

Aadhar Housing Finance

“Large and affordable-focused, yet undervalued”

We initiate coverage on the largest listed affordable housing financier Aadhar Housing Finance (Aadhar) with a **BUY** rating and a target price of INR 600. Established in 2010, Aadhar has the longest track record in the affordable housing space with total AUM of INR 217bn. Post-acquisition by Blackstone L.P., the company has made significant progress in terms of corporate governance, growth, efficiency and profitability.

Aadhar has a diversified presence across 21 states, where it aims to go deeper into geographies going forward, this should keep growth healthy and well-balanced. Its graded branch expansion strategy allows it to set footprints in tier-4/5 areas at cheaper costs while use of Aadhar Mitra (lead generation channel) and smart use of tech to handle day-to-day operations significantly contribute to operational efficiencies.

Despite the onset of the potential interest rate cut cycle, Aadhar’s well-matched and positive ALM mix (78% floating liabilities vs 80% floating assets) should result in margins remaining largely steady; and credit costs remaining benign.

We expect Aadhar to deliver EPS CAGR of 26% over FY24-26E led by: i) 23% CAGR AUM growth, ii) steady margins, iii) operating leverage, and iv) steady credit costs. This entails RoAs of 4.3%/4.5% for FY25E/FY26E. Though suppressed due to IPO infusion of INR 10bn, RoEs will continue to be robust at 17% (vs. 18.4% in FY24). Initiate with BUY.

Well diversified geographical presence and origination channels: In addition to a diversified presence across the country, Aadhar has multiple sources of origination channels, viz., DSA (35%), DST (43%) and Aadhar Mitra (22%). We believe that i) deeper geographical penetration, ii) government push on housing (CLSS subsidy as per PMAY) and iii) multiple sources of origination, will aid the company to grow its AUM at a steady 20%+ CAGR over FY24-26E.

Margins to remain largely steady: As we move towards the rate cut cycle, NBFCs with higher floating rate assets are likely to encounter margin compression. Aadhar has 80% of its assets and 78% of its liabilities on floating rate which will lead to pass through of initial rate cuts. However, potential ratings upgrade (led by strong performance and continued parent (Blackstone L.P.) should aid borrowing costs in the medium term. On the assets side, shift towards self-employed (43% of AUM) and LAP (25% of AUM) will support yields, offering cushion against increase in cost of funds.

Strong tech foundation: Aadhar has a well-established technology infrastructure developed by TCS that offers enough flexibility to cope with any incremental regulatory changes. In addition, Aadhar has made initial investments in tech, which yields reduced TAT and a smooth decision-making across all phases of loan cycle, viz., origination, underwriting, collections and monitoring. This is likely to offer operating leverage going forward as business scales up.

Valuations and view: We believe there is still significant upside on offer at current valuations of 2.5x FY26E P/BV for 4%+ RoAs and 17% RoEs. We value Aadhar at 3.2x FY26E P/BV and initiate coverage with a BUY rating and TP of INR 600. Increasing competition and stress from self-employed book are key risks to our call.

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	600
Upside/(Downside)	29.2%

Key Data – AADHARHF IN	
Current Market Price	INR464
Market cap (bn)	INR199.5/US\$2.4
Free Float	24%
Shares in issue (mn)	394.8
52-week range	487/292
Sensex/Nifty	84,544/25,791
INR/US\$	83.6

Price Performance			
%	1M	6M	12M
Absolute	14.6	NA	NA
Relative*	9.9	NA	NA

* To the BSE Sensex

Financial Summary					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Profit	4,449	5,448	7,496	9,193	11,854
Net Profit (YoY) (%)	30.8%	22.4%	37.6%	22.6%	29.0%
Assets (YoY) (%)	5.5%	15.6%	14.9%	24.7%	19.1%
ROA (%)	3.2%	3.5%	4.2%	4.3%	4.5%
ROE (%)	15.2%	15.9%	18.4%	17.0%	17.0%
EPS	11.3	13.8	19.0	22.7	29.3
EPS (YoY) (%)	30.8%	22.4%	37.6%	19.6%	29.0%
P/E (x)	41.2	33.6	24.4	20.4	15.8
BV	80	94	113	157	187
BV (YoY) (%)	16.9%	17.5%	20.3%	39.6%	18.6%
P/BV (x)	5.82	4.95	4.12	2.95	2.49

Source: Company data, JM Financial. Note: Valuations as of 20/Sep/2024

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

You can also access our portal: www.jmflresearch.com

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

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