

Recommendation	Subscribe
Price Band	Rs. 300 - 315
Bidding Date	8 <sup>th</sup> – 10 <sup>th</sup> May
Book Running Lead Manager	ICICI, Kotak, Citigroup, Nomura, SBI Caps
Registrar	KFin Technologies
Sector	NBFC

## BACKGROUND

Aadhar is the largest HFC (housing finance company) in the low income housing segment (ticket size less than Rs. 15 Lacs). Aadhar is well diversified across 20 states and UTs which is the highest for this segment. As a result of its geographical spread, the top five states and UTs in terms of contribution to AUM collectively accounted for 62% of AUM as of FY23, much lower than other players in the peer set. As on Dec 2023, Aadhar has total AUM of Rs. 19,865 Cr with average ticket size of loans at Rs. 10 Lacs and average loan-to-value of 58%.

## Objects and Details of the Issue:

The public issue consists of Offer For Sale aggregating upto Rs 2000 Cr. and fresh issue of equity shares aggregating upto Rs 1000 Cr. Company proposes to utilize the Net Proceeds towards:- (i) To meet future capital requirements towards onward lending and (ii) General corporate purposes.

## Investment Rationale:

- HFC focused on the low income housing segment (ticket size less than Rs.15 Lacs) in India with the highest AUM.
- Access to diversified and cost-effective long-term financing with a disciplined approach to asset liability and liquidity management.
- Seasoned business model with strong resilience through business cycles.
- Strong corporate governance; experienced, cycle-tested and professional management and backing of Blackstone.

## Valuation and Recommendation:-

Upon comparing Aadhar with peers, we observe its loan book is the highest at 19,865 Cr, while its growth is the lowest. In the affordable housing finance sector (low & mid income groups), we've observed in the past that companies with larger loan books tend to experience slower growth once they cross the Rs. 15k Cr mark. Past examples include Gruh Finance, Can Fin Homes and Aavas Financiers. On most other metrics, Aadhar is in the range with its peers such as spreads, cost/income, return ratios and asset quality. Thus on the back of a comparatively larger base and lower growth profile, we believe Aadhar deserves to trade at some minor discount to peer averages. This leaves some modest scope for listing gains and thus we recommend subscribing to the issue.

Financials (Rs. Cr)	FY21	FY22	FY23	9M'24 Ann
Total Income	760	967	1244	1560
<b>Growth</b>	-	27%	29%	25%
Pre Prov Profit	478	623	770	995
<b>Growth</b>	-	30%	24%	29%
PAT	340	445	545	700
<b>Growth</b>	-	31%	22%	29%
BVPS	68	80	110	127
EPS	8.0	10.4	12.8	16.4
ROA	2.6%	3.2%	3.6%	5.2%
ROE	13.5%	15.2%	16.5%	20.9%
P/E	39.5X	30.2X	24.7X	19.2X
P/B	4.6X	4.0X	2.9X	2.5X

Source: Company data, NBRR

# Note: 9M'24 Annualized EPS, P/E, BVPS & P/B, are calculated on Post Issue basis

## Minimum Retail Application- Detail At Cut off Price

Number of Shares	47
Minimum Application Money	Rs. 14,805
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	967	1244
Profit Before Provisioning	623	770
Adj PAT	445	545

Valuations (9M'24Annualised)	Upper Band
Market Cap (Rs Cr)	13435
Adj EPS (post issue)	16.4
P/E (post issue)	19.2x
BVPS (post issue)	127
P/B (post issue)	2.5x

Post Issue Shareholding Pattern	
Promoters	76.5%
Public	23.5%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs. in Cr)	426.5
Issue Size (Rs in Cr)	3000
Face Value (Rs)	10

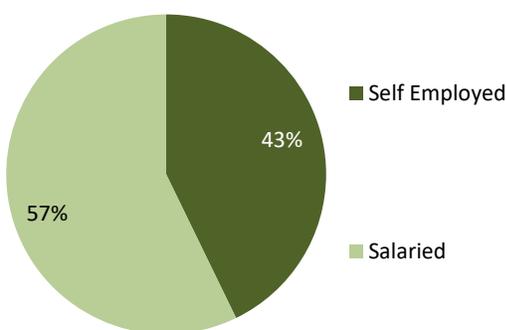
Jehan Bhadha  
Research Analyst  
(+91 22 6273 8174)  
jehankersi.bhadha@nirmalbang.com

Devendra Pawar  
Research Associate  
(+91 22 6273 8149)  
devendra.pawar@nirmalbang.com

## Company Background

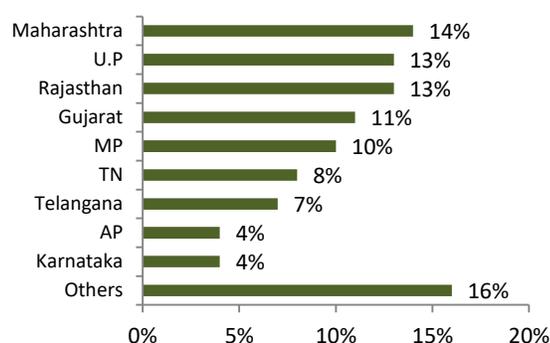
Aadhar is the largest HFC (housing finance company) in the low income housing segment (ticket size less than Rs. 15 Lacs). Aadhar is well diversified across 20 states and UTs which is the highest for this segment. As a result of its geographical spread, the top five states and UTs in terms of contribution to AUM collectively accounted for 62% of AUM as of FY23, much lower than other players in the peer set. Aadhar has an extensive network of 487 branches including 109 sales offices, as of December 31, 2023. The average ticket size of loans was Rs. 10 Lacs with an average loan-to-value of 58% as of December 31, 2023. As on Dec 2023, Aadhar has total AUM of Rs. 19,865 Cr.

### Salaried/Self Employed mix



Source: RHP

### Exposure to major states



Source: RHP

Aadhar has robust and comprehensive systems and processes for underwriting, collections and monitoring asset quality. These systems and processes are also technology enabled across its front office and back office with a view to ultimately digitize the entire life cycle of a loan from origination to closure. Aadhar has migrated to a digital IT infrastructure with a view to reducing costs, carrying on real time analysis of customer data, improving its control and underwriting functions, while increasing customer reach and distribution capability.

Aadhar secures financing from a variety of sources including term loans and cash credit/ working capital facilities, proceeds from loans assigned, proceeds from the issuance of NCDs, refinancing from the NHB and subordinated debt borrowings from banks, mutual funds, insurance companies and other domestic, development financial institutions to meet its capital requirements. Its average cost of borrowings has reduced from 8.2% as of March 31, 2021 to 7.6% as of December 31, 2023.

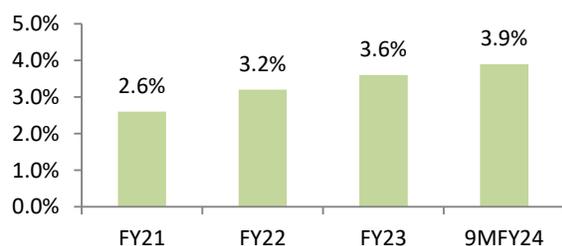
Aadhar has a strong, experienced and dedicated management team, with the senior management having an average of 25 years' experience in the financial services industry in India. Since June 2019, BCP Topco, which is its Promoter, and is an affiliate of Blackstone Group Inc (collectively "Blackstone"), currently holds 98.7% of the pre-Offer issued, subscribed and paid-up Equity Share capital. Aadhar benefits from the resources, relationships and expertise of Blackstone, one of the world's leading investment firms. Blackstone's asset management businesses include investment vehicles focused on real estate, private equity, public debt and equity, growth equity, opportunistic, non-investment grade credit, real assets and secondary funds, all on a global basis. Through its different businesses, Blackstone had total AUM of \$1,040.2 billion as of December 31, 2023. Following Aadhar's acquisition by BCP Topco, the company has also strengthened its corporate governance framework.

## Investment Rationale

**HFC (Housing Finance Company) focused on the low income housing segment (ticket size less than Rs.15 Lacs) in India with the highest AUM; Low competitive intensity translates to strong return ratios**

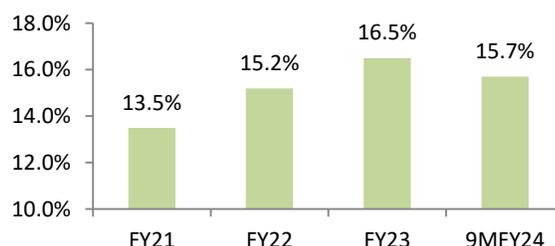
Aadhar is the largest HFC in this segment. **Its AUM increased from Rs. 13,327 Cr in FY21 to Rs. 19,865 Cr as of Dec 2023, and grew at a CAGR of 17.3%.** It is likely that Aadhar sustains this growth in future as the low income housing segment financiers (ticket size less than Rs. 15 Lacs) do not face competition from banks and large NBFCs as it involves several complexities like: tricky collateral evaluation, difficulty in assessing customer cash flows especially in case of self-employed borrowers and high cost of operations.

### ROA



Source: Company

### ROE

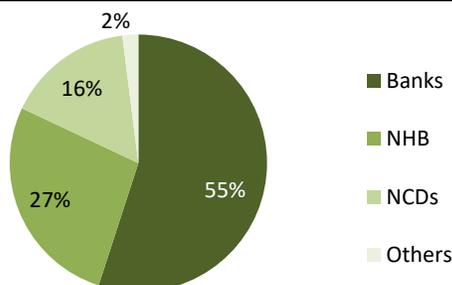


Source: Company

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

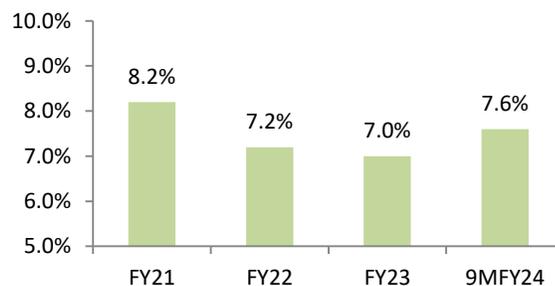
Over the years, Aadhar has secured financing from a variety of sources including term loans; proceeds from loans assigned; proceeds from the issuance of NCDs; refinancing from the NHB; and subordinated debt borrowings from banks, mutual funds, insurance companies and other domestic and foreign financial and development finance institutions to meet its capital requirements. It also assigns loans through direct assignment to banks and financial institutions, which enables it to optimize its cost of borrowings, funding and liquidity requirements, capital management and asset liability management. As of December 31, 2023, it had borrowing relationships with the NHB, 23 banks, 9 mutual funds, 3 insurance companies, 1 development finance institution and 1 NBFC. The diverse sources of funds allow it to maintain more cost-effective long-term financing.

### Borrowing Mix (Dec 2023)



Source: Company

### Cost Of Borrowing

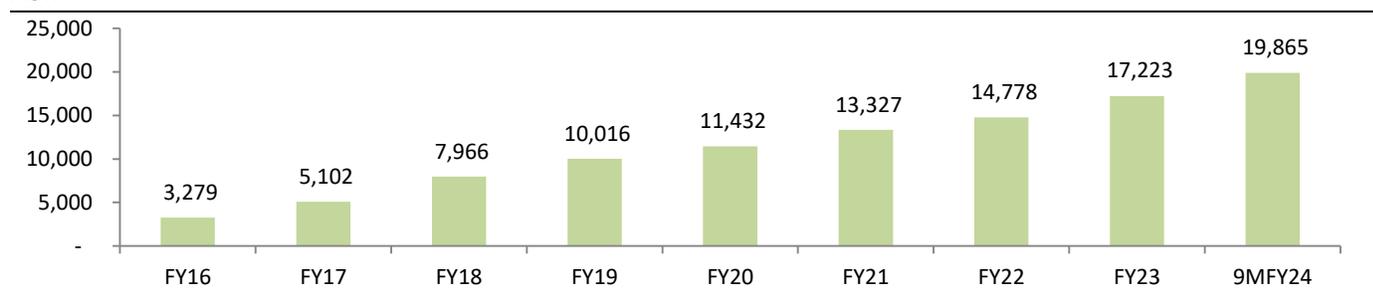


Source: Company

## Seasoned business model with strong resilience through business cycles

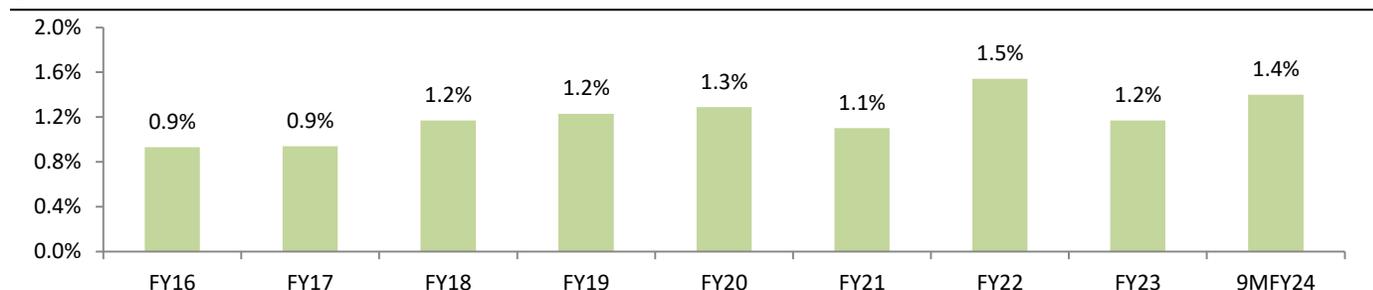
Through various business cycles, Aadhar has been able to leverage the (i) inherent strength of its customer centric business model, (ii) its extensive branch and sales office network, and (iii) the expertise of its professional management team, to maintain its status as the HFC focused on the low income housing segment (ticket size less than Rs. 15 Lacs) in India with the highest AUM. Its financial performance and asset quality has remained resilient through various external events. **During these periods, the Indian economy and the banking and finance industry in India were adversely impacted by various events such as demonetization and the introduction and roll out of a nationwide GST; defaults involving large NBFCs (IL&FS crisis); and the various waves of the COVID-19 pandemic. Aadhar's overall growth, asset quality and continued profitability during these periods despite these negative events demonstrates the strengths of its business and its management team.**

### AUM



Source: Company

### GNPA



Source: Company

## Strong corporate governance; experienced, cycle-tested, professional management and backing of Blackstone

The board of directors is comprised of qualified and experienced personnel, who have extensive knowledge and understanding of the banking and finance industry. The MD & CEO, Mr. Rishi Anand has over 27 years of experience and the CFO, Mr. Rajesh Vishwanathan has over 25 years of experience in the financial services industry. The independent directors include Non-Executive Chairman Om Prakash Bhatt (ex-chairman of the SBI Group, and currently on the board of directors of Tata Motors and TCS.), Nivedita Haran (Retired as the Additional Chief Secretary, Department of Home Affairs, Government of Kerala) and Sharmila A. Karve (previously associated with Price Water House as a partner). In addition, Aadhar has a strong and experienced management team comprising sixteen members. **Since June 2019, BCP Topco, which is in turn an affiliate of funds managed by Blackstone, is the Promoter and currently holds 98.7% of pre-Offer paid-up Equity Share capital.** Aadhar benefits from the resources, relationships and expertise of Blackstone, one of the world's leading investment firms. Through its different businesses, Blackstone had total AUM of \$1,040 billion as of December 31, 2023. Following Aadhar's acquisition by Blackstone, the company implemented strong corporate governance framework.

## Concerns

**Catering to lower strata of the society could put strain on the company if risk is not managed:** Aadhar primarily serves low income customers with 43% of them being self-employed. Borrowers may default in their repayment obligations due to - loss of employment, insolvency, lack of liquidity or personal emergencies such as the death of an income generating family member. Some of the customers do not have credit histories supported by tax returns and other documents that would enable Aadhar to accurately assess their creditworthiness. Aadhar may not receive updated information regarding any change in the financial condition of such customers. Thus it is difficult to carry out precise credit risk analysis on all customers.

**Large base could lead to slower growth compared to past years:** In the affordable housing finance segment, companies with larger loan books tend to have slower growth. We have seen similar slowdown unfold in Gruh Finance, Can Fin Homes and Aavas Financiers through their journey from Rs. 10k Cr to Rs. 20k Cr.

## Valuation and Recommendation

Aadhar is a leader in affordable housing finance segment. Company is consistently showing steady growth in loan book. Upon comparing Aadhar with peers, we observe its loan book is the highest at 19,865 Cr, while its growth is the lowest. In the affordable housing finance sector (low & mid income groups), we've observed in the past that companies with larger loan books tend to experience slower growth once they cross the Rs. 15k Cr mark. Past examples include Gruh Finance, Can Fin Homes and Aavas Financiers wherein growth slowed down from 25-30% levels in the book range of Rs. 10-15k Cr; to 15-20% growth levels once the book exceeded the Rs. 15k Cr mark.

On most other metrics, Aadhar is in the range with its peers such as spreads, cost/income, return ratios and asset quality. Thus on the back of a comparatively larger base and lower growth profile, we believe Aadhar deserves to trade at some minor discount to peer multiples. This leaves some modest scope for listing gains and thus we recommend subscribing to the issue.

### Listed Comparable Peers

As on 9M'FY24	India Shelter	Home First	Aavas	Avg.	Aadhar
Loan Book (Rs Cr)	5,609	9,014	16,080	10,234	19,865
Loan CAGR FY21-Q3FY24	41%	33%	21%	32%	16%
Yield	14.8%	13.8%	13.5%	14.0%	14.0%
COF	8.8%	8.1%	8.5%	8.5%	7.6%
Spread	6.0%	5.7%	5.0%	5.6%	6.4%
Cost/Income	42.2%	35.7%	46.1%	41.3%	36.2%
ROA	4.5%	3.8%	3.2%	3.8%	3.9%
ROE	13.1%	15.4%	13.5%	14.0%	15.7%
GNPA	1.1%	1.7%	0.9%	1.2%	1.4%
NNPA	0.9%	1.2%	0.7%	0.9%	1.0%
P/BV Trailing (Post IPO)	2.8x	3.9x	3.4x	3.4x	2.6x

Source: NBRR

Note: Aadhar's ROA, ROE and P/BV are calculated on post issue basis

## Financials

P&L (Rs. Crs)	FY21	FY22	FY23	9M'24	9M'24 Ann
Interest earned	1,427	1,538	1,776	1,772	2,363
Interest expend	816	761	799	725	966
<b>NII</b>	<b>611</b>	<b>777</b>	<b>977</b>	<b>1,047</b>	<b>1,396</b>
Non interest inc	149	190	267	123	164
<b>Total income</b>	<b>760</b>	<b>967</b>	<b>1,244</b>	<b>1,170</b>	<b>1,560</b>
<i>Growth</i>		27%	29%		25%
Total Op. exper	282	345	474	424	565
<i>Growth</i>	#DIV/0!	22%	38%		19%
Staff costs	189	248	322	290	387
Other Op Exp	93	97	152	134	179
<b>Profit before p</b>	<b>478</b>	<b>623</b>	<b>770</b>	<b>746</b>	<b>995</b>
<i>Growth</i>		30%	24%		29%
Provisions	45	55	49	45	91
Exceptional	0	0	25		0
Profit before ta	433	567	696	701	904
Taxes	92	123	151	153	204
<b>Net profit</b>	<b>340</b>	<b>445</b>	<b>545</b>	<b>548</b>	<b>700</b>
<i>Growth</i>		31%	22%		29%
Per Share Data	FY21	FY22	FY23	9M'24	9M'24 Ann
EPS (Diluted)	8.0	10.4	12.8	12.8	16.4
BVPS	68	80	94	108	111
BVPS (Post IPO)	68	80	110	123	127
Valuation Ratio	FY21	FY22	FY23	9M'24	9M'24 Ann
P/E	39.5	30.2	24.7	-	19.2
P/BV	4.6	4.0	3.4	2.9	2.8
P/BV (Post Issue)	4.6	4.0	2.9	2.6	2.5

Source: Company data, NBRR

# 9MFY24 ROA/ROE calculated on Post IPO basis

Note: Aadhar's EPS, P/E, BVPS & P/BV is calculated on post issue basis

Bal. Sheet (Rs. Crs)	FY21	FY22	FY23	9M'24
Equity capital	395	395	395	395
Reserves & surplus	2,298	2,752	3,303	3,854
Net worth	2,693	3,147	3,698	4,249
Borrowings	8,110	8,819	9,543	10,725
Other liab and prov	2,827	2,410	3,377	3,062
<b>Total liab and equ</b>	<b>13,630</b>	<b>14,376</b>	<b>16,618</b>	<b>18,036</b>
Cash & Bank Balanc	2,171	1,710	1,918	1,222
Investments	497	338	459	471
<b>Net Advances</b>	<b>10,613</b>	<b>11,960</b>	<b>13,851</b>	<b>15,909</b>
<i>Growth</i>		13%	16%	192%
Other assets	349	367	389	434
<b>Total assets</b>	<b>13,630</b>	<b>14,376</b>	<b>16,618</b>	<b>18,036</b>
Asset Quality	FY21	FY22	FY23	9M'24
GNPA ratio	1.1%	1.5%	1.2%	1.4%
NNPA ratio	0.7%	1.1%	0.8%	1.0%
Credit Cost	0.4%	0.3%	0.3%	0.3%
Other Parameters	FY21	FY22	FY23	9M'24
Gross Loan Portfolio	13,327	14,778	17,223	19,865
<i>Growth</i>	NA	11%	17%	167%
Yield on Advances	13.2%	12.8%	12.8%	14.0%
Cost of Borrowings	8.2%	10.4%	7.0%	7.6%
Spread	5.0%	2.4%	5.8%	6.4%
NIM	5.8%	6.9%	8.0%	9.0%
Tier 1	44.1%	45.4%	42.8%	38.9%
Cost / Income Ratio	37.1%	35.6%	38.1%	36.2%
ROA #	2.6%	3.2%	3.6%	3.9%
ROE #	13.5%	15.2%	16.5%	15.7%

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B-2, 301/302, Marathon Innova,  
Opp. Peninsula Corporate Park  
Off. Ganpatrao Kadam Marg  
Lower Parel (W), Mumbai-400013  
Board No. : 91 22 6723 8000/8001  
Fax. : 022 6723 8010