

08<sup>th</sup> May 2024

## Aadhar Housing Finance Ltd. – SUBSCRIBE

### Investment Thesis

- Aadhar Housing Finance Ltd. (AHFL) is set to launch its initial public offering (IPO) on May 08, 2024. The Issue size of the AFHL IPO is Rs. 3,000 crs a consisting of a Fresh Issue of Rs. 1,000 crs and an Offer for Sale of Rs. 2,000 crs. The proceeds from the fresh issue are to be utilized for the
  - Meeting future capital requirements towards onward lending.
  - General corporate purposes
- AHFL is a retail-focused HFC focused on the low-income housing segment, serving economically weaker and low-to-middle income customers, who require small ticket mortgage loans. It offers 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.
- The company boasts a significant physical footprint with 487 branches (including 109 sales offices) across 20 states and union territories in India (as of Dec 31, 2023). This extensive network, reaching over 10,900 pin codes, positions them for deep customer penetration and facilitates local job creation.

### Revenue from business

- During 9MFY24, AHFL has reported a NII of Rs. 949 crs and is tracked to beat the FY23 number. During FY21-FY23, AHFL managed to scale up the NII by 60% to Rs. 977 crs from Rs. 611 crs.

Particulars	FY21	FY22	FY23	9MFY24
NII (Rs. In Crs)	611	777	977	949
NIM (%)	5.8	6.9	8.0	9.0
PAT (Rs. In Crs)	340	445	564	548
AUM (Rs. In Crs)	13,325	14,777	17,223	19,865
RoA (%)	2.6	3.2	3.6	4.2
GNPA (%)	1.1	1.5	1.2	1.4
NNPA (%)	0.7	1.1	0.8	1

- The NII growth was strongly supported by a sustained increase in the NIM which stands at 9.0% in 9MFY24 up from 5.8% at the end of FY21, translating to a jump of 320 bps over the said period.
- AHFL is the largest Affordable Housing Finance company in terms of AUM. As at the end of 9MFY24, the AUM stood at Rs. 19,865 crs of which 57.2% comprises of Salaried Individuals with an average ticket size of Rs. 10 lakhs.
- The management of AHFL has maintained a pristine loan book with a the GNPA/ NNPA of 1.4% / 1, respectively, as on Dec-23. The asset quality is best in class which underscores with robust underwriting and risk management.

### IPO Details

Issue Open Date	08 May 2024
Issue Close Date	10 May 2024
Price Band (Rs.)	Rs. 300 – Rs. 315
Issue Size*	Rs. 3,000 crs
Issue Size (Shares)	9.5 crs
Market Lot	47 Shares
Listing Exchanges	NSE / BSE
Face Value (Rs.)	Rs. 10/-

\* At highest price band

### Key Details

Fresh Issue*	Rs. 1,000 crs
Issue Type	Book Building
Book Running Lead Manager	ICICI Securities, Citigroup Global Markets India, Kotak Mahindra Capital, Nomura Financial Advisory and Securities (India) and SBI Capital
Issue structure	QIB: 50% Non-Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	14 May 2024
Issue Listing Date	15 May 2024

\* At highest price band

## Key Business Highlights

- Riding the Affordable Wave:** AHFL is a leading HFC focused on the low-income housing (ticket size < Rs 1.5 million) segment in India, boasting the largest AUM and net worth among its peers (FY2021-FY2023, Dec-2023). Its Gross AUM grew steadily (~17% YoY), demonstrating its ability to cater to the specific needs of this underbanked segment across urban and semi-urban areas. Government support for affordable housing further strengthens its growth prospects.
- Proven Resilience in Underbanked Housing:** The customer-centric model of AHFL leverages its extensive branch network along with a seasoned management team, has delivered consistent performance and industry-leading AUM/net worth (FY21-23, Dec-2023). Its success hinges on catering to the specific needs of the low-income segment with tailored financial solutions, while maintaining robust credit underwriting (incl. internally developed 4-pronged model) and collections practices. This ensures portfolio resilience throughout economic cycles.
- Granular Risk Management:** AHFL boasts a comprehensive framework for risk identification, mitigation, and monitoring. This includes a robust credit assessment process featuring an internal 4-pronged model that goes beyond traditional methods. Additionally, a clearly defined "risk appetite statement" ensures prudent capital allocation by outlining acceptable risk levels. Specialized underwriting teams cater to salaried and non-salaried customers, enhancing due diligence and tailoring risk mitigation strategies. Regular monitoring across key metrics like capital adequacy, profitability, and asset quality further strengthens their risk management practices.
- Strategic Funding Mix:** The company employs a well-diversified funding strategy, utilizing term loans, loan assignments, NCD issuances, NHB refinancing, and subordinated debt from banks and institutions. This approach goes beyond traditional sources, securing cost-effective financing while optimizing capital allocation, funding liquidity, and managing asset-liability mismatches.

## Valuation

At the upper price band AHFL is valued at 2.6x P/B post issue. When compared to its peers in the housing finance space which are currently available at an average P/B ratio 2.8x. This implies the IPO is priced favorably and offer good value. Additionally, the leadership position, robust risk management, strong management team and sector tailwind induce more confidence about the company.

Considering the above we are assigning a "**SUBSCRIBE**" rating to the IPO of AHFL. Investors with a long-term horizon can apply for the IPO.

## Risk & Concern

- Depend on accuracy and completeness of information provided by potential borrowers and third-party.
- Strict regulatory environment.
- Interest rate cycle.

## Graphs & Charts

Figure 1: NII and NIM Trend

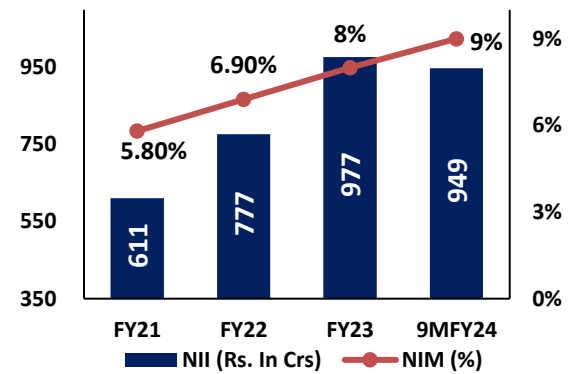


Figure 2: GNPA and NNPA Trend

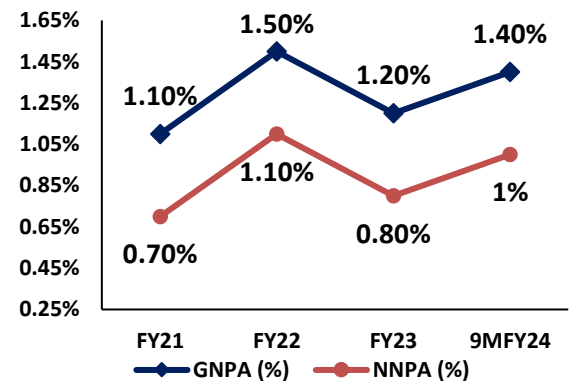


Figure 3: AUM Trend

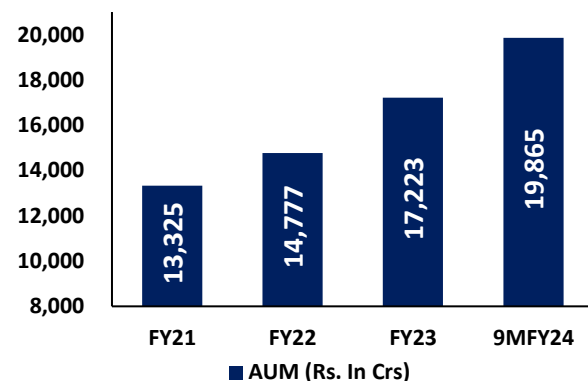
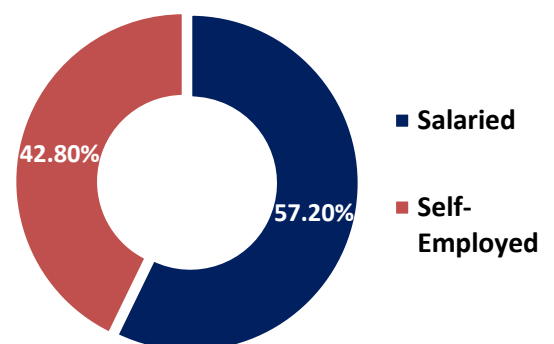


Figure 4: AUM Composition (9MFY24)



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