

Aadhar Housing Finance Limited

Company Overview:

The company primarily focus on providing mortgage loans to economically weaker and low-to-middle income customers in India. Its target market is individuals seeking small ticket sized loans of less than Rs 15 lakhs. The average loan size offered by the company is Rs 9 lakhs to Rs 10 lakhs with an average loan-to-value ratio of 58.3% as of Dec'23. In 9MFY24, the company had the highest assets under management (AUM) and net worth among its peers. In FY23, the company also had the highest number of live accounts. The company has a presence across 20 States and Union Territories which is the most extensive coverage among its peers. The diversified reach of the company is well positioned to meet the specific needs of target customers across geographies in urban and semi-urban areas.

Key Highlights:

1. Major player in affordable housing: The company has a seasoned business model showcasing strong resilience through different business cycles. Its customer-centric lending services aim to improve the economic well-being of its customers, especially those earning less than Rs 50,000 per month. The company provides loans for affordable housing schemes like Pradhan Mantri Awas Yojana benefiting those in urban and semi-urban areas. As of Mar'23 and Dec'23, Rs 13,049.7 cr or 75.8% and Rs 14,488.0 cr or 72.9% of the Gross AUM were from these groups. As of Mar'23 and Dec'23, 87.1% and 85.5% of the live accounts were from these groups.

2. A robust comprehensive system for credit underwriting, collections and monitoring asset quality: The company has a "risk appetite statement" that sets out the acceptable levels and types of risk. The company has specialized teams for credit underwriting, due diligence, and fraud control. As of Mar'23 and Dec'23, the loan-to-value on Gross AUM on an outstanding basis was 57.8% and 58.3%. Further, it has an in-house collections team to ensure timely collections, the collection efficiency as of Dec'23 stood at 99.1%. As of Mar'21, Mar'22, Mar'23, Dec'22 and Dec'23, the GNPA's accounted for 1.1%, 1.5%, 1.2%, 1.8% and 1.4% respectively while Net Retail NPAs accounted for 0.7%, 1.1%, 0.8%, 1.3% and 1.0% respectively of Retail AUM.

3. Strong parentage and professional management team: BCP Topco, Promoter, is an affiliate of funds managed and/or advised by affiliates of Blackstone Group Inc currently holds 98.72%. It has a strong and experienced management team comprising sixteen members. The management team brings a diverse array of backgrounds with a mix of professionals from the financial services industry.

4. Geographical Presence: The company has a wide-spread reach with 487 branches and 109 sales office networks covering 20 States and Union Territories of India. Almost 56.3% of the branches and 55.9% of sales offices are spread across five states and the remaining 43.7% and 44.1% are spread across 15 states. The company has actively expanded the branch and sales office network from 310 branches in Mar'21 to 487 branches in Dec'23. The company's gross AUM is spread across India with only 27.6% of the Gross AUM coming from the top two states as of Dec'23.

Valuation: The company is valued at P/BV of 2.4x/2.5x of its 9MFY24 financial data at the lower and upper price band respectively on post-issue capital. Aadhar Housing Finance Limited serves customers in India's tier 4 and tier 5 towns targeting lower income segment with a ticket size of Rs 15 lakh. The technology-based lending company has 487 branches covering almost 533 districts across 20 states. The company is well-placed to cater to the niche segment with strong origination skills, understanding of the customers' needs as well as focus on smaller cities. We expect these factors will help in garnering market share going ahead.

Issue Details	
Date of Opening	8 th May 2024
Date of Closing	10 th May 2024
Price Band (Rs)	300 - 315
Fresh Issue (Rs cr)	1,000
Offer for sale (Rs cr)	2,000
Issue Size (Rs cr)	3,000
No. of shares	9,52,38,095-10,00,00,000
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	12,842 – 13,434
BRLMs	ICICI Securities, Citigroup Global Markets, Kotak Mahindra Capital, Nomura Financial Advisory and Securities, SBI Capital Markets
Registrar	Kfin Technologies Limited
Bid Lot	47 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
To meet future capital requirements towards onward lending	750.0
General corporate purposes*	_*
Total proceeds from fresh issue	1,000.0

*To be determined after finalisation of the Offer Price and updated in the Prospectus prior to filing with the RoC.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	38,96,83,420	98.7
Public & Others	50,71,550	1.3
Total	39,47,54,970.0	100.0

Post Issue @ Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	32,30,16,753	75.5
Public & Others	10,50,71,550	24.5
Total	42,80,88,303	100.0

Post Issue @ Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	32,61,91,357	76.5
Public & Others	10,03,09,645	23.5
Total	42,65,01,002	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	9MFY23	9MFY24
Interest Income (Rs cr)	1,426.9	1,538.2	1,776.3	1,299.5	1,673.3
Total Income (Rs cr)	148.5	190.1	267.1	188.6	221.8
PAT (Rs cr)	340.3	444.8	544.7	404.2	548.0
Market Cap (Rs cr)	12,434.9	12,434.9	12,434.9	12,434.9	12,434.9
EPS (Rs)	8.6	11.3	13.8	10.2	13.9
PE (x)	36.5	28.0	22.8	30.8	22.7
P/BV (x)	4.6	4.0	3.4	3.5	2.9
RoA (%)	2.5	3.2	3.5	2.7	3.2
RoE (%)	12.6	15.2	15.9	12.1	13.8

** Not Annualized*

Source: RHP, SSL Research

Risk Factors

- **Misleading information:** The company depends on accurate information from borrowers and third-party providers. Misleading information could affect the assessment of creditworthiness and the value of collateral and impact the business.
- **Negative cashflow:** The company has had negative net cash flows in the past and may continue to have negative cash flows in the future.
- **Increase in the non-performing assets:** Any increase in the levels of non-performing assets in the AUM would adversely affect the financial condition.
- **Risk management:** If the company fails to identify, monitor and manage risks and effectively implement risk management policies, it could have a material adverse effect on the business.

Growth Strategy

- **Geographical expansion:** Expanding distribution network to achieve deeper penetration in key states.
- **Focus on economically weaker and low-to-middle income segment:** Continue to focus on the target customers and grow its customer base. In FY23, the customer base reached 2.33 lakhs accounts and it has more than 2.55 lakh Live Accounts as of Dec'23
- **Upgradation of enterprise-wide technology:** The company continues to invest in and roll out digital and technology-enabled solutions across the business to improve customer experience and improve cost efficiency.
- **Proactive & flexible fundraising strategy:** The company optimizes its borrowing costs and reduces operating expenses further. The company continues to diversify funding sources, identify new sources & pools of capital and implement robust asset liability management policies with the aim of further optimizing borrowing costs and sustaining NIM.

Key Financial Metrics

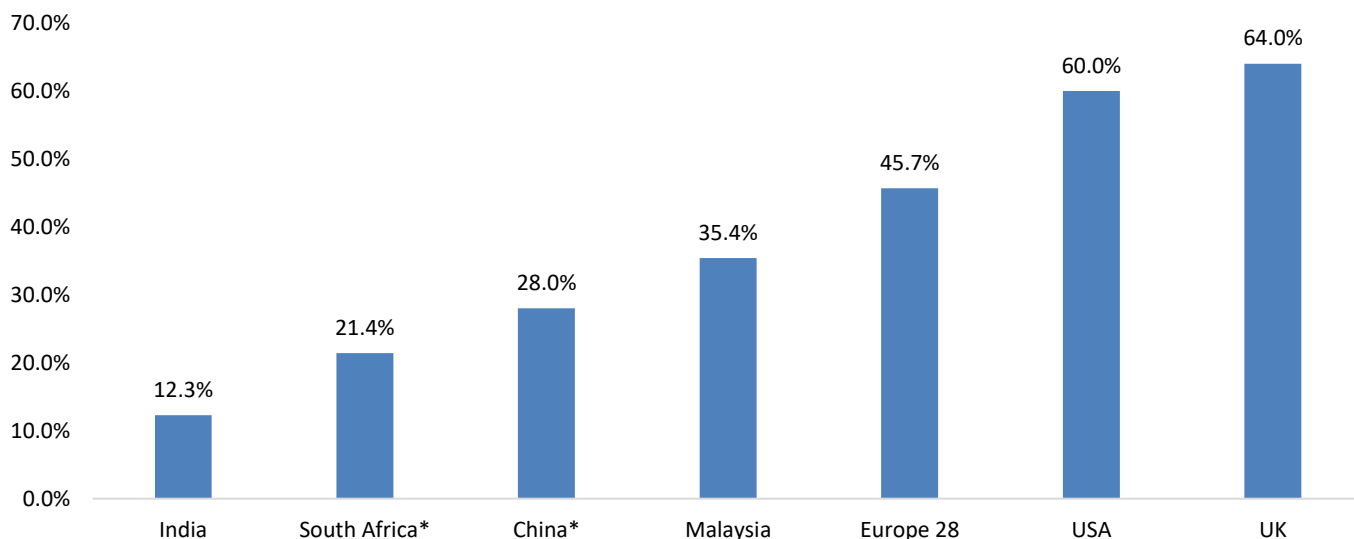
	Metrics	FY21	FY22	FY23	9MFY23	9MFY24
1	Live Accounts (including assigned and co-lent loans)	18,247.1	20,413.5	23,322.8	22,234.6	25,568.3
2	Number of branches and sales offices	310	332	469	415	487
3	Average ticket size (Rs cr)	0.09	0.09	0.09	0.09	0.1
4	Retail AUM (Rs cr)	13,325.2	14,776.7	17,222.8	16,566.5	19,865.2
5	Gross NPA to Retail AUM (%)	1.1%	1.5%	1.2%	1.8%	1.4%
6	Net Retail NPA to Retail AUM (%)	0.7%	1.1%	0.8%	1.3%	1.0%
7	Net Worth (Rs cr)	2,692.8	3,146.6	3,697.6	3,555.7	4,249.1
8	Profit after tax before exceptional item (Rs cr)	340.1	444.9	564.3	404.1	547.9
9	Profit after tax (Rs cr)	340.1	444.9	544.8	404.1	547.9
10	Return before exceptional item on Average Total Assets (%)	2.6%	3.2%	3.6%	3.6%	4.2%
11	Return before exceptional item on Equity (%)	13.5%	15.2%	16.5%	16.1%	18.4%
12	Debt to Total Equity ratio	3.9	3.4	3.3	3.3	3.1
13	CRWAR (%)	44.1%	45.4%	42.7%	44.9%	39.7%
14	Average yield on Gross Loan Book (%)	13.2%	12.8%	12.8%	12.8%	14.0%
15	Average cost of Borrowing (%)	8.2%	7.2%	7.0%	7.0%	7.6%
16	Net Interest Margin (%)	5.8%	6.9%	8.0%	8.0%	9.0%
17	Cost to Income Ratio (%)	35.8%	36.3%	38.1%	36.7%	36.2%

Industry Overview

Mortgage-to-GDP ratio in India (FY23) compared with other countries (CY18)

The mortgage-to-GDP ratio of India stood at 12.3% v/s 64% in UK. The mortgage-to-GDP ratio in India varies widely based on home loan market size ranging between approximately 4% and approximately 42% in FY23. Chandigarh has the highest housing loan penetration with approximately 41% of GDP followed by Maharashtra and Telangana at second and third position respectively in FY23.

Mortgage to GDP Ratio



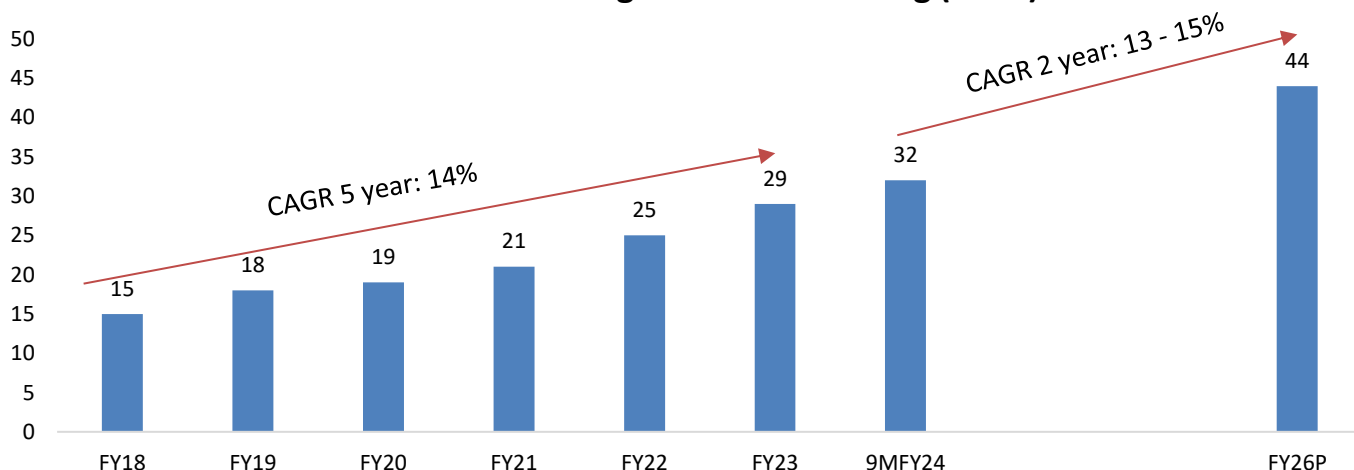
*As of CY17, Indian mortgage to GDP is for FY23 - 12.3%, Europe 28 includes the 28 European Union Member states as of Dec'18;

Source: RHP, SSL Research

Indian Housing Finance Market:

The Indian Housing Finance market clocked a healthy 14% CAGR (growth in loan outstanding - total housing loans on the books of all financiers put together) over FY18 - FY23 on account of a rise in disposable income, healthy demand emanating from smaller cities, attractive interest rates and government impetus on housing. The Indian housing finance market is expected to grow at the CAGR of 13-15% from FY23 – FY26P.

Growth in Housing Loans Outstanding (Rs tn)

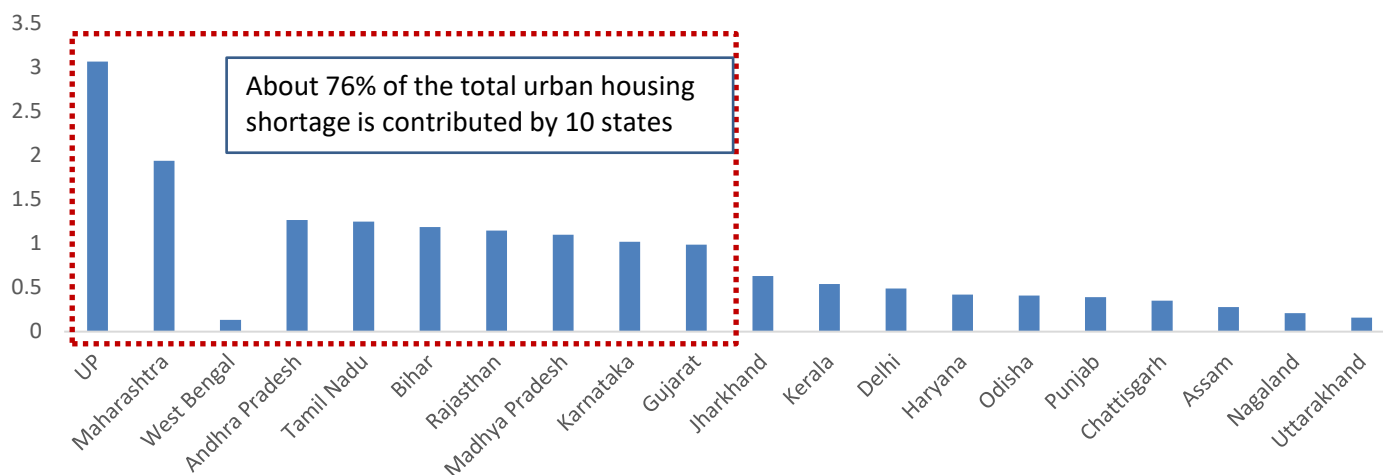


Source: RHP, SSL Research

India’s top 10 states contribute 76% of the Total Urban Housing Shortage

Amongst the top States with a high shortage of homes, some States such as Uttar Pradesh, Bihar, West Bengal, Rajasthan and Madhya Pradesh have a lower per capita income as compared to the national average. This shows that there is significant headroom for growth in terms of increasing per capita income and reducing the housing shortage in India.

Total Urban Housing Shortage (mn)



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT					
Particulars	FY21	FY22	FY23	9MFY23	9MFY24
Interest Income	1,426.9	1,538.2	1,776.3	1,299.5	1,673.3
Interest	815.9	761.2	799.2	585.7	724.8
Net Interest Income	611.0	777.0	977.1	713.8	948.5
Other Income	149	190.1	267.1	188.6	221.8
Total Income	759.5	967.1	1,244.2	902.4	1,170.3
Operating Expenditures	272.0	351.1	474.2	330.8	423.9
Employee Expense	188.8	248.1	322.0	227.4	290.0
Other Expense	83.2	103.0	152.2	103.4	133.9
Operation Profit before Provision	487.5	616.0	770.0	571.6	746.4
Provisions	54.9	48.7	49.2	55.2	45.3
Operating Profit After Provision	432.6	567.3	720.8	516.4	701.1
Exceptional Items			25.0		
Profit Before Tax	432.6	567.3	695.8	516.4	701.1
Tax	92.3	122.5	151.1	112.2	153.1
Profit After Tax	340.3	444.8	544.7	404.2	548.0

BALANCE SHEET					
Particulars	FY21	FY22	FY23	9MFY23	9MFY24
Liability					
Share capital	394.8	394.8	394.8	394.8	394.8
Reserves and surplus	2,298.1	2,751.9	3,302.9	3,161.0	3,854.4
Non-current liabilities	10,937.5	11,229.1	12,920.2	12,335.9	13,786.4
Debt securities	2,140.3	1,764.3	2,542.1	2,359.4	2,341.7
Borrowings	8,110.4	8,819.0	9,542.7	9,287.0	10,724.6
Subordinate Liabilities	83.2	83.3	65.5	65.5	59.6
Other Liability and Provision	603.6	562.5	769.8	624.0	660.5
Total Equity and Liabilities	13,630.3	14,375.8	16,617.8	15,891.7	18,035.6
Assets					
Cash and Balances	383.5	574.2	405.1	574.7	188.5
Balances with Banks	1,787.8	1,136.0	1,512.9	1,097.2	1,033.3
Investments	497.1	338.0	459.4	417.4	470.7
Advances	10,613.3	11,960.3	13,851.5	13,409.2	15,909.5
Fixed Assets	16.4	20.8	24.8	22.7	28.3
Other Assets	332.3	346.5	364.2	370.5	405.4
Total assets	13,630.3	14,375.8	16,617.8	15,891.7	18,035.6

Key Financials and Valuations Ratios (Post – Issue)					
	FY21	FY22	FY23	Post Issue (Annualised.)	
				9MFY24	
				Lower	Upper
CMP (Rs)	315.0	315.0	315.0	300.0	315.0
EPS (Rs)	8.6	11.3	13.8	17.1	17.1
Market Cap (Rs cr)	12,434.9	12,434.9	12,434.9	12,842.6	13,434.8
BV per share (Rs)	68.2	79.7	93.7	163.5	165.7
PE(x)	36.5	28.0	22.8	23.4	24.5
P/BV (x)	4.6	4.0	3.4	2.4	2.5
NIM (%)	5.8	6.9	7.6	8.6	8.6
ROA (%)	2.5	3.2	3.5	4.3	4.3
Cost of fund (%)	7.9	7.2	7.0	7.6	7.6
Yield on Assets (%)	13.4	13.6	13.8	15.0	15.0
Spread (%)	5.5	6.4	6.8	7.3	7.3
Cost to Income Ratio (%)	35.8	36.3	38.1	36.2	36.2
RoE (%)	12.6	15.2	15.9	18.4	18.4
GNPA (%)	1.1	1.5	1.2	1.4	1.4
NNPA (%)	0.7	1.1	0.8	1.0	1.0
PCR (%)	36.4	26.7	33.3	28.6	28.6

Peer Comparison

	Aadhar Housing Finance Ltd		Aavas Financiers Ltd	Aptus Value Housing Finance India Ltd	Home First Finance Company India Ltd	India Shelter Finance Corporation Ltd
	Lower Band	Upper Band	CMP	CMP	CMP	CMP
P/E	23.4	24.5	25.8	35.1	27.6	40.6
P/BV	2.4	2.5	3.3	4.8	3.9	2.3
Asset Under Management	17,223	17,223	14,167	6,738	7,198	4,359
Disbursements	5,903	5,903	5,025	2,395	3,013	1,964
Profit After Tax	564*	564*	430	503	228	155
Average yield on Loan Book (%)	12.8%	12.8%	12.6%	17.7%	13.3%	14.9%
Average cost of borrowings (%)	7.0%	7.0%	6.6%	8.5%	7.3%	8.3%
Spread (%)	5.8%	5.8%	6.0%	9.2%	5.9%	6.6%
Operating Expenses / Average Total Assets (%)	3.1%	3.1%	3.8%	2.6%	2.9%	4.8%
Cost to Income Ratio (%)	38.1%	38.1%	45.0%	19.4%	35.5%	45.5%
Return on Total Assets (%)	3.6%*	3.6%*	3.5%	7.8%	3.9%	4.1%
Return on Equity (%)	16.5%*	16.5%*	14.1%	16.1%	13.5%	13.4%
Gross NPA to AUM (%)	1.2%	1.2%	0.9%	1.2%	1.6%	1.1%
Net NPA to AUM (%)	0.8%	0.8%	0.7%	0.9%	1.1%	0.8%
Net worth	3,698	3,698	3,270	3,339	1,817	1,241
Debt to Net worth ratio	3.3	3.3	3	1.1	2.6	2.4
CRWAR (%)	42.7%	42.7%	47.0%	77.4%	49.4%	52.7%
Number of branches	469	469	346	231	111	183
Number of States	20	20	13	5	13	15

The data is based on FY23 financial data.

* Prior to taking into account the exceptional items.

CMP as on 3rd May 2024.

Source: RHP, SSL Research

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SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

Portfolio Manager: INP000004912 | IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

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