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Aadhar Housing Finance

Date: 6 June 2025 **Price: 450** **Action: BUY**

Industry/Sector	Target Price	Upside Potential	Investment Duration
NBFC – Affordable Housing Finance	520 to 550	16% to 22%	9 to 12 Months

Journey of Company:

- Aadhar Housing Finance was incorporated on May 3, 2010, in Mumbai & began its operations in February 2011.
- In 2017, Aadhar Housing Finance Limited merged with DHFL Vysya Housing Finance Limited.
- **In June 2019, BCP Topco, an affiliate of the global investment firm Blackstone, acquired a substantial 98.7% stake in Aadhar Housing Finance. This acquisition was a game-changer, providing Aadhar Housing Finance with substantial capital, strategic guidance, and enhanced governance, propelling its expansion plans.**
- In 2020, BCP Topco, the promoter (Blackstone's affiliate), infused a substantial INR 14.4 billion into the company, further strengthening its capital base and supporting continued growth.
- **In May 2024, company successfully launched its Initial Public Offering (IPO) & raised 3000 Cr (Fresh Issue of 1000 Cr & Offer for Sale of 2000 Cr. by promoters) at a price of 315.**

About Company:

- Company has been run by professional management team backed by Blackstone Group (owns 75% stake).
- Regulated by Reserve Bank of India ("RBI") & Supervised by National Housing Bank ("NHB").
- Company primarily focusing on **providing affordable home loans to low and middle-income salaried segments of society in semi-urban and rural areas** (Tier 2, 3, 4, and 5 towns and peripheral areas of cities) across India.
- Pan-India presence with 580 branches covering 545 districts across 21 states and union territories; **serving currently 3 Lakhs live accounts with ticket size less than 15 lakhs, with an AUM of 25,500 Cr. As of 31 March 2025.**
- Granular portfolio skewed towards Informal salaried customers (56%); Average ticket size of 10 Lakhs.
- The average loan-to-value ratio (LTV) is **around 59%**
- **AUM by State –** Maharashtra (14%), Rajasthan (13%), UP (13%), Gujarat (11%), MP (9%), TN (9%), TL (7%), etc.
- 66% Gross AUM with Economically Weaker Section /Lower Income Group (EWS/LIG) customers as of 31 March 2025 compared to 80% in FY22.
- 76% of Gross AUM and 79% of borrowings have floating interest rates.
- **AUM (Loan Book) by Product consist of – Home Loan (74% of customers) & Loan Against Property (LAP-26%) in FY25 compared to**
- **Company has a 100% secured book**
- Borrowing Mix – 53% from Banks, 23% from NHB, 21% from NCD and 3% from ECB in FY25 compared to 62% from Banks, 16% from NHB, 21% from NCD and 1% from ECB

Historical Financial Performance:

- Company achieved a significant milestone, with Assets under Management (AUM) reaching 25K Cr. in the affordable housing finance segment, marking 21% YoY growth in FY25 YoY.
- PAT: FY25 at 912 Cr. (+22% YoY); Q4 at 245 Cr. (+21% YoY).
- Book Quality: GNPA at 1.05% (down 3 bps YoY) in FY25.
- **Credit Costs**: Q4 credit cost slightly elevated due to Stage-2 movement and higher standard asset provisioning from AUM growth; not due to elevated write-offs. Write-offs were 8 to 9 Cr. in Q4 & 32 crores in FY25.

5 Yrs. Financial Performance (Consolidated)							
Amounts In Cr.	**FY21**	**FY22**	**FY 23**	**FY24**	**FY25**	**1 Yr Growth**	**3 Yr CAGR**
Loan Book (Total Assets or AUM)	13327	14776.7	17222.8	21120.9	25530.7	**20.88%**	**19.99%**
Disbursements of Loans	3544.7	3991.6	5902.6	7072.4	8192.1	15.83%	27.08%
Net Interest Income (NII)	610.97	777.09	977.09	1288.47	1545.22	**19.93%**	**25.75%**
Credit Cost (Provisions & Write Offs)	54.94	48.71	49.21	41.23	57.07		
Credit Cost as % of AUM	**0.41%**	**0.33%**	**0.29%**	**0.20%**	0.22%		
Cost To Income (Operating Expenses)	35.80%	36.30%	**38.10%**	**37.50%**	**36.40%**		
Net Interest Margins (NIM)	4.58%	5.26%	5.67%	6.10%	6.05%		
Spread (Yields - COB)	5.40%	6.00%	5.80%	5.90%	5.70%		
Gross NPA (Gross Stage 3) to AUM	1.10%	**1.50%**	**1.20%**	**1.08%**	**1.05%**		
Net NPA (Net Stage 3) to AUM	0.70%	**1.10%**	**0.80%**	**0.70%**	**0.70%**		
Pre-Provisioning Profits (PPoP)	487.45	616.07	770.03	1000.82	1230.33	**22.93%**	**25.93%**
Net Profit (Total PAT for EPS)	340.13	444.85	544.76	749.64	911.83	21.64%	27.03%
Book Value Per Share	68.2	79.7	93.7	112.7	147.7	**31.06%**	**22.83%**
ROE	**12.66%**	**14.20%**	**14.80%**	**16.93%**	14.30%		
ROA	**2.49%**	**3.09%**	**3.28%**	**3.93%**	**3.93%**		

Potential Future Growth Possibilities:

- **Cost-to-Income Ratio**- 36.4% (FY25) vs 37.5% (FY24); improvement of 104bps, surpassing its initial guidance of 80 bps improvement. Target further reduction of 30–50bps in FY26; majority of expansion done, incremental branches in lower-cost emerging B/C locations.
- Company is well-positioned for a faster repricing of its liabilities (79% is linked with floating rates) in a declining interest rate environment, which will lead to a decline in its borrowing cost and aid in maintaining or improving its spread.
- Lower Interest rate scenario is beneficial for NBFCs (although with a lag effect of roughly 3 to 6 months).
- Affordable housing segment in India has been growing rapidly & will grow by 13 to 15% in next 5 yrs, driven by government initiatives (PM Awas Yojna), Policy reforms like RERA, urbanisation of tier 2 & 3 cities, and evolving consumer behaviours (young generation are opting for affordable homes earlier in life).

Key Strengths:

- Pristine assets quality-extremely low credit cost, GNPA and NNPA of 0.22%, 1.05% & 0.7% respectively.
- **Lower Geographical risk**- No single state accounts for more than 14.0% of gross AUM, management intent to cap at 14-14.5% and top-3 / top-5 states collectively account for ~40%/60% of AUM, much lower than peers.
- **Cost-to-Income Ratio**: 36.4% (FY25) vs 37.5% (FY24); improvement of 104bps, exceeding guidance.

Potential Risks:

- Slower-than-expected AUM growth of 20% in coming years.
- Spreads coming under pressure due to competition.
- Valuation de-rating might happen due to lower loan disbursal growth or higher GNPA & NNPA in future.
- Dilution of Promoter/PE stake possibility in future which will have short-term impact on the share price.

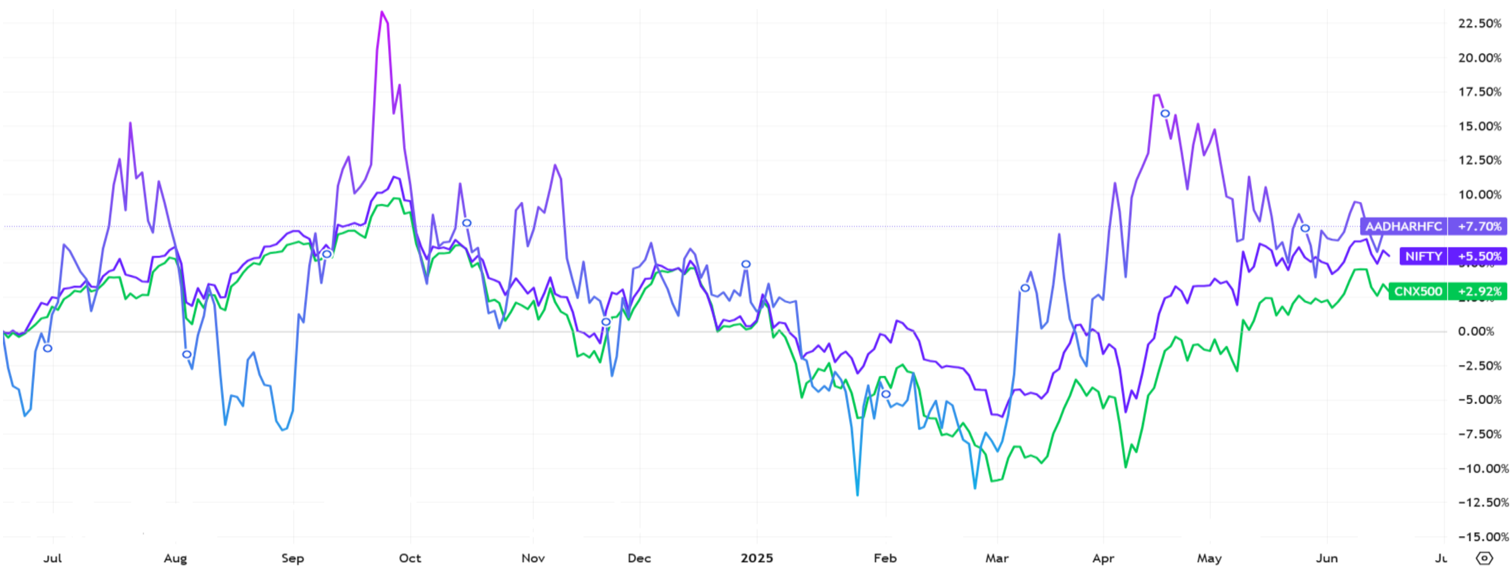
Management Guidance:

- AUM growth of 20% or more backed by disbursement growth of 18-19% for the next 2 to 3 yrs.
- GNPA to be maintained between 1.10%–1.15%.
- PAT growth of 20% or more for the next 2 to 3 yrs.
- Cost-to-Income Ratio- Target further reduction of 30–50bps in FY26.

Peer Comparison:

Amounts In Cr.	Aadhar Housing	Aavas Financier	Aptus Value Housing	Home First Finance	India Shelter Finance
Market Cap	19,327	14,582	16,156	13,066	9,564
Price to Book Value (P/B)	3.04	3.36	3.74	4.44	3.51
Loan Book (AUM)	25,531	20,420	10,865	12,712	8,189
Credit Cost as % of AUM	0.22%	0.13%	0.29%	0.30%	0.40%
GNPA	1.05%	1.08%	1.19%	1.70%	1.00%
NNPA	0.70%	0.73%	0.89%	1.30%	0.80%

Price Movement Comparison b/w Aadhar Housing Finance and Benchmarks (Nifty50 & Nifty500):



Conclusion:

- Our view on Aadhar Housing Finance is positive & BUY at current market price for medium to long-term investment horizon (12 to 24 months) despite short-term headwinds of credit cost increase & stress in MFI segment at Industry level. We believe strong management capability (reflected in managing credit cost, GNPA & NNPA) will overcome future risks (if any occur) and deliver our desired growth rate (PAT, PPoP, Net Worth) of 18 to 20% over the next 2 to 3 yrs.