



Aadhar Housing finance ltd operates as a Housing Finance Company (HFC), with a distinct emphasis on the low-income housing sector in India, catering partially to salaried and remaining to self employed with ticket sizes below ₹1.5 million. They have demonstrated the highest Asset Under Management (AUM) and net worth when compared to their peer group across the fiscal years 2021, 2022, and 2023.

The company exhibits a superior cost-to-income ratio compared to its industry counterparts, attributed to its strategic initiatives, which in turn bolster its net interest margin. Furthermore, the company has consistently upheld strong asset quality since 2021. Presently, the company is under the management of BCP Topco VII PTE Ltd backed by blackrock group following the transfer of 80% of DHFL's shares in 2019. The housing finance company's loan book comprises a mere 0.1% of the DHFL pool loan accounts. At a P/B of 3.36x, the IPO appears fairly priced while there are legal proceedings against company aggregating up to 269 crores which can impact company's financials. Hence, we recommend to subscribe the issue for listing gains.



About Company

Incorporated in 2010, Aadhar Housing Finance Limited is a housing finance company targeting the lower income segment. The deep impact branches' sales offices aim to serve customers in India's tier 4 and tier 5 towns. As of Sept. 30, 2023, the company enrolled 12,221 Aadhar Mitras who get referral fees for sourcing customers' loans. The company provides a variety of mortgage loan products for residential and commercial property purchase and construction, home improvement and extension. As of September 30, 2023, the company has a vast network of 471 branches, including 91 sales offices. These branches and sales offices are spread across 20 states and union territories, and they operate in around 10,926 pin codes throughout India. As of September 30th, 2023, the company has 3,695 employees. Its subsidiary, Aadhar Sales and Services Private Limited (ASSPL), has 1,851 employees. The company has served 246,983 customers nationwide through 471 branches and offices

Issue details

Price Band (in ₹ per share)	300-315
Issue size (in ₹ Crore)	3000
Fresh Issue (in ₹ Crore)	1000
OFS (in ₹ Crore)	2000
Issue open date	08.05.2024
Issue close date	10.05.2024
Tentative date of Allotment	13.05.2024
Tentative date of Listing	15.05.2024
Total number of shares (lakhs)	1000.00-952.00
No. of shares for QIBs (50%) (lakhs)	498.74-474.99
No. of shares for NII (15%) (lakhs)	149.62-142.50
No. of shares for S-HNI (33%)(lakhs)	49.37-47.02
No. of shares for B-HNI (66%)(lakhs)	100.25-95.47
No. of shares for retail investors (35%) (lakhs)	349.12-332.49
No of sharese for Employee Reservation	2.53-2.40
Minimum order quantity	47
Face value (in ₹)	10.00
Amount for retail investors (1 lot)	14100-14805
Maximum number of shares for Retail investors at Lower Band	658 (14 lots)
Maximum number of shares for Retail investors at Upper Band	611(13 lots)
Maximum amount for retail investors at lower band - upper band	197400-192465
Minimum number of shares for sHNI (2 Lakhs) at upper band	658(14 lots)
Maximum number of shares for sHNI (10 Lakhs) at upper band	3149(67 Lots)
Minimum number of shares for bHNI at upper band	3196(68 Lots)
Exchanges to be listed on	BSE, NSE

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Promoters

- BCP Topco VII Pte. Ltd.

Objective of the Offer

- To meet future capital requirements towards onward lending up to 750 crores
- General Corporate Purposes
- Estimated Offer related expenses in relation to the Fresh Issue to be borne by the Company

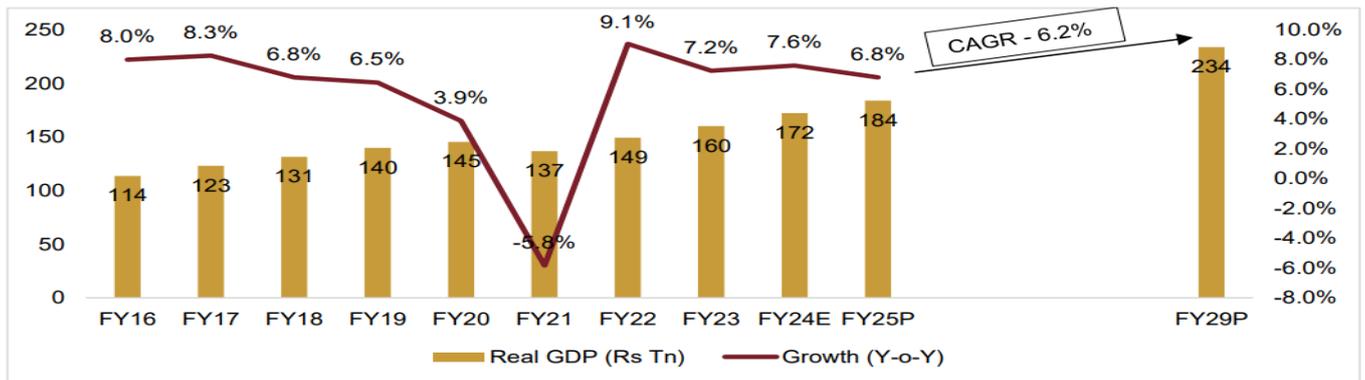
**Brief Financials**

PARTICULARS (Rs. Cr)*	9MFY2024	FY23	FY22	FY21
Share Capital	3947.76	3947.76	3947.76	3947.76
Net Worth	4249.10	3697.60	3146.63	2692.76
Revenue from Operations	1895.17	2043.52	1728.56	1575.55
Net Interest Margin (%)	9.0	8.0	6.9	5.8
Profit/(Loss) After Tax	547.88	544.76	444.85	340.13
EPS (in Rs)	18.53 [^]	13.80	11.30	8.60
Net Asset Value (Rs)	107.60	93.70	79.70	68.20
Total Borrowing	13127.59	12153.45	10674.59	10374.47
P/E#	17.00	22.83	NA	NA
P/B#	2.93	3.36	NA	NA

Source: RHP #calculated at upper price band * Restated consolidated financials [^]annualised EPS

Industry Review**India witnesses stronger than expected growth in Fiscal 2024**

The International Monetary Fund (IMF), in its January 2024 economic outlook update, revised its India economic growth estimate in real terms for Fiscal 2024 to 6.7% from previous 6.3% estimate in October 2023, citing momentum from resilient domestic demand. Further, the growth forecast for Fiscal 2025 also witnessed an increase at 6.5% from the previous 6.3% forecast in October 2023.

**Key growth driver****India has the world's largest population**

As per Census 2011, India's population was approximately 1.25 billion, and comprised nearly 245 million households, is expected by CRISIL MI&A to increase to 1.52 billion by 2031, and number of households are expected to reach approximately 376 million over the same period.

Favorable demographics

As of calendar year 2022, India has one of the largest young populations in the world, with a median age of 28 years. CRISIL MI&A estimated that approximately 90% of Indians were still below the age of 60 in calendar year 2021 and that 63% of them were between 15 and 59 years. In comparison, in calendar year 2020, the United States (US), China and Brazil had 77%, 83% and 86%, respectively, of their population below the age of 60.

Urbanization

Urbanization is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development. India's urban population has been rising consistently over the decades (Source: World Urbanization Prospects). As per the 2018 revision of World Urbanization Prospects, it was estimated at 34.9% for India. According to the World Urbanization Prospects, the percentage of population residing in urban areas in India is expected to increase to 37.4% by 2025.



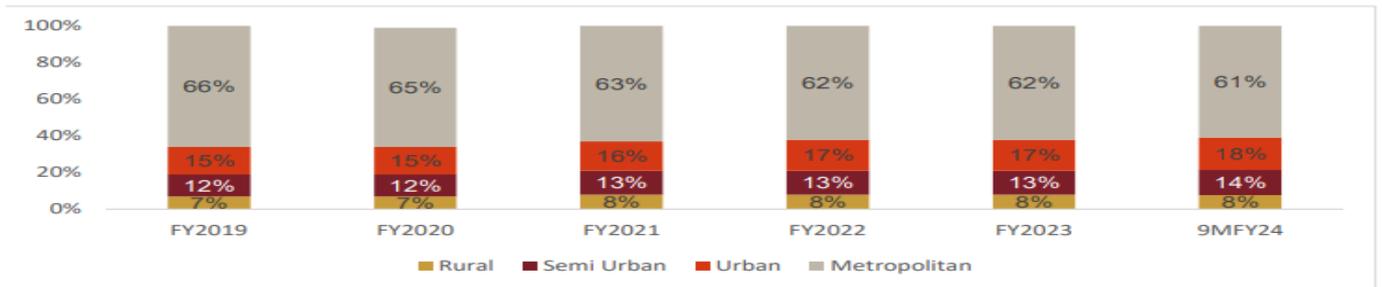
Industry Review

Increasing per capita GDP to support economic growth

In Fiscal 2024, India's per capita net national income expanded by 6.8% reflecting robust growth of Indian economy and government's continued efforts to make India an upper middle-income economy.

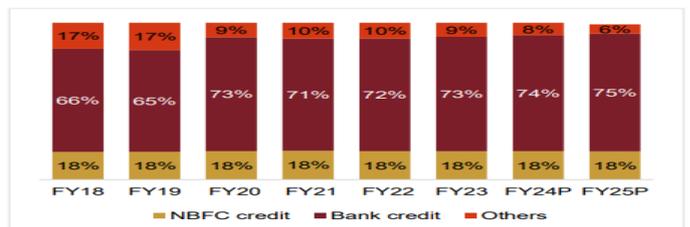
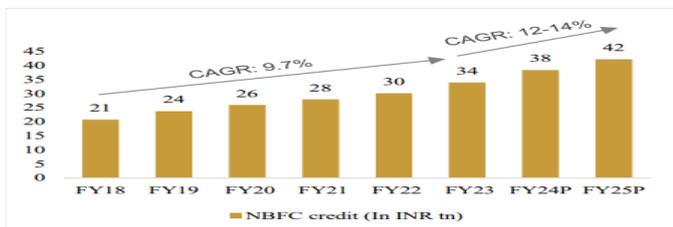
Rural India – Under penetration and untapped market presents a huge opportunity for growth for financiers

Credit to metropolitan areas has decreased over the past few years with its share decreasing from 66% as of March 31, 2019, to 61% as of December 31, 2023. Between the same period, credit share has witnessed a marginal rise in rural and urban areas. For semi-urban areas, credit share has gone up from 12% as of March 31, 2019, to 14% as of December 31, 2023.



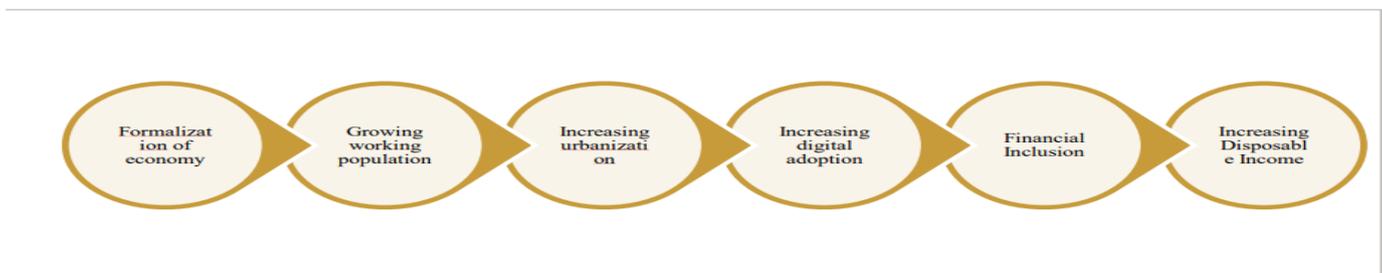
NBFC credit to grow faster than systemic credit between Fiscals 2023 and 2025

CRISIL forecasts a 12%-14% growth in NBFC credit from Fiscal 2023 to Fiscal 2025, primarily propelled by the retail sector, encompassing housing, auto, and microfinance. Economic recovery in Fiscal 2024 is anticipated to stimulate consumer demand, fostering NBFC growth. Larger NBFCs are consolidating organically, expanding their market share. Strongly backed NBFCs are poised to dominate the non-banking industry, leveraging their funding advantage.



Retail credit market continue to remain profitable in the coming years

Factors that will support retail credit growth

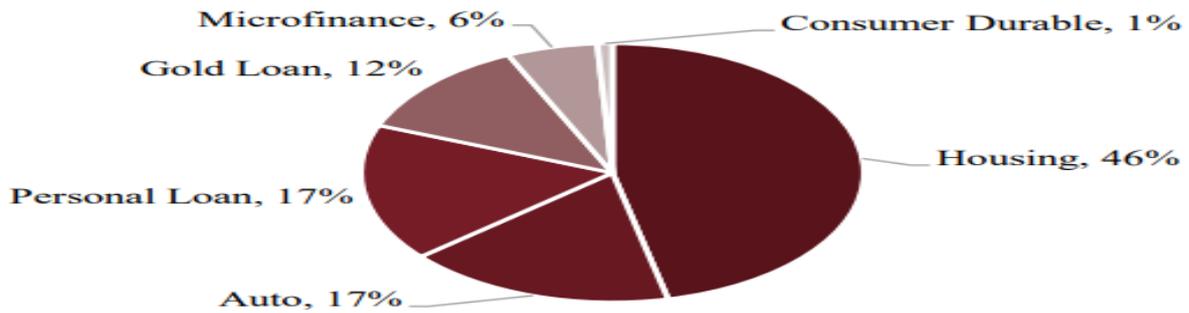


Housing loans accounts for 46% of overall retail loans as of March 31, 2023

As of March 31, 2023, housing finance accounts for almost half of overall retail loans in India followed by auto loans (17%), personal loans (17%) and gold loan (12%).



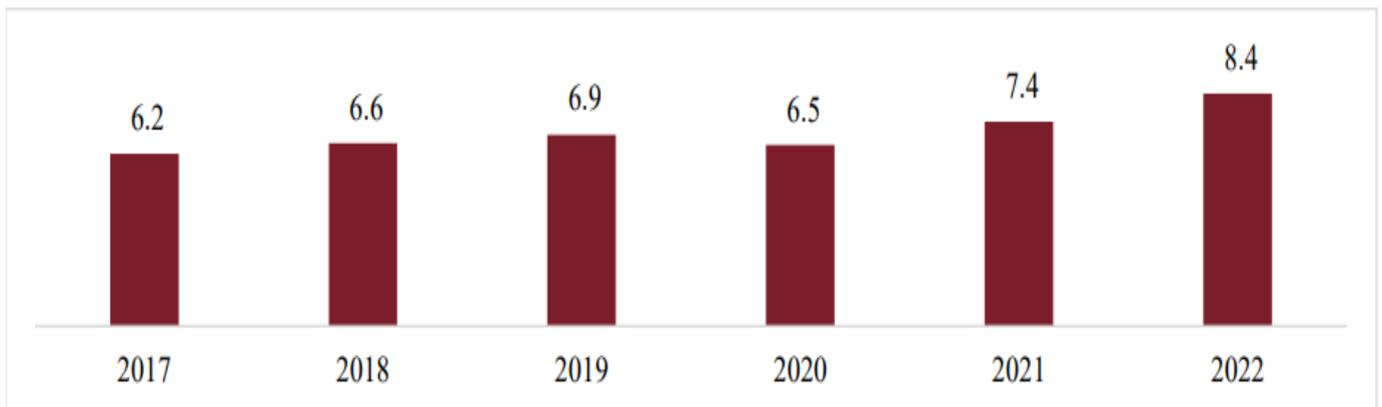
Industry Review



Indian household investment in real estate

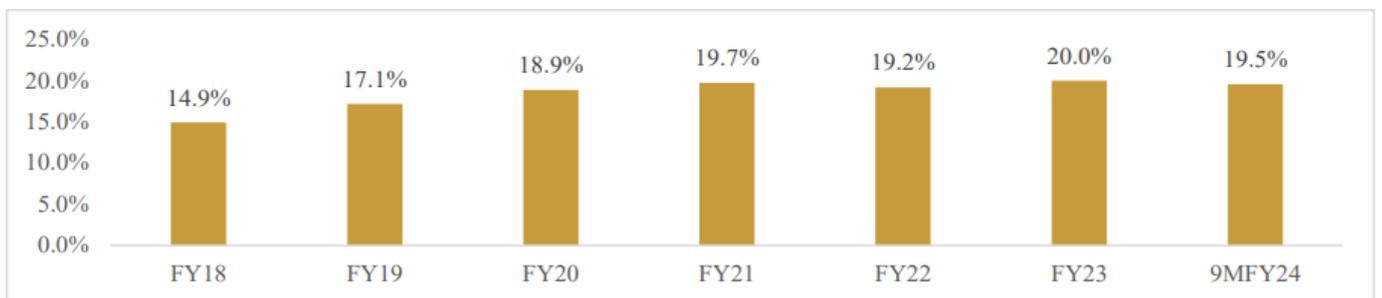
As per household finance committee report issued by the RBI in 2017, the average Indian household holds 77% of its total asset in real estate which includes residential buildings, buildings used for farm and non-farm activities, constructions such as recreational facilities, and rural and urban land.

Rise in per capita income to drive the growth of mortgage penetration in India



Source: World Bank, CRISIL MI&A

Market share of HFCs focused on low income housing segment in overall housing loans outstanding of HFCs



Source: CIBIL, CRISIL MI&A

Competitive landscape among HFCs focused on low income housing segment

With respect to credit outstanding, the share of large HFCs has reduced gradually from 56% as of March 2018 to 41% as of December 2023. The share of small HFCs, in terms of credit outstanding, increased from 23%, as of March 2018, to 24%, as of December 2023, and that of mini HFCs increased from 10% to 24% in the same period. This increase in market share was majorly driven by penetration of these financiers in rural markets and semi-urban areas, government and regulatory thrust, as well as increased affordability and aspirations of the borrower.



Competitive Strengths

HFC focused on the low income housing segment (ticket size less than ₹1.5 million) in India with the highest AUM and net worth among their analyzed peers in Fiscal 2021, Fiscal 2022, Fiscal 2023 and nine months ended December 31, 2022 and December 31, 2023

According to CRISIL, they are a HFC focused on the low income housing segment (ticket size less than ₹1.5 million) in India and they had the highest AUM and net worth among their analyzed peers in Fiscal 2021, Fiscal 2022, Fiscal 2023 and nine months ended December 31, 2023. Their Gross AUM increased from ₹133,271.0 million in FY2021 to ₹147,777.9 million in FY2022 and ₹172,228.3 million in FY2023. Their Gross AUM increased from ₹165,664.6 million as of December 31, 2022 to ₹198,651.6 million as of December 31, 2023, and grew at a CAGR of 17.3% between FY2021 to December 31, 2023. Their branch and sales office network is widely dispersed with no state accounting for more than 14.0% in terms of Gross AUM and the top two states accounting for 27.6% of their Gross AUM as of December 31, 2023. Their cumulative share of the top 5 states in terms of AUM is much lower than other players in the peer set as of March 2023 (Source: CRISIL Report). As of December 31, 2022 and December 31, 2023, no state accounted for more than 14.3% and 14.0% in terms of Gross AUM and the top two states accounted for 28.6% and 27.6% of their Gross AUM, respectively.

Seasoned business model with strong resilience through business cycles

Their resilience in the low income housing segment is based on their customer centric business model, whereby they offer their products with practices and policies that are developed and implemented to address the specific issues faced in the low income housing segment and to address their customers' need to access funds, while ensuring robust credit, underwriting and collections policies.

Extensive branch and sales office network, geographical penetration and sales channels which contribute significantly to loan sourcing and servicing

They have a pan-India branch and sales office network. They believe that a comprehensive on-the-ground presence is essential for their success and growth in the low income housing finance segment. Since their establishment of sales offices in the last quarter of FY2023, as of March 31, 2023 and December 31, 2023, they had 469 and 487 branches (including 94 and 109 sales offices, respectively) across India covering 20 states and union territories of India, respectively. Their branch and sales office network is widely dispersed across various states and geographies with 56.3% and 55.9% of their branches and sales offices spread across five states and the remaining 43.7% and 44.1% spread across 15 states, as of March 31, 2023 and December 31, 2023, respectively.

Robust, comprehensive systems and processes for underwriting, collections and monitoring asset quality

They have implemented a robust and comprehensive credit assessment, risk management and collections framework to identify, monitor and manage risks inherent in their operations. They exclusively finance retail customers, a majority of whom are salaried individuals purchasing residential properties. They have also adopted an internal 'risk appetite statement' that sets out the aggregate level and types of risk they are willing to accept while achieving their business objectives. Under this policy they have adopted a benchmark for business decisions that are based on balancing risk and return and making the best use of their capital.

Access to diversified and cost-effective long-term financing with a disciplined approach to asset liability and liquidity management

Their treasury department is responsible for ensuring that their capital requirements are met alongside asset liability management, managing the cost of their borrowings, liquidity management and control, diversifying fund raising sources, and investing surplus funds in accordance with the criteria set forth in their investment policy.



Risk Factors

They are party to certain legal proceedings and any adverse outcome in these or other proceedings may adversely affect their business.

They are involved, from time to time, in legal proceedings that are incidental to their operations and these involve proceedings filed by and against them. These include among others, criminal and civil proceedings, tax proceedings, and criminal complaints filed by them under the Negotiable Instruments Act and applications under the SARFAESI Act challenging proceedings adopted by them towards enforcement of security interests. These proceedings are pending at different levels of adjudication before various courts and authorities.

They depend on the accuracy and completeness of information provided by their potential borrowers and third-party service providers.

In deciding whether to extend credit or enter into other transactions with potential borrowers, they rely on information furnished to them by potential borrowers, and analysis of the information by independent valuers and advocates. To further verify the information provided by potential borrowers, they conduct searches on the CRIF High Mark Credit Information Services Pvt Ltd ("CRIF"), Credit Information Bureau (India) Limited ("CIBIL") and other credit bureaus for creditworthiness of their borrowers. They also verify information with registrars and sub-registrars of assurances for encumbrances on collateral.

If they fail to identify, monitor and manage risks and effectively implement their risk management policies, it could have a material adverse effect on their business, financial condition, results of operations and cash flows.

The effectiveness of their risk management is affected by the quality and timeliness of available data. They have devoted resources to develop their risk management policies and procedures and aim to continue to do so in the future. For details, see "Their Business – Competitive Strengths - Robust, comprehensive systems and processes for underwriting, collections and monitoring asset quality".

They are vulnerable to the volatility in interest rates and they may face interest rate and maturity mismatches between their assets and liabilities in the future which may cause liquidity issues.

Their operations are particularly vulnerable to volatility and mismatches in interest rates. Their net interest income and profitability directly depend on the difference between the average interest rate at which they lend and the average interest rate at which they borrow. The cost of their funding and the pricing of their loan products are determined by a number of factors, many of which are beyond their control, including the RBI's monetary policies, inflationary expectations, competition, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors.

There are existing agreements with certain entities which cannot be unilaterally terminated by them.

Their Company has entered into certain arrangements with Pramerica Life Insurance Limited ("PLI") and DHFL, entities owned by Piramal Capital & Housing Finance Limited. These arrangements include agreements for purchase of a loan portfolio serviced by DHFL ("DHFL Loan Pool 2011"), agreements for purchase of a loan portfolio serviced by AHFL ("DHFL Loan Pool 2018"), a corporate agency agreement dated April 25, 2016 with PLI (the "Corporate Agency Agreement") and a distribution agreement dated July 25, 2013 with DHFL, Pre-Merger AHFPL (the entity named 'Aadhar Housing Finance Private Limited'), Avanse Financial Services Limited, Prudential International Insurance Holdings Limited, Kapil Wadhawan, Dheeraj Wadhawan, and Aruna Wadhawan (the "Distribution Agreement").

**Peer Comparison**

Name of the company	Total Income (in Rs. Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Aadhar Housing Finance Limited	2043.23	10.00	13.80	93.70	16.50	22.82	3.36
Aptus Value Hosing Finance Inidia Limited	1093.36	2.00	10.10	67.10	16.10	32.03	4.82
Aavas Financiers Limited	1608.76	10.00	54.40	413.60	14.10	28.71	3.78
Home First Finance Company India Limited	790.99	2.00	26.00	206.50	13.50	34.59	4.36
India Shelter Finance Corporation Limited	584.53	5.00	17.80	141.40	13.40	32.39	4.08

P/E Ratio and P/B has been computed based on the closing market price of equity shares on the website of BSE as of 06th May 2024.

Our View

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