                           |       |       |       |       |
| RoAA (%)                                       | 3.5   | 4.2   | 4.6   | 4.5   |
| RoAE (%)                                       | 15.9  | 18.4  | 17.8  | 16.4  |
| RoAAUM (%)                                     | 3.4   | 3.9   | 4.1   | 4.0   |
| <b>Valuation Ratios</b>                        |       |       |       |       |
| No of shares (mn)                              | 395   | 395   | 427   | 427   |
| No of shares (fully diluted) - mn              | 395   | 395   | 427   | 427   |
| ESOP Outstanding (mn)                          | -     | -     | -     | -     |
| EPS (INR)                                      | 13.8  | 19.0  | 22.6  | 26.6  |
| EPS fully diluted (INR)                        | 13.8  | 19.0  | 22.6  | 26.6  |
| Price to Earnings (x)                          | 31    | 22    | 19    | 16    |
| Price to Earnings (fully diluted) (x)          | 31    | 22    | 19    | 16    |
| Book Value (fully diluted) - INR               | 94    | 113   | 149   | 176   |
| Adjusted book value (INR/l)                    | 92    | 110   | 146   | 172   |
| Price to Book (x)                              | 4.5   | 3.8   | 2.9   | 2.4   |
| Price to Adjusted Book (x)                     | 4.6   | 3.9   | 2.9   | 2.5   |

Source Company data, I-Sec research

## Exhibit 11: Key Metrics

(Year ending March)

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

Source Company data, I-Sec research

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