



**IPO Report**

04<sup>th</sup> Feb'24

**Snapshot**

Aadhar Housing Finance Ltd is a HFC focused on the low income housing segment (ticket size less than ₹1.5 million) in India and company had the highest AUM and net worth among its peers in FY2021, FY2022, FY2023 and nine months ended December 31, 2022 and December 31, 2023. In addition, company had the highest number of live accounts in FY2023. In addition, company have a presence in 20 states and union territories, which is the highest among the peers as of March 31, 2023. Company is a retail-focused HFC focused on the low income housing segment. The average ticket size of company's loans was ₹0.9 million and ₹1.0 million with an average loan-to-value of 57.7% and 58.3%, as of December 31, 2022 and December 31, 2023, respectively.

**VALUATION**

Company is bringing the issue at price band of Rs 300-315 per share at p/b multiple of 3.64x on post issue book value basis.

Company is HFC focused on the low income housing segment (ticket size less than ₹1.5 million) in India with the highest AUM and net worth. Company's seasoned business model with strong resilience through business cycles & extensive branch and sales office network, geographical penetration and sales channels which contribute significantly to loan sourcing and servicing Company has experienced, cycle-tested and professional management team with strong corporate governance.

Hence, looking after all above we recommend "Subscribe" on issue

<b>Price Band (Rs./Share)</b>	300-315
<b>Opening date of the issue</b>	08th May '2024
<b>Closing Date of the issue</b>	10th May '2024
<b>No of shares pre issue</b>	39,47,54,970 Eq Shares
<b>Issue Size</b>	Rs 3000 Cr
<b>Fresh issue</b>	Rs 1000 Cr
<b>Offer For Sale</b>	Rs 2000 Cr
<b>Face Value (Rs/ share)</b>	Rs 10/share
<b>Bid Lot</b>	47

<b>BIDDING DETAILS</b>	
<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 4,75,07,935 Eq Shares)
<b>Non-Institutional</b>	15% of the offer (Approx 1,42,52,381 Eq Shares)
<b>Retail</b>	35 % of the offer ( Approx 3,32,55,555 Eq Shares)
<b>Employee Reservation</b>	Rs 7 Cr
<b>Lead managers</b>	ICICI Securities, Citigroup Global Markets India, Kotak Mahindra Capital Co., Nomura Financial Advisory & Securities (India), SBI Capital Markets
<b>Registrar to the issue</b>	KFin Technologies

**WHAT WE LIKE**

**HFC focused on the low income housing segment (ticket size less than ₹1.5 million) in India with the highest AUM and net worth**

Company's Gross AUM increased from ₹133,271.0 million in FY2021 to ₹147,777.9 million in FY2022 and ₹172,228.3 million in FY2023. Company's 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. Company's 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 company's Gross AUM as of December 31, 2023.

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

Company have a pan-India branch and sales office network. Since its establishment of sales offices in the last quarter of FY2023, as of March 31, 2023 and December 31, 2023, company had 469 and 487 branches (including 94 and 109 sales offices, respectively) across India covering 20 states and union territories of India, respectively. Company's branch and sales office network is widely dispersed across various states and geographies with 56.3% and 55.9% of company's 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.

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

As of December 31, 2023, company had borrowing relationships with the NHB, 23 banks, nine mutual funds, three insurance companies, one development finance institution and one NBFC (that have invested in company's NCDs). The diverse sources of fund allow company to maintain more cost-effective long-term financing.



## COMPANY BACKGROUND

Company offer a range of mortgage-related loan products, including loans for residential property purchase and construction; home improvement and extension loans; and loans for commercial property construction and acquisition. Company's financial performance has remained consistent and resilient through various external events in the Indian economy. Company have made social objectives one of the core objectives of company's business model. Company operate a financially inclusive, customer centric lending business and believe that its business model contributes significantly to the economic uplift of company's target customers by contributing to an improvement in their standard of living. In addition to its customer-facing social objectives, company have also implemented social objectives in aspects of its business. Company's presence in urban and semi-urban locations across India provides a source of employment in these locations

Company have an extensive network of 487 branches\* including 109 sales offices, as of December 31, 2023. Company's branches and sales offices spread across 20 states and union territories, operating in approximately 10,926 pin codes across India, as of December 31, 2023. Company's branch and sales office network is widely dispersed with no state accounting for more than 14.0% in terms of Gross AUM as of December 31, 2023. Company's diversified reach is well positioned to meet the specific needs of its target customers across geographies, in urban and semi-urban areas. Further, as a result of company's geographical spread, the top five states and union territories in terms of contribution to AUM collectively accounted for 62.0% of its AUM as of March 2023, and according to CRISIL, company's 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. \* The number of branches does not include regional offices and corporate offices.

As of December 31, 2023, company have a total of 3,885 employees and Aadhar Sales and Services Private Limited ("ASSPL"), company's 100% owned subsidiary has a total of 1,875 employees. ASSPL provides manpower services, arranges loans, deals in properties and other financial instruments and provides various other financial services. Company have robust and comprehensive systems and processes for underwriting, collections and monitoring asset quality. These systems and processes are also technology enabled across company's front office and back office with a view to ultimately digitize the entire life cycle of a loan from origination to closure. Loan applications from salaried-customers go through its regional processing unit ("RPU"), increasing efficiency while those from self-employed customers, which require close understanding of the customer and their cash flows, are managed regionally.

Company also have an internally developed credit assessment model and have digitized monthly collections from customers to the extent possible to reduce processing and improve collection efficiency. Company have migrated to a digital IT infrastructure with a view to reducing costs, carrying on real time analysis of customer data, improving company's control and underwriting functions, while increasing customer reach and distribution capability. These measures will further improve company's operational efficiency by improving processing times and productivity. Company secure 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 company's capital requirements. Company follow a prudent borrowing strategy of not relying on short-term loans and as of March 31, 2021, March 31, 2022, March 31, 2023, December 31, 2022 and December 31, 2023 98.2%, 99.3%, 100.0%, 100.0% and 100.0% of company's Total Borrowings comprise long-term borrowings with a tenor of one year or more, respectively.

As of March 31, 2021, March 31, 2022, March 31, 2023, December 31, 2022 and December 31, 2023, company's Total Borrowings were ₹103,744.7 million, ₹106,745.9 million, ₹121,534.5 million, ₹117,154.7 million and ₹131,275.9 million, respectively. Company's average cost of borrowings has reduced from 8.2% as of March 31, 2021 to 7.6% as of December 31, 2023. As of December 31, 2023, the weighted average tenure of company's outstanding borrowings, was 116 months. Further, as of December 31, 2023, company's long-term rating from ICRA, CARE, India Ratings and Brickworks are "AA/Stable", its short-term borrowings are rated "A1+" by ICRA and its fixed deposits program is rated "AA/Stable" by CARE.

In addition, company's profit after tax before exceptional item grew at a CAGR of 28.8% between FY2021 and FY2023. Company have a strong, experienced and dedicated management team, with senior management having an average of 25 years' experience in the financial services industry in India. Further, company's board of directors is comprised of a balanced team of independent directors, qualified and experienced personnel, who have extensive knowledge and understanding of the housing finance and banking industries. Since June 2019, BCP Topco, which is company's Promoter, and is an affiliate of funds managed and/or advised by affiliates of Blackstone Group Inc (collectively "Blackstone"), currently holds 98.72% of company's pre-Offer issued, subscribed and paid-up Equity Share capital. Company benefit 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 assets under management of \$1,040.2 billion as of December 31, 2023. Following company's acquisition by BCP Topco, company have also strengthened its corporate governance framework, with the induction of three independent directors, one of whom serves as Non-Executive Chairman.



**INVESTMENT RATIONALE**

<p><i>Seasoned business model with strong resilience through business cycles</i></p>	<p>Through various business cycles, company have 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 company’s professional management team, to maintain its status as the 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 company’s analyzed peers in Fiscal 2021, Fiscal 2022, Fiscal 2023 and nine months ended December 31, 2022 and December 31, 2023. Company’s financial performance has remained consistent and resilient through various external events in the Indian economy. 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 non-bank finance companies; and the various waves of the COVID-19 pandemic. Company’s overall growth, performance of its portfolio, asset quality and continued profitability during these periods despite these negative events demonstrates the strengths of its business and its management team.</p>
<p><i>Robust, comprehensive systems and processes for underwriting, collections and monitoring asset quality</i></p>	<p>Company have implemented a robust and comprehensive credit assessment, risk management and collections framework to identify, monitor and manage risks inherent in its operations. Company exclusively finance retail customers, a majority of whom are salaried individuals purchasing residential properties. Company have also adopted an internal 'risk appetite statement' that sets out the aggregate level and types of risk company is willing to accept while achieving its business objectives. Under this policy company have adopted a benchmark for business decisions that are based on balancing risk and return and making the best use of company’s capital. Company routinely monitor its performance against various qualitative and quantitative metrics under this policy, these include capital, profitability, asset quality, credit, operational, liquidity and compliance risk. As of March 31, 2023 and December 31, 2023, company’s loan-to-value on Gross AUM on outstanding basis was 57.8% and 58.3% with a moderate level of loan-to-value ratios across various buckets at the time of the sanctioning of the loan. As of December 31, 2023, all of company’s outstanding loans are secured in company’s favor by a mortgage over property or other security.</p>
<p><i>Social objectives are one of the core components of company’s business model</i></p>	<p>Company have adopted and implemented a social objective across all aspects of its business. These social objectives are a key strength and differentiator for company’s business. Company operate a financially inclusive customer centric lending business and believe that its business model contributes significantly to the economic uplift of its target customers by contributing to an improvement in their standard of living. As of March 31, 2023 and December 31, 2023, ₹130,496.9 million or 75.8% and ₹144,880.4 million or 72.9% of company’s Gross AUM and 87.1% and 85.5% of its live accounts was from customers who belonged to the economically weaker and low income group, earning less than ₹50,000 per month, respectively. Many of company’s loans are provided under the various affordable housing schemes promoted by the Government of India, such as the Pradhan Mantri Awas Yojana, which benefits economically weaker segment, low income group and medium income group citizens in urban and semi-urban areas. These loans constitute 23.7% of company’s live accounts and ₹39,128.4 million or 19.7% of its Gross AUM as of December 31, 2023. In addition to company’s customer-facing social objectives, company have also implemented social initiatives in other aspects of its business. Company’s presence in urban and semi-urban locations across India results in providing employment opportunities for people in these locations</p>



## OBJECTS OF OFFER

### Offer for Sale

The Promoter Selling Shareholder will be entitled to the proceeds of the Offer for Sale, net of their proportion of Offer-related expenses and the relevant taxes thereon. Company shall not receive any proceeds from the Offer for Sale. All Offer related expenses will be shared, as mutually agreed in the Offer Agreement and in accordance with applicable law.

### Objects of the Offer

Company proposes to utilize the Net Proceeds towards the following:

- (i) To meet future capital requirements towards onward lending; and
- (ii) General corporate purposes.

## RISKS

Company's Erstwhile Promoters are subject to ongoing regulatory investigations by enforcement agencies including the Enforcement Directorate and the outcome of such investigations may adversely impact company and the Equity Shares held by its Promoter, BCP Topco and the market price of the Equity Shares of Company

Source:RHP

## INDUSTRY OVERVIEW

### Overview of housing finance market focusing on low-income housing segment

India's mortgage market can broadly be divided into two segments by ticket size of the housing loan at the time of disbursement - loans with ticket size of more than ₹ 1.5 million, and loans with ticket size of ₹ 1.5 million and below. The former can be called normal mortgage market, which is prominent in the metro/urban areas, and the latter which generally includes houses in the outskirts of these areas and semi-urban and rural areas can be defined as housing finance market focusing on low-income housing segment. According to CRISIL, housing loans with ticket size greater than ₹ 1.5 million are referred to as normal housing loans ("Normal housing loans"), and loans with ticket size lower than ₹ 1.5 million are referred to as housing loans focusing on low-income housing segment ("Low-income housing loans"). This segment is also the focus of government schemes such as affordable housing in partnership and Credit Linked Subsidy Scheme ("CLSS") under PMAY, and refinance under the National Housing Bank's ("NHB") affordable housing fund.<sup>1</sup> As per RBI Report of the Committee on the development of Housing Finance Securitisation Market published in September 2019, the housing shortage is also largely in the EWS and LIG segment with shortage of 45 million houses in the EWS segment and 50 million houses in LIG segment, which put together accounts for 95% of the estimated housing shortage in India.

### Encouraging trends in housing finance market focused on low-income housing segment (loans up to ₹ 1.5 million); market to bounce back more strongly in long term

The overall size of the housing finance market focusing on low income housing loans in India was around ₹ 4.4 trillion as of December 2023, constituting for around 14% of the overall housing finance market, as per CIBIL data. With outstanding loans of ₹ 1.7 trillion as of December 2023, PSBs have the highest market share of 38% in the Low-income housing loans market. HFCs accounted for 29% of the market (outstanding loans of ₹ 1.3 trillion as of December 2023) followed by private banks which had a market share of 22% (outstanding loans of ₹ 1.0 trillion as of March 2023). All other player groups (MNCs and small finance banks) had a cumulative market share of 8% in Low-income housing loans as of December 2023. Between Fiscals 2018 and 2023, the growth in the low income housing segment has remained subdued, with the segment having witnessed a CAGR of 3% after growing between Fiscals 2015 and 2018 and as compared to overall housing loans, which has grown by 14% during the same time. This can be primarily attributed to a slowdown in economic activity, funding challenges due to NBFC crisis and the COVID-19 pandemic. Further, rise of hybrid work model and working from home led to an increase in demand for bigger residential homes. As a result, the sale in affordable housing took a beating whereas high-end and midsegment housing gained the maximum in the last couple of years. The industry is expected to see a moderate growth with a CAGR of 8-10% between Fiscals 2023 and 2026.



**Consolidated Financials**

(Rs in Mn)

Financials (Mn)	FY21	FY22	FY23	9months FY24
Total Income	18951.70	14882.10	20435.20	15755.50
Total Expenses	11488.20	9166.70	12734.90	10881.00
Pre Provision Profit	7463.50	5715.40	7700.30	4874.50
Provisions	453.70	552.80	492.10	549.40
PBT	7009.80	5162.60	7208.20	4325.10
Tax	1531.00	1122.00	1510.60	923.80
PAT	5478.80	4040.60	5697.60	3401.30
Eq Cap	3947.60	3947.60	3947.60	3947.60
Net Worth	42,491.60	35,557.40	36,976.60	26,928.20
EPS	13.9	10.2	14.4	8.6
Book value	107.64	90.07	93.67	68.21
NIM %	9	8	8	5.8
CAR	39.7	44.9	42.7	44.1
ROE%	18.40	16.10	15.90	13.50
ROA%	4.2	3.6	3.6	2.5
Credit Cost%	0.3	0.5	0.3	0.4
GNPA%	1.4	1.8	1.2	1.1
NNPA%	1	1.3	0.8	0.7

(Source: RHP)

**Peer Comparison**

Company Name	Face value	EPS	NAV	P/E	P/B	RONW %
<i>Aadhar Housing Finance Limited</i>	<i>10</i>	<i>13.8</i>	<i>93.7</i>	<i>--</i>	<i>--</i>	<i>16.5</i>
<b>Peers</b>						
Aptus Value Housing Finance India Limited	2	10.1	67.1	31.3	4.7	16.1
Aavas Financiers Limited	10	54.4	413.6	28.1	3.7	14.1
Home First Finance Company India Limited	2	26.0	206.5	34.9	4.3	13.5
India Shelter Finance Corporation Limited	5	17.8	141.4	33.1	4.1	13.4



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