

16 Sep 2025 15:02:13 ET | 17 pages

Aadhar Housing Finance (AADA.NS)

What's New, Pivotal, Incrementally Relevant from HK Investor Meetings

CITI'S TAKE

We hosted MD&CEO, CFO of Aadhar Housing for investor meetings in Hong Kong. **Pivotal, incrementally relevant insights:** [1] Strategically positioning as low-income housing financier (ATS of <Rs1.5mn) reorienting distribution strategy across distinct 'Urban' and 'Emerging' markets. [2] Urban/Emerging 'A' markets target volume/AUM growth with better credit, while 'B' & 'C' prioritize value and enhanced risk-adjusted returns for bottom-line contribution. [3] Confidently targets 20-22% AUM growth over the medium term supported by 17-20% disbursements growth. [4] Realized funding cost benefits will be passed on, aiming for stable 5.5% medium-term spreads. [5] Benign credit cost outlook (25-28bps) supported by stable bounce rates with proactive caution for mono-line export-linked customers and single-digit growth in five states (WB/KL/OD/BR/JH) with unique state-specific challenges. [6] Fresher apprenticeship program addresses field-level attrition; 4.7% ESOP pool also driving retention. Trades at 2.6x FY26E book for >4.4%/16% RoA/RoE. We already have [90D+ CW open](#) with TP of Rs650.

Strategic niche positioning as low-income housing financier (eschewing wider affordable housing segment)— Aadhar is strategically positioning as niche low-income housing financier (ATS of <Rs1.5mn) eschewing the wider affordable housing segment (including ticket size of Rs1.5-3.5mn). Amidst rising incremental ATS (~Rs1.3mn) and lower incremental yields (13.4% vs 13.8% book), management reoriented its distribution strategy with differential focus on urban and emerging markets. Urban markets and emerging 'A' aim for volume and AUM growth with better credit. Conversely, emerging 'B' & 'C' target value and enhanced risk-adjusted returns for bottom-line contribution. Emerging markets yield higher RoA (5.2-5.4% vs Urban 3.0-3.2%), potentially elevating RoE to 17.5-18.0% with 4.0-4.5x leverage (AA+ rating).

Confident of 20-22% AUM growth in the medium term — Aadhar confidently targets 20-22% AUM growth over the medium term, aiming for Rs450-500bn AUM over 3 years despite already surpassing Rs250bn and 300k active customers. This will be fueled by 17-20% disbursements growth. Post-achieving this scale, AUM expansion is projected to moderate to 16-18%.

Earnings Summary

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	7,496	18.35	37.1	29.3	4.8	18.4	na
2025A	9,118	20.67	12.6	26.0	3.6	16.9	na
2026E	11,117	25.18	21.8	21.4	3.1	16.0	na
2027E	13,650	30.92	22.8	17.4	2.6	16.7	na
2028E	16,545	37.48	21.2	14.4	2.2	17.1	na

Source: Powered by dataCentral

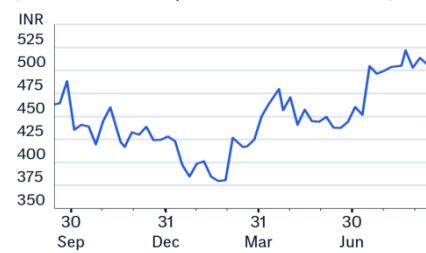
Buy

Catalyst Watch: Upside, expires 26-OCT-25

Price (16 Sep 25 15:30)	Rs537.80
Target price	Rs650.00
Expected share price return	20.9%
Expected dividend yield	0.0%
Expected total return	20.9%
Market Cap	Rs232,890M US\$2,643M

Price Performance

(RIC: AADA.NS, BB: AADHARHF IN)



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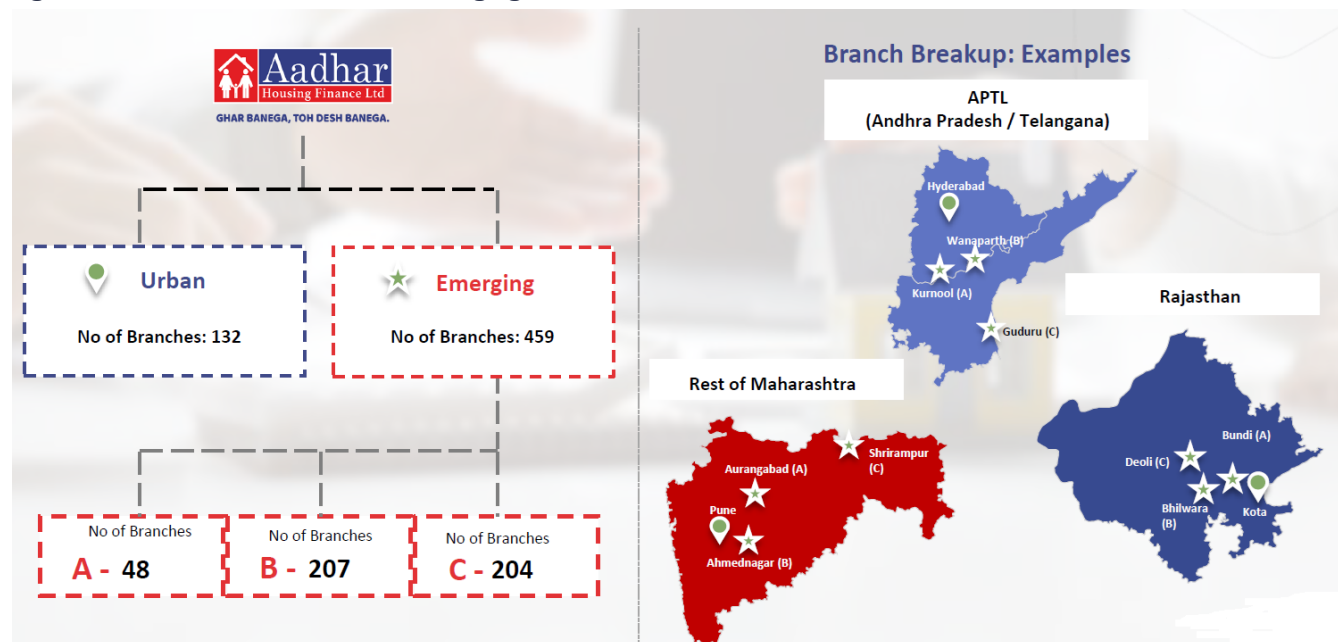
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Effectively manages distinct market dynamics of urban and emerging markets – Aadhar effectively manages distinct market dynamics, with incremental disbursement ATS varying across Urban (Rs1.7mn), Emerging Category A (Rs1.1mn), B (Rs1.0mn), and C (Rs0.8mn) markets, leading to an overall company ATS of Rs1.27mn. System-wide restrictions exist on ticket sizes (eg, Cat A at Rs3.5mn, Cat B at Rs2.5mn and Cat C at Rs1.5mn), with CBO approval needed for exceptions. Resources are actively re-allocated to scale emerging markets, which initially performed at 75-80% of target but have now reached 90% within five months. The company anticipates achieving 100% targeted levels for ticket size balancing. Currently, disbursements are skewed 53-55% towards urban markets, with a strategic goal to shift this to ~55% in favor of emerging markets, leveraging their incremental yield premium of ~200/300/400bps over urban areas. Urban markets typically feature a higher salaried segment (~65-70%) and increased reliance on external intermediaries for sourcing. Breakeven points for Urban and Emerging A markets are projected at 12-15 months, while ultra micro/deeper impact Emerging C branches achieve breakeven in 9 months. Small branches, with annual operating cost of Rs1.2-1.4mn, are encouraged to generate Rs40-50mn annual business, enabling them to breakeven in 9 months and become self-sustainable within 15 months.

Figure 1. Distinct focus on urban and emerging markets

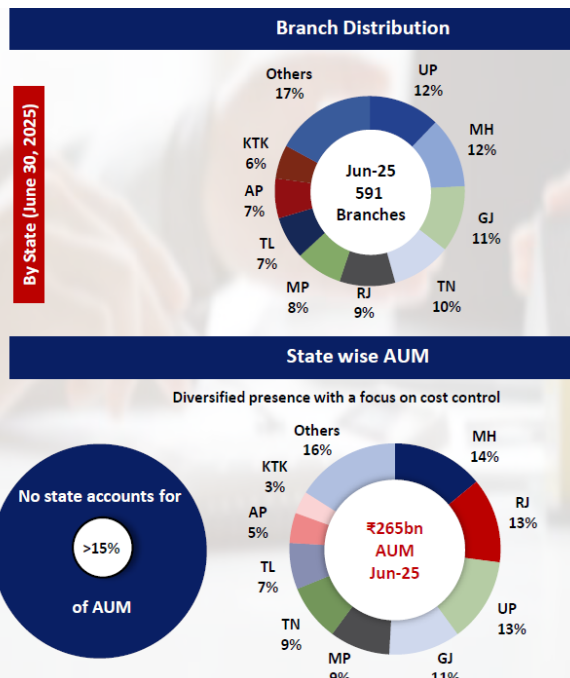
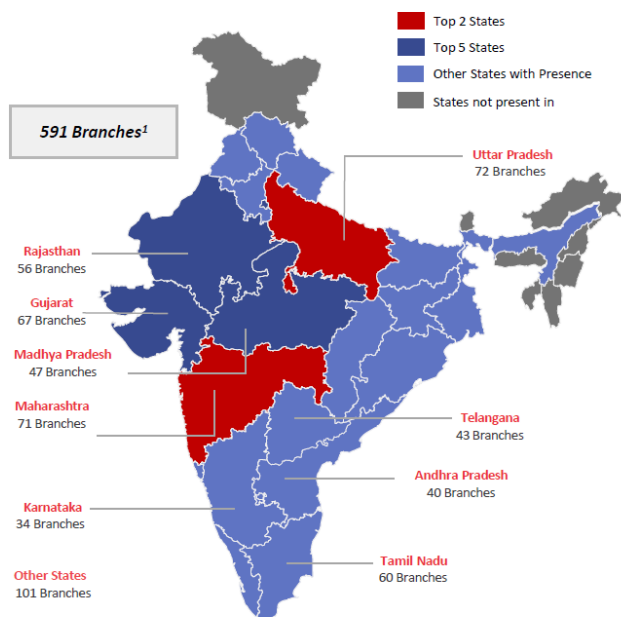


Source: Company Reports

Strategy shifts from widening coverage to deepening presence and enhancing data science maturity – Currently, 22% (132) of its branch network serves urban markets. The plan is to expand to 620 branches by FY26, growing to >750 in 3 years post-FY26 by adding ~50 annually (~15 urban, ~35 emerging). Having established state footprints (recent entry into Assam), no new states will be added. Incremental branch additions will be primarily targeted to deepen its presence in top 6 states. Each state has unique dynamics with respect to state laws, land laws, bylaws, customer behavior, and consumer profile. Also, endeavor will continue to

cap the AUM in any particular state below 15%. Acknowledging their unique dynamics, AUM / distribution in any single state will be capped below 15%.

Figure 2. Shift from widening coverage to deepening presence



Source: Company Reports

Portfolio rebalancing boosting LAP & self-employed share – The firm's strategic thrust involved escalating its LAP proportion to 26%, driven by LAP growth surpassing HLs, given its 150bp higher risk-adjusted spread. This product, with an ATS of Rs0.8mn, sees distinct market penetration: 16% LAP in urban vs. 50:50 LAP:HL in emerging markets. Enhanced focus on emerging markets will further elevate LAP's share, though a 28% cap is targeted. Should LAP proportion exceed 70%, sell-down options will be assessed to reduce on-book exposure. Concurrently, the self-employed segment's share will be scaled up by 1% p.a., aiming for 50% (vs. current 44%).

Figure 3. Scaling up LAP and self-employed share

AUM and disbursements (Rs mn)		3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY	QoQ
Assets under management	INR mn	199,000	211,209	217,263	228,175	239,759	255,310	265,241	22.1%	3.9%
Home Loans	INR mn	150,738	157,951	162,455	169,914	177,595	188,181	194,404	19.7%	3.3%
Other Mortgage Loans		47,914	53,258	54,808	58,261	62,164	67,126	70,837	29.2%	5.5%
AUM mix										
Home Loans	%	75.7%	74.8%	74.8%	74.5%	74.1%	73.7%	73.3%	-1.5%	-0.4%
Other Mortgage Loans	%	24.1%	25.2%	25.2%	25.5%	25.9%	26.3%	26.7%	1.5%	0.4%
AUM mix										
Salaried	%	57%	57%	57%	56%	56%	56%	56%	-0.8%	0.0%
Non-Salaried		43%	43%	43%	44%	44%	44%	44%	0.8%	0.0%
Disbursements	INR mn	17,410	21,682	14,967	20,356	20,936	25,663	19,786	32%	-23%

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Source: Citi Research, Company Reports

Benign credit cost outlook; limited volatility in bounce rates – Mgmt. reiterated that the 1Q GS3 rise of 30bps QoQ to 1.4% was seasonal, predominantly stemming from forward flows from GS2, which simultaneously moderated by 33bps QoQ to 3.7%. Expressing confidence in recovery trends, it anticipates normalization in subsequent quarters with conviction being bolstered by the limited volatility (not exceeding 50bps) in bounce rate behavior, recognized as its primary line of defense. DPD trends across LAP and self-employed segments remain stable. While recent floods in North India may impact bounce rates in some affected regions, the overall material impact is not foreseen, with other geographies maintaining stability. It projects a medium-term credit cost of 25-28bps, even amidst deeper penetration, with Rs500mn in management overlay provisions further cushioning potential unforeseen risks.

Figure 4. Proactive caution in few segments/states; benign credit cost outlook

Asset quality (Rs mn)		3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY	QoQ
Gross Stage 3	INR mn	2,308	1,869	2,372	2,500	2,770	2,229	3,007	26.8%	34.9%
ECL Provision Stage 3	INR mn	854	771	898	884	985	768	976	8.7%	27.1%
Net Stage 3	INR mn	1,454	1,098	1,474	1,616	1,785	1,461	2,031	37.8%	39.0%
Gross Stage 3 %	%	1.43%	1.11%	1.30%	1.30%	1.40%	1.10%	1.40%	0.10%	0.30%
Net Stage 3 %	%	0.91%	0.65%	0.85%	0.89%	0.93%	0.71%	0.95%	0.10%	0.23%
Coverage ratio - Stage 3	%	37%	41%	38%	35%	35.6%	34%	32%	-5.40%	-2.00%
Gross Stage 2		6,143	6,189	6,437	6,812	7,406	8,269	7,922	23.1%	-4.2%
Gross Stage 2 %	%	3.8%	3.6%	3.7%	3.7%	3.8%	4.0%	3.7%	0.00%	-0.33%
Credit cost / avg. AUM		0.25%	-0.08%	0.35%	0.24%	0.32%	0.10%	0.41%	0.06%	0.31%

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Source: Citi Research, Company Reports

Navigating Risk: proactive cautions for some industries/geographies –

Management proactively applies caution to specific customer profiles: those with mono-line income tied to export-oriented industries facing tariff impacts (eg, textiles, gems & jewellery in Surat, Tirupur, Ludhiana). Five states (WB, Kerala, Odisha, Bihar, Jharkhand) are designated for single-digit growth due to unique state-specific challenges and risk to portfolio performance. While stress was observed in 545 customers (<0.2% of customer base) of 7.5k MFI-overlapping customers, management believes MFI stress has peaked. Given the higher emotional quotient with secured loans versus unsecured MFI, no overflow risk from MFI stress into secured affordable housing is foreseen.

Robust In-House Framework: Credit, Underwriting, Risk & Collections

- Aadhar employs a comprehensive in-house ecosystem for credit, underwriting, risk management, and collections.
- Every state has Regional Processing Units (15 RPU) to process salaried applications ensuring standardization, cost optimization, and a 2-3 day TAT.
- Self-employed customers receive decentralized, branch-led underwriting via 550 credit managers focusing on cash-flow assessment, with a 5-6 day TAT and approval authority up to Rs0.8mn for L1 deviations.
- An in-house legal team scrutinizes property enforceability, complemented by a 350-strong technical team (incl. civil engineers) for site and construction evaluations.

- Over 1,500 personnel are deployed in collections (526 on-roll), supported by 22 in data analytics, 70 in technology, and 15 in a Risk Containment Unit (RCU) for suspicious document verification.
- A dual reporting structure organization-wide proactively mitigates fraud, resulting in only 94 customer-induced fraud cases since inception, with virtually no employee-induced incidents.
- Notably, 8% of consumers are new to credit.

Realized funding cost benefit to be passed on; medium-term stable spreads guided at 5.5% – In 1QFY25, the firm achieved a 17bp drop in CoF to 8.0%, widening spreads to 5.8%. Anticipated rate cuts on bank borrowings and a recent credit rating upgrade are poised to further reduce CoB to 7.85–7.9%. This CoF benefit will likely be passed to customers via ~20bps lower lending rates in 2H. With 75% of AUM and borrowings on floating rates, interim FY26 spreads may reach 5.7%. However, active competition in urban/emerging ‘A’ and narrowing book vs. incremental yield gaps (13.8% vs. 13.4%) will compress spreads by 8–10bps p.a., stabilizing them at 5.5% in steady state.

Regarding borrowing tenor, bank loans are 10-yr, NHB 7–10-yr, and NCDs typically 3-yr, though rating upgrade enables NCD tenor extension. NHB provides both open market (20–30bps cheaper than bank) and scheme-specific borrowing. While 50% of outstanding 24% NHB debt is open market, incremental scheme-specific borrowing (5.2–5.5% CoF) will cap at 25%, settling average NHB CoB at 6.95–7.0%. Incrementally, borrowing may skew a few % points towards NCDs due to the rating upgrade.

Figure 5. Spreads to stabilize at 5.5%; operating efficiency to be evident

Key ratios		#DIV/0!	111A	129A	134A	139A	145A	150A	YoY	QoQ
Yield on assets (reported)	%	14.0%	13.9%	14.0%	14.0%	13.9%	13.9%	13.8%	-0.20%	-0.10%
Cost of borrowings (reported)	%	7.8%	8.0%	8.0%	8.1%	8.1%	8.2%	8.0%	0.01%	-0.20%
Spread (reported)	%	6.2%	5.9%	6.0%	5.9%	5.8%	5.7%	5.8%	-0.21%	0.10%
NIM on AUM (calculated)	%	6.9%	6.7%	6.8%	7.1%	7.0%	6.7%	6.7%	-0.12%	-0.05%
Cost to income ratio	%	35%	41%	37%	36%	35%	38%	36%	-0.63%	-1.81%
Cost to disbursement	%	8.6%	8.1%	10.7%	8.5%	8.3%	7.7%	9.5%	-1.23%	1.81%
Cost to assets	%	3.7%	4.0%	3.5%	3.6%	3.2%	3.5%	3.2%	-0.30%	-0.32%
ROA (reported)	%	4.6%	4.3%	4.1%	4.4%	4.4%	4.4%	4.0%	-0.10%	-0.40%
ROE (reported)	%	19.7%	18.6%	15.9%	15.7%	15.8%	15.9%	14.7%	-1.20%	-1.20%
CRAR	%	39.7%	42.3%	48.9%	46.6%	46.1%	44.6%	44.6%	-4.30%	0.00%

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Source: Citi Research, Company Reports

Enhancing operating leverage and efficiencies – Cost to AUM remains higher than peers due to its extensive in-house teams for sourcing, technical verification, and collections, coupled with deep penetration across 22 states—a divergence from some peers’ hybrid vendor collection models. However, with operating leverage now manifesting, Cost/Income is projected to improve by 40–50bps p.a. from FY25’s 36.4% (36.1% in 1Q), targeting a reduction to 35%. Concurrently, Cost to Assets, driven by targeted 20–22% AUM growth, is expected to decrease by 8bps annually, with an initial objective to fall below 3%.

Elevating fee income through login fees and cross-sell initiatives – Aadhar generates fee income at 0.9% of AUM and 2.2% on disbursements, predominantly from processing fees (1.5% for LAP, 1.1% for others) and a Rs3.5k per file login fee. To boost productivity, reject scorecards at the funnel’s top have improved

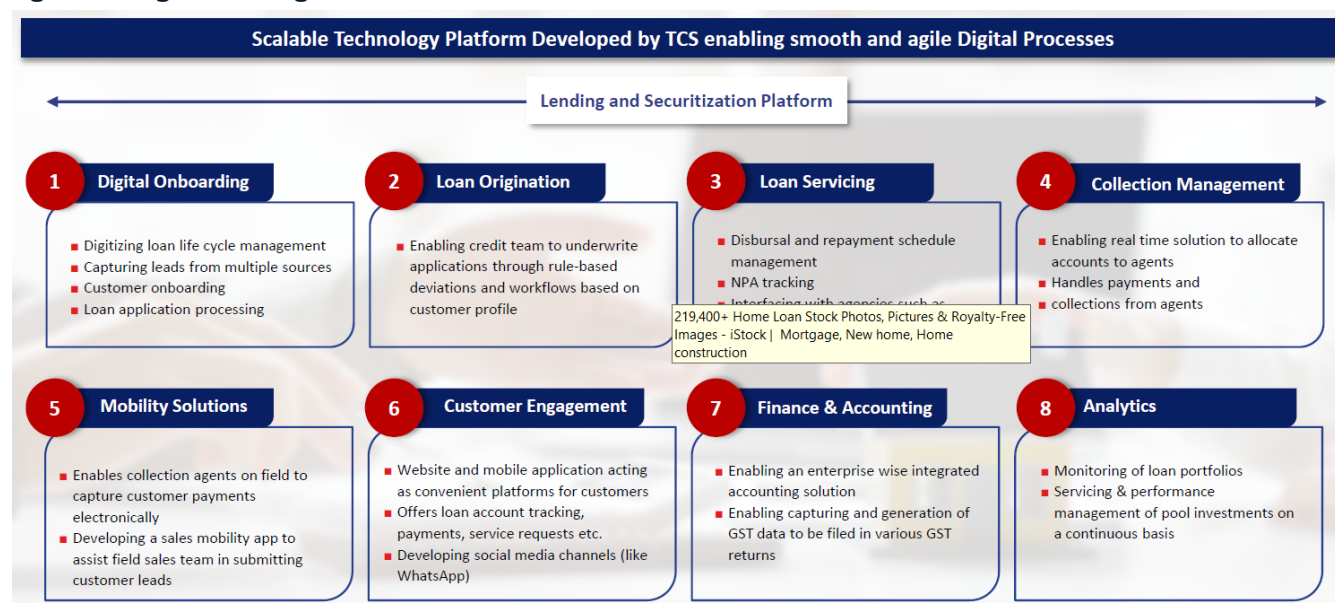
sanction-to-login ratios to 65% and disbursement-to-login ratios to 42-45%. The firm also actively cross-sells property insurance (100% coverage on plot loans) and life insurance (offered to >90% of customers), having discontinued health, personal accident, and loss of employment insurance offerings.

Stability: Blackstone's stake re-Alignment & leadership tenacity – Blackstone's strategic transfer of 65% stake to another managed entity and ~10% to Aight Capital (an investment vehicle managed by Lunate Group and backed by ADQ) decisively eases the persistent supply overhang, signaling a clear intent to extend its holding beyond the original fund life. Blackstone maintains three board seats. Addressing concerns regarding senior management exit risks, it was underscored that the MD & CEO reappointment is not due until Dec 2027, and most Business Heads exhibit a robust average vintage of 8-9 years.

PMAY – Core to its social objective – Aadhar's social objective is central, significantly advanced through its active participation in PMAY scheme. Under PMAY 1.0, a substantial 46% of its customer base garnered subsidy benefits totaling Rs17bn. Furthermore, it remains active under the newly launched PMAY 2.0, having already secured Rs130mn in subsidies (represents one-fifth annually of 5-years approved subsidy across 4k customers).

Single layered, end-to-end integrated core tech stack – Leverages a TCS-enabled, single-layered core tech stack providing end-to-end integration across digital onboarding, LO, LS, CE, Collections, Finance, and Analytics modules. These modular, plug-and-play components allow for agile upgrades and revamps. The platform is further augmented with digital capabilities enhancing lead generation, acquisition, processing, and servicing. Its sales mobility app proactively rejects ~9-10% of leads at the top of the funnel, significantly sharpening credit assessment. This has pruned the TAT for file submission to credit assessment to a mere 0.7 days (down from 1.5 days). Crucially, credit risk underwriting scorecards are seamlessly integrated with risk-based pricing, ensuring precise 'right-pricing' of risks.

Figure 6. Integrated and agile tech stack



Source: Company Reports

Mitigating regret attrition, optimizing retention – Aadhar experiences 15-17% regret attrition rate at the company level, escalating to 38-40% at field level. Notably, this outflow primarily directs towards e-commerce entities, rather than competitors. Furthermore, in Emerging B & C locations, many DSA intermediaries are its former employees. Conversely, mid-to-senior mgmt. attrition remains contained – only two departures over the past five years (one company-induced, one self-initiated). For zonal managers and business heads, the average vintage approximates seven years. To proactively mitigate field-level attrition, the firm now recruits freshers for an 18-month apprenticeship program, encompassing even technology and data analytics roles. This structure demonstrably enhances retention and proves cost-efficient, as 75% of related expenses are offset by CSR allocations, with only 25% impacting the P&L. Furthermore, BT-Out is controlled at 5.3%, successfully remaining below the 6% target and outperforming industry peers.

ESOPs: Driving Performance & Retention – ESOP pool, constituting 4.7% of the company, is thoughtfully allocated across senior and middle management, alongside top-performing front-end teams. A significant portion, 40-45%, is already vested or exercised, indicating sustained incentivization. Furthermore, a fresh 1.5% of the total ESOP pool was strategically created within the last year, underscoring ongoing commitment to talent retention and motivation.

Figure 7. Financial Model

(Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Income statement					
Net interest income	13,050	15,820	18,869	23,033	27,674
- Interest Income	22,917	27,558	32,886	39,472	47,179
- Interest expense	9,867	11,738	14,017	16,439	19,504
Non-interest income	2,953	3,531	4,336	4,937	5,731
- Fees income	1,742	1,848	2,484	2,900	3,491
- Other	1,211	1,683	1,852	2,037	2,240
Total operating income	16,003	19,351	23,205	27,970	33,406
Total operating expenses	5,995	7,048	8,177	9,461	10,852
- Employee expense	4,035	4,645	5,342	6,143	7,003
- Other operating expense	1,960	2,403	2,836	3,318	3,849
Pre-provision operating profit (PPOP)	10,008	12,303	15,027	18,509	22,554
Total provisions	412	571	683	896	1,206
Profit before tax	9,596	11,733	14,344	17,613	21,348
Tax	2,100	2,615	3,227	3,963	4,803
Profit after tax	7,496	9,118	11,117	13,650	16,545
Balance sheet					
Shareholders' funds	44,498	63,723	74,840	88,490	105,034
- Share capital	3,948	4,314	4,314	4,314	4,314
- Others	40,550	59,409	70,526	84,176	100,721
Other borrowings	139,596	163,224	196,195	236,416	283,699
Other liabilities & Provisions	6,837	5,293	5,407	5,538	5,649
Total liabilities and equity	190,931	232,240	276,443	330,444	394,382
Loans	169,029	204,841	248,172	299,335	359,640
Investments and cash	17,354	22,366	23,495	25,703	28,042
Other assets	4,547	5,033	4,775	5,405	6,701
Total assets	190,931	232,240	276,443	330,444	394,382
AUM	211,209	255,310	309,317	373,086	448,248
Disbursement	70,724	81,922	97,487	116,985	139,712
Key ratios					
BVPS, Rs	113	148	173	205	243
EPS, Rs	19	21.1	25.8	31.6	38.4
EPS growth	38%	11%	22%	23%	21%
ROA	4.2%	4.3%	4.4%	4.5%	4.6%
ROE	18.4%	16.9%	16.0%	16.7%	17.1%
Gross NPA %	1.1%	1.1%	1.2%	1.1%	1.1%
Net NPA %	0.6%	0.7%	0.8%	0.7%	0.7%
Coverage %	41.3%	34.5%	35.0%	37.0%	39.0%
AUM growth	23%	21%	21%	21%	20%
Disbursement growth	20%	16%	19%	20%	19%
Assets / equity	4.3	3.6	3.7	3.7	3.8
Tier 1 CAR	41.2%	44.1%	43.5%	43.0%	42.8%
Total CAR	42.3%	44.6%	43.9%	43.4%	43.1%
Yield on AUM	12.0%	11.8%	11.6%	11.6%	11.5%
Cost of borrowing	7.6%	7.8%	7.8%	7.6%	7.5%
Spread	7.2%	6.9%	6.6%	6.7%	6.7%
NIM on AUM	6.8%	6.8%	6.7%	6.8%	6.7%
Fee / AUM	0.98%	0.87%	0.88%	0.85%	0.85%
Cost / income	38%	37%	35%	34%	32%
Cost / assets	3.4%	3.3%	3.2%	3.1%	3.0%
Credit cost / avg. AUM	0.22%	0.24%	0.24%	0.26%	0.29%

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Source: Citi Research, Company Reports

Aadhar Housing Finance

Company description

Aadhar Housing Finance Limited is an industry-leading retail-focused affordable housing finance company in India.

Investment strategy

We rate Aadhar Housing shares as Buy. We expect Aadhar shares to command a premium given superior and projected sustainable RoA/RoE of >4.5%/16.5% over FY25-27E. Aadhar differentiates itself with: [1] scale with granularity; [2] non-conventional diversified distribution; [3] cost-efficient graded branch structure, phased expansion; and [4] tech stack improving productivity & analytics.

Valuation

Using a two-stage Gordon Growth model, we arrive at a target price of Rs650 per share for Aadhar assuming CoEs of 12.2%, medium-term RoEs of 16%, and high growth phase of 10 years with expected growth of 20%. We assign price-to-book of 3.3x 9MFY27E BV.

Risks

Key downside risks for Aadhar are: the build-up of stress in LAP over and above expectations; and roll-back from elevated GS3 getting disrupted due to activity slowdown also leading to growth slowdown.

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Appendix A-1

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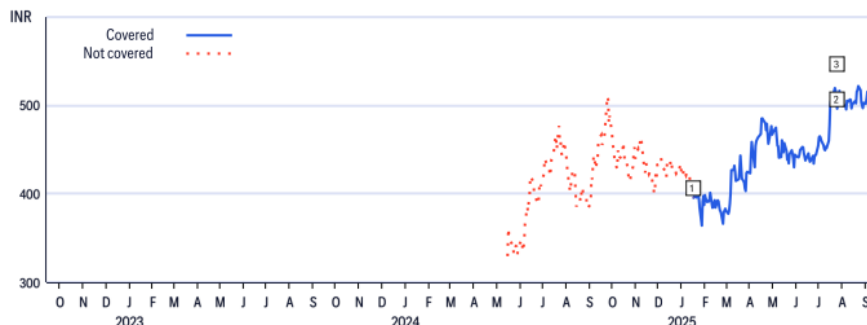
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IMPORTANT DISCLOSURES

Aadhar Housing Finance (AADA.NS)

Ratings and Target Price History
Fundamental Research

Analyst: Kunal Shah



Date	Rating	Target Price	Closing Price
16-Jan-25 05:30:47	*1	*565.00	395.50

*Indicates Change

Date	Rating	Target Price	Closing Price
25-Jul-25 14:58:38	1	*605.00	496.40

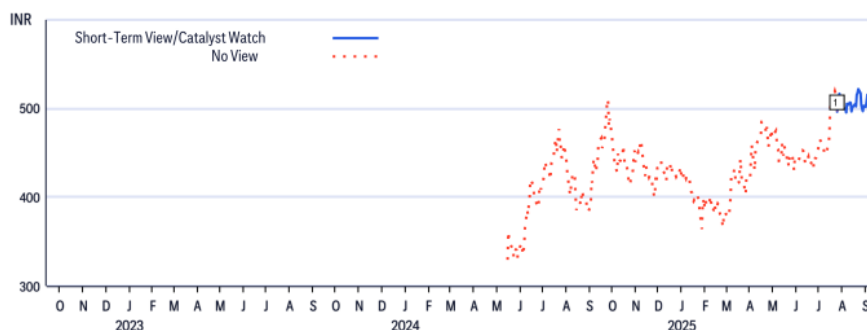
Date	Rating	Target Price	Closing Price
27-Jul-25 20:37:13	1	*650.00	496.40

Rating/target price changes above reflect Eastern Time

Aadhar Housing Finance (AADA.NS)

Short-Term View/Catalyst Watch Research

Analyst: Kunal Shah



Date	Action	Expected Direction	Duration	Closing Price
27-Jul-25 16:37:13	Add CW	Upside	90 Days	496.40

CW - Catalyst Watch, STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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% of companies in each rating category that are investment banking clients	36%	39%	25%	39%	34%	35%

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