BUY (Maintain)

CMP: **INR 506** Target Price: **INR 625** ▲ 24%

ICICI Securities

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14 September 2025

India | Equity Research | Company Update

Aadhar Housing Finance

NBFCs

Largest HFC in low-income housing; strong growth momentum to sustain

We hosted Aadhar Housing Finance (Aadhar) in Singapore for an investor roadshow. Takeaways: I) Housing finance market in India is broadly categorised into three segments - prime (>INR 3.5mn), mid-income (INR 1.5mn-3.5mn) and low-income affordable (<INR 1.5mn), and Aadhar is the largest HFC in low-income housing in terms of disbursements (~INR 20bn in Q1FY26), profitability (Q1FY26 PAT of INR 2.4bn) and distribution (591 branches as on Jun'25), II) dedicated urban and emerging vertical to ensure growth and spread going ahead and III) relatively lower exposure to South (~30% of total branches) and LAP (~27% as on Jun'25) to ensure better asset quality outcome in near term. Retain **BUY.**

Low-income housing represents a huge lending opportunity; Aadhar with largest distribution and differentiated approach to sustain growth momentum

Management highlighted that the potential financing opportunity in the affordable housing segment (banks + HFCs) is estimated to be INR 45trn, implying a 3.5x increase from the existing loan volume of INR 13trn. Aadhar is best placed in low-income housing space with its largest distribution network of >590 branches as on Jun'25; it plans to reach >750 branches by FY28 (50-60 new branches per year). In order to sharpen focus on execution and quality, Aadhar has divided its distribution in two verticals – urban and emerging – first AHFC to have such a differentiated distribution strategy. Overall, it expects 18-20% disbursement growth and 20-22% AUM growth in the near term.

Near-term focus is to reach 18% RoE

Aadhar has been the only AHFC to deliver 18% RoE in the past (FY24) and hence its near-term focus is to reach the historical level of RoE (of 18%) with RoA of 4.2-4.4%. While it acknowledges stress in small-ticket LAP and few Southern states, it remains confident of maintaining credit cost within the guidance of 25-27bps in FY26 and bring down GNPL to ~1.1% from current level of 1.34%. Its exposure in South is limited to ~30% of branches (Tamil Nadu - 10% and KTK - 6%, as on Jun'25) and LAP has been ~27% of AUM as on Jun'25. It emphasised that bounce rate is broadly within the historical range and is not showing any early sign of stress.

Financial Summary

Y/E March (INR mn)	FY24A	FY25A	FY26E	FY27E
Net Interest Income	12,885	15,452	18,408	22,256
PAT	7,485	9,121	11,003	13,693
EPS (INR)	19.0	21.1	25.5	31.7
BVPS (INR)	113	148	173	205
P/E (x)	26.7	23.9	19.8	15.9
P/BV (x)	4.5	3.4	2.9	2.5
Gross Stage - 3 (%)	1.1	1.1	1.2	1.1
Dividend Yield (%)	-	-	-	-
RoA (%)	3.9	3.9	4.0	4.2
RoE (%)	16.8	14.3	14.7	15.5

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Market Data

Market Cap (INR)	219bn
Market Cap (USD)	2,474mn
Bloomberg Code	AADHARHF IN
Reuters Code	AADA.BO
52-week Range (INR)	538 /341
Free Float (%)	24.0
ADTV-3M (mn) (USD)	4.4

Price Performance (%)	3m	6m	12m
Absolute	13.4	17.1	15.8
Relative to Sensex	14.5	7.0	15.7

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
PAT	-	-

Previous Reports

27-07-2025: Q1FY26 result review

22-06-2025: NBFCs Sector Update

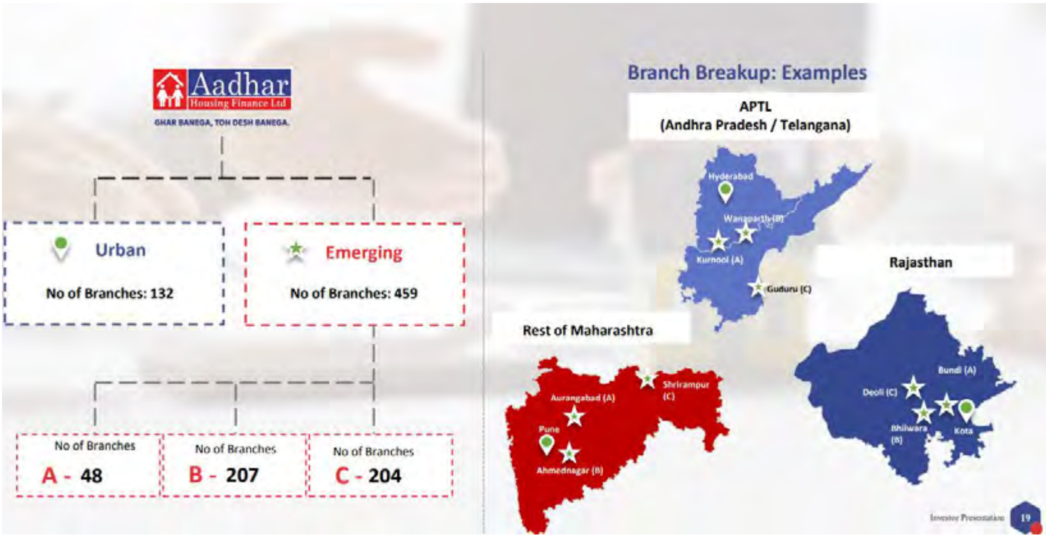
Unique strategy of urban/emerging segmentation to aid sustain AUM growth and spreads at a scale

Aadhar's portfolio remains geographically well diversified, with no single state contributing >14% of its AUM. This is a testament to its calibrated and disciplined risk management framework. This diversification also marks a significant milestone in its broader mission to expand access to housing finance in under-penetrated regions, align closely with the government's 'Housing for All' vision and NHB's mandate to drive financial inclusion across the country.

This mission led to the birth of its strategy of branch segmentation into urban and emerging. Aadhar, based on its internal classification, has classified selected 132 branches in top 15 cities as urban and the balance 459 are classified as emerging branches. And in emerging, it has three categories – A, B and C – which is segregated based on market potential and expected spreads from that location. Strategies with regards to ticket size, yield, BT-out and branch expansion are different for each branch category.

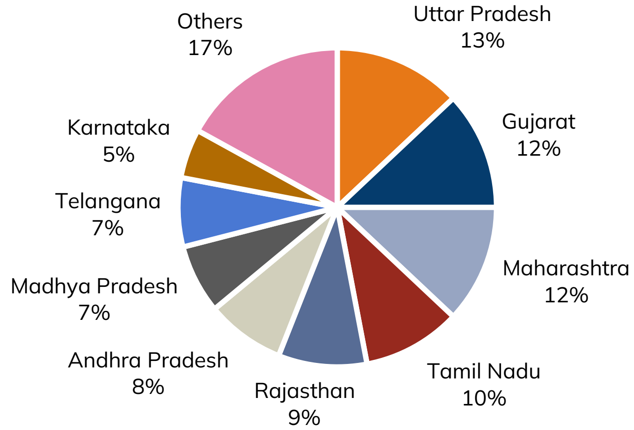
Overall, under this new strategy, Aadhar seems to be going in the right direction as it is broadly aligning separate focus for urban and emerging with regards to ticket size, potential, yield, BT-out and manpower. We believe this branch segmentation could aid in Aadhar sustaining >20% YoY AUM growth and maintaining spread at >5.5% on the desired scale as well.

Exhibit 1: Distribution strategy has been implemented by categorising branches into urban and emerging; further emerging has been divided into categories - A, B, C - based on customer type, product preference, etc.



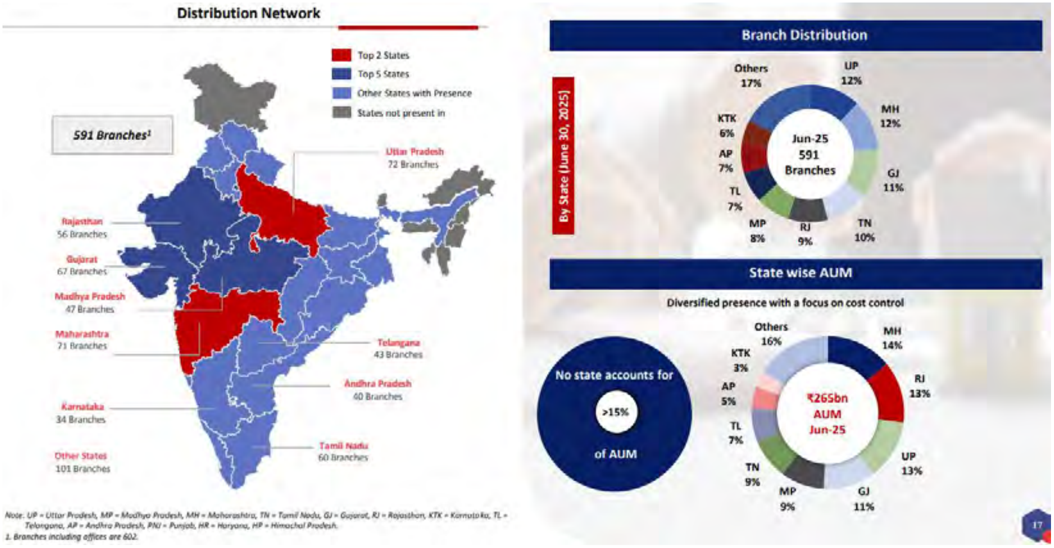
Source: Company data, I-Sec research

Exhibit 2: No state accounts for >14% of AUM



Source: Company data, I-Sec research

Exhibit 3: Pan-India presence with no concentration risk in any state



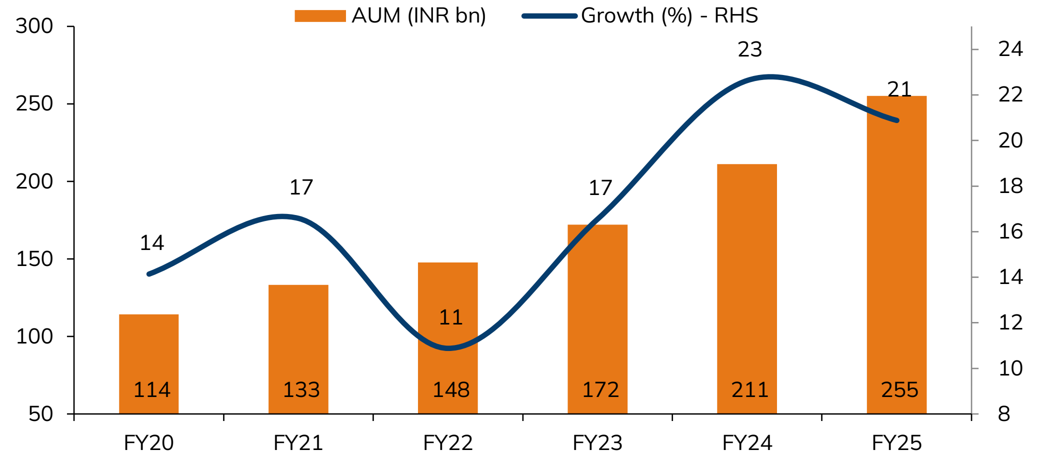
Source: Company data, I-Sec research

Segmentation to aid in achieving AUM growth guidance of >20%

Aadhar's strategy is to have more focus on emerging (with respect to branch expansion due to its lean cost structure) and hence it is likely to have higher growth than urban locations. This is because urban has more competition compared to emerging. Currently, 55% of its business is coming from urban and the intention is to change this to 55% from emerging. Overall, a combination of both urban as well as emerging may enable Aadhar to deliver on its stated AUM growth guidance of 20-22% and disbursements guidance of 18-20% in a risk calibrated manner.

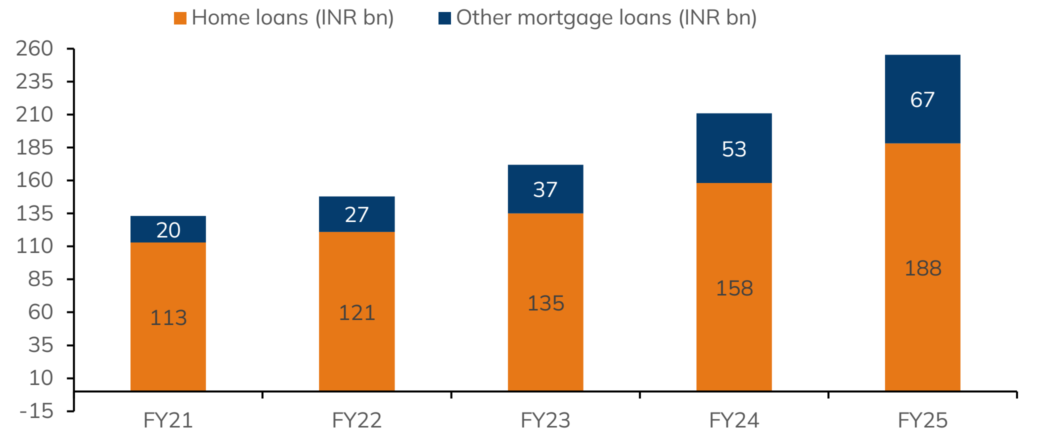
In urban locations, competitors will play a larger role, but competitive intensity goes down in emerging A, B and C branch locations. Hence, the probability of higher conversion ratios applies in emerging locations. Also, BT-out is relatively higher in urban branch location compared to emerging. Hence, Aadhar is likely to be more focused towards emerging locations, which promise a better risk-reward potential.

Exhibit 4: Strong AUM growth post Covid



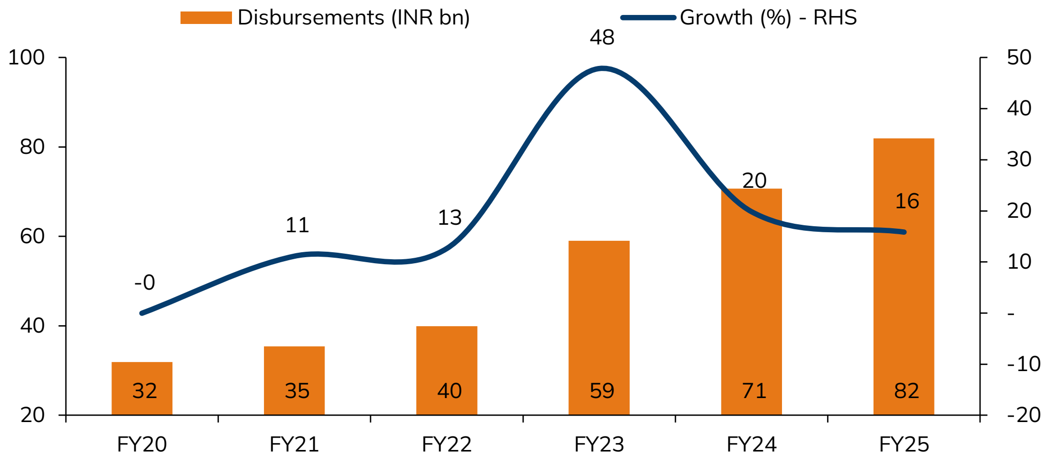
Source: Company data, I-Sec research

Exhibit 5: LAP portion growing along with HL portfolio



Source: Company data, I-Sec research

Exhibit 6: Disbursements remain in momentum reflecting strong demand in affordable business



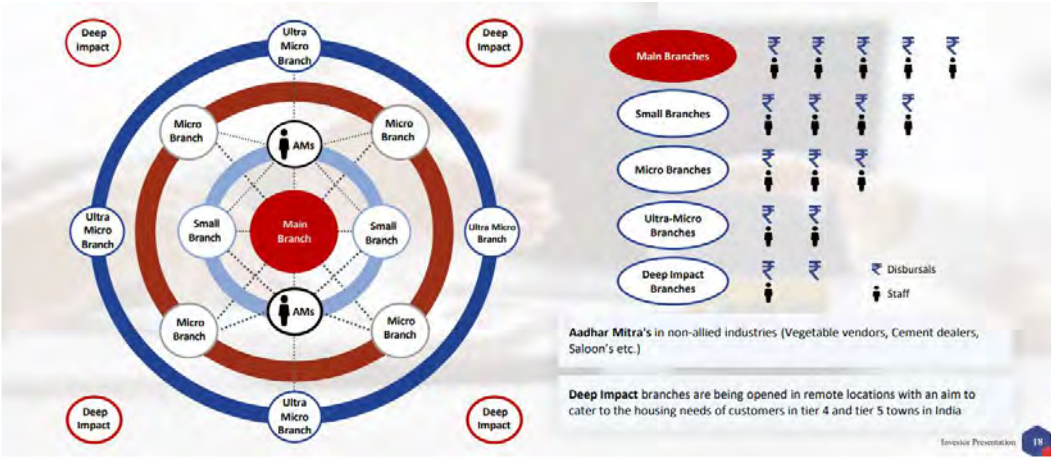
Source: Company data, I-Sec research

No differentiation in terms of underwriting or operations for different branch category

As far as back-end functions are concerned, which is underwriting operations, collections, technical visit to the property, everything remains common for urban and emerging. Aadhar has a hybrid underwriting mechanism, wherein all the salaried profiles are underwritten centrally at regional processing centres (RPCs), irrespective of branch classification, while self-employed consumers are underwritten from the branch network.

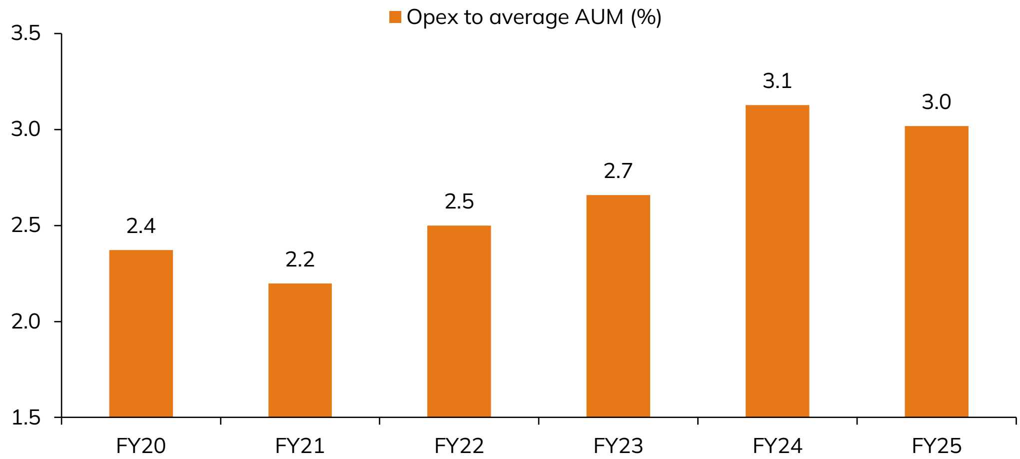
Aadhar could continue with its strategy of adding 50-60 branches every year. However, of these 50 branches, it will add 15 urban branches and balance 35 towards emerging. Given that the cost of setting up emerging branches is relatively lower, Aadhar expects its cost to assets to also see a gradual decline.

Exhibit 7: Aadhar's agile branch network with each location catered to by an appropriate branch size, helping keep opex in control



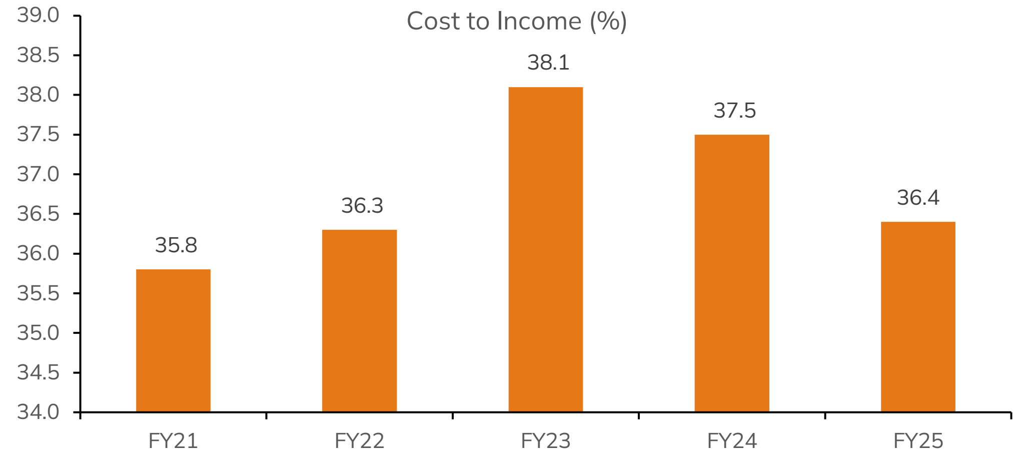
Source: Company data, I-Sec research

Exhibit 8: Operating leverage may start playing out once branch expansion and digital initiatives settle



Source: Company data, I-Sec research

Exhibit 9: Maintains cost-to-income ratio between 35-37%



Source: Company data, I-Sec research

Credit rating/outlook upgrade and focus towards emerging branches should aid sustain spreads at a scale

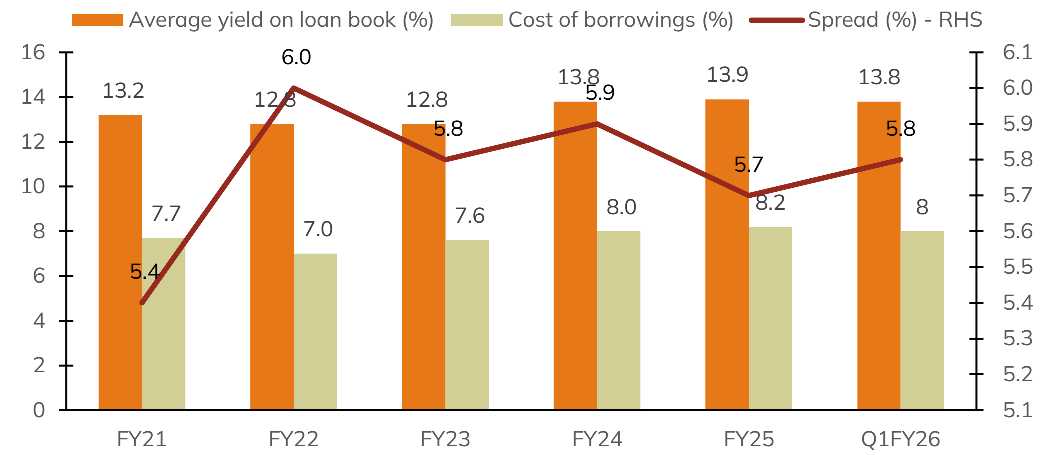
Aadhar's initial focus, on scaling its affordable housing finance business in relatively credit-untested markets such as UP, Chhattisgarh, Jharkhand and Odisha, provided it with strong pricing power. Further, an increased share of LAP to 27% by Q1FY26, from 14% in FY20, also supported spreads given the yields in LAP are much higher at ~17% vs. ~13.5% in housing loan. This inherent advantage helped it sustain industry-leading spread at >5.5%, despite being AHFC players in low-income housing.

Incremental borrowing cost was 8.1% for Q1FY26 vs. 8.4% for FY25. Moreover, Aadhar had received a credit rating upgrade in Jun'25 to CARE AA+/Stable (earlier: CARE AA/Stable) from CARE, rating outlook upgrade in Jun'25 to ICRA AA/Positive (earlier: ICRA AA/Stable) from ICRA, and in Sep'25 to INR AA/Positive (earlier: IND AA/Stable) from India Ratings. This augurs well for cost of borrowings going ahead. 49% of Aadhar's borrowings are from banks, followed by 24% from NHBs and 23% from NCDs.

Spreads stood at 5.8% in Q1FY26 and 5.7% in FY25, which is among the highest vs. peers. In order to sustain spreads over a long period, management adopted a strategy of branch categorisation into urban and emerging. Incremental yield in the urban market is 12–12.5%; the figure in emerging market is as high as 14.5–16%. Currently, urban market contributes ~55% of incremental business, which it plans to prune to 45% in the near term; this should enable higher yields at portfolio-level going forward.

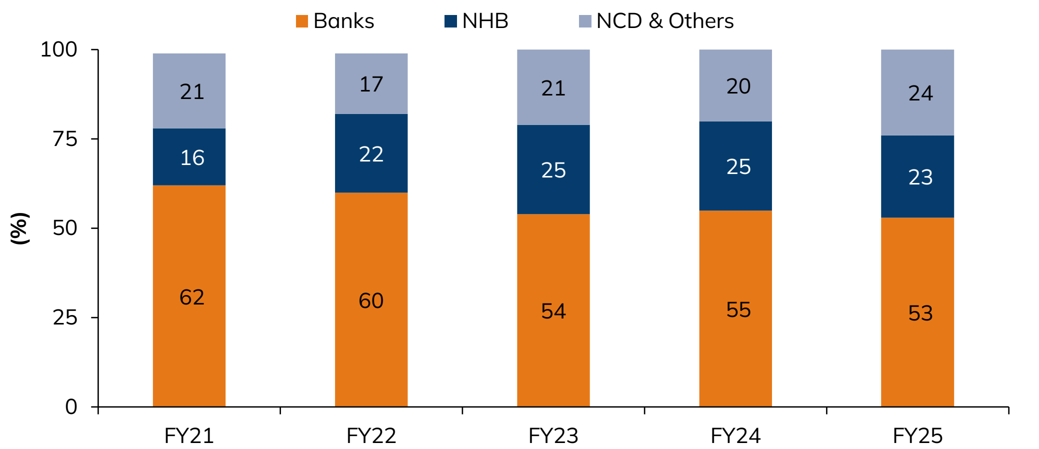
Excluding a major part of its non-housing book and loans benchmarked via NHB borrowings, all of Aadhar's assets are floating in nature, which is ~75% of assets. Similarly, on the liability side, ~75% of its borrowings are floating in nature. Hence, it may be inferred that Aadhar does not take interest rate risk and the company would be largely immune to changes in repo rate with respect to margins; except for a likely quarter of lead-lag in pricing its assets vs. liabilities.

Exhibit 10: Spreads seeing improvement post repo rate cut and dip in CoF



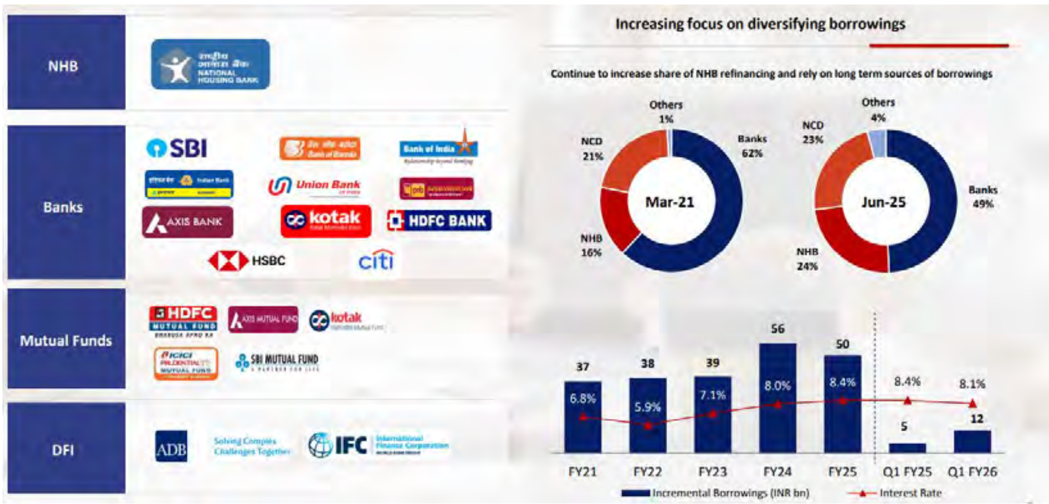
Source: Company data, I-Sec research

Exhibit 11: >50% share from banks is helping Aadhar in current rate cut cycle. Fixed rate NCDs add diversification benefit as well



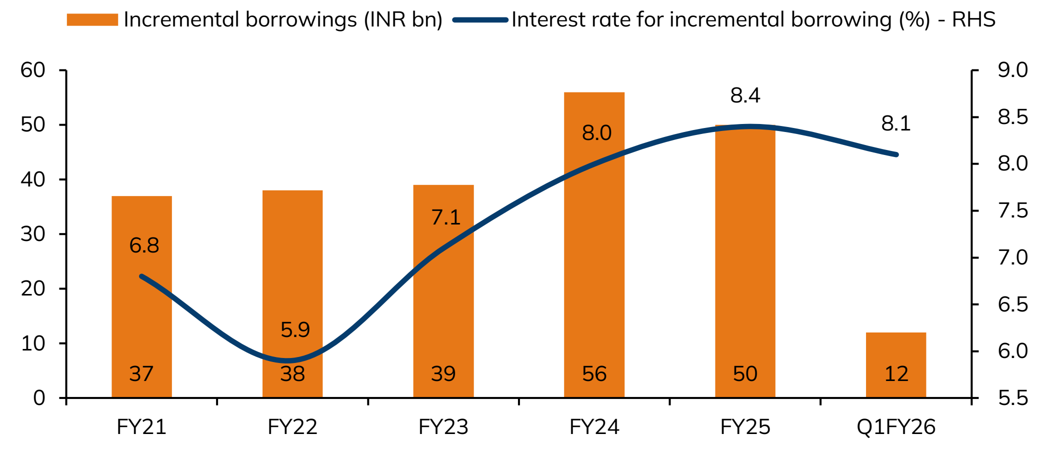
Source: Company data, I-Sec research

Exhibit 12: Diversified funding sources via NHBs, banks, MFs and DFIs



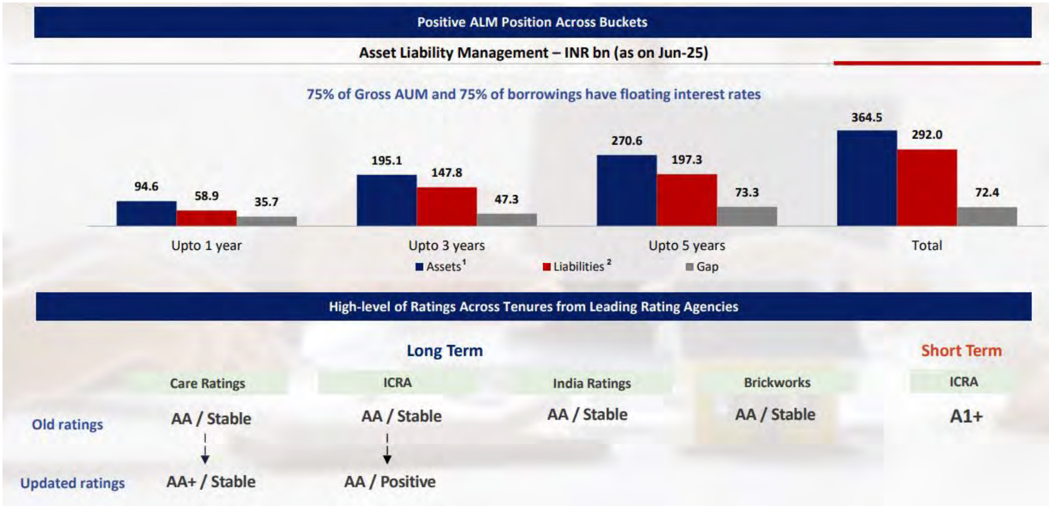
Source: Company data, I-Sec research

Exhibit 13: Incremental borrowings at 8.1% in Q1FY26, down ~30bps vs. FY25 suggesting better CoF management going forward



Source: Company data, I-Sec research

Exhibit 14: Positive ALM across all buckets



Source: Company data, I-Sec research

Asset quality metrics surge in Q1 on account of seasonality, likely to recoup by year-end

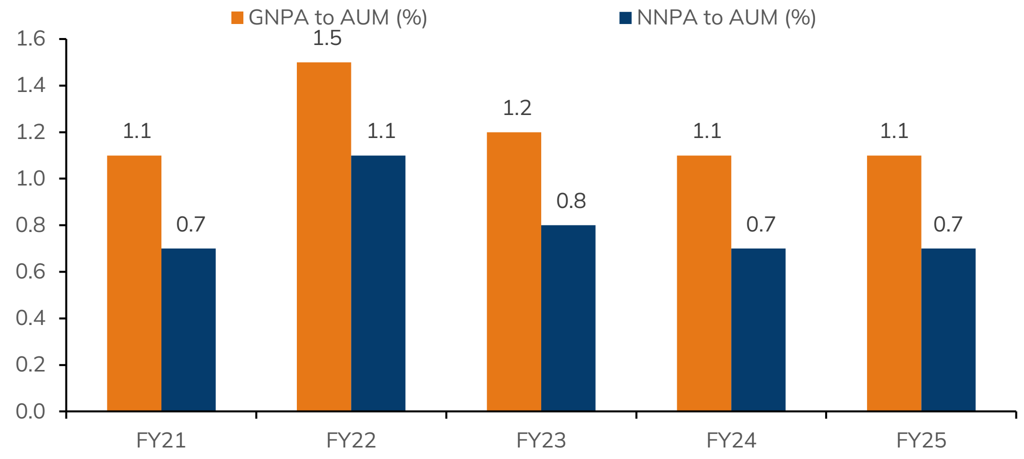
The most preferred customer segment for NBFCs in any asset class – vehicle, LAP, gold, home loan etc. – is the self-employed segment. Within affordable housing, too, most players are catering to the self-employed segment. However, Aadhar challenged the *status quo* and targeted the formal salaried segment (non-white collar), but in under-penetrated markets. Early entry into underserved markets and affordable housing provide Aadhar the flexibility of choosing its customer segment. Aadhar has opted for the less vulnerable formal salaried segment to start its lending journey.

To ensure its asset quality does not get diluted, it has continued to fully concentrate on retail secured and granular lending portfolio with no exposure to corporates or developer. Its portfolio continues to be well secured, with an average LTV of 59% and salaried share of 56%. ATS on AUM remains steady near INR 1mn and home loan continues to form the core of its business, accounting for 73% of its AUM, while the balance 27% comes from LAP.

As a result, Aadhar has been able to maintain healthy asset quality metrics, despite being the largest AHFC player (in low income housing) with an AUM size of INR 265bn across 306k live accounts. As of Q1FY26, it had gross stage-3 of 1.3%, net stage-3 of 1.0% and gross stage-3 PCR of 32.5%. Overall, it has maintained ECL provision of 1.2% since past 4-5 quarters and collection efficiency has been consistently above 98%.

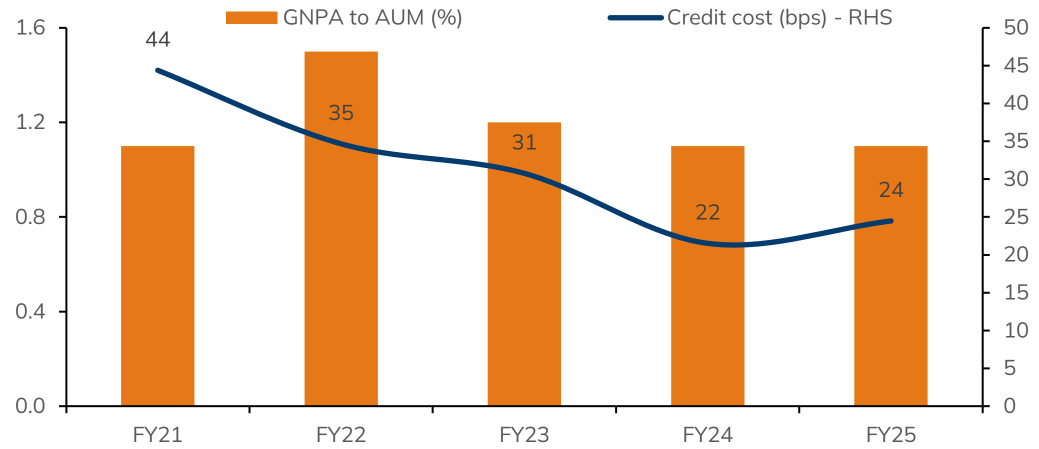
However, Q1FY26 has seen some inch up in asset quality metrics on a sequential basis in 1+dpd and stage-3, which is largely attributed to seasonality and could gradually correct by year-end. Forward flow from stage-2 to stage-3 is a normal phenomenon during Q1 and management expects stage-3 to retrace to ~110bps by FY26-end. In terms of credit cost, Aadhar has guided for credit cost in the range of 25-27bps for FY26. We expect stage-3 to settle at 1.2%/1.1% and calculated credit cost (as a % of average AUM) of 26bps/20bps, in FY26/27E, respectively.

Exhibit 15: Asset quality one of the best in the industry with <1.1% NNPA in last 5 years



Source: Company data, I-Sec research

Exhibit 16: Credit cost guidance at 25-27bps for FY26 despite challenges in LAP book and South market for various players



Source: Company data, I-Sec research

Integrating technology for simplified operations

The theme for Aadhar's FY25 (latest) annual report was "Integrating Technology, Elevating Experience." A strong technological foundation anchors Aadhar's competitive edge, driving efficiency, enriching customer experience, and accelerating growth.

Over the past four years, Aadhar has significantly strengthened its technology infrastructure by deploying a cloud-based data centre and launching the TCS lending and securitisation platform. It has redefined operations across the entire customer journey. Its core systems, supported by TCS and other leading technology partners, integrate end-to-end digital journeys across onboarding, underwriting, and collections.

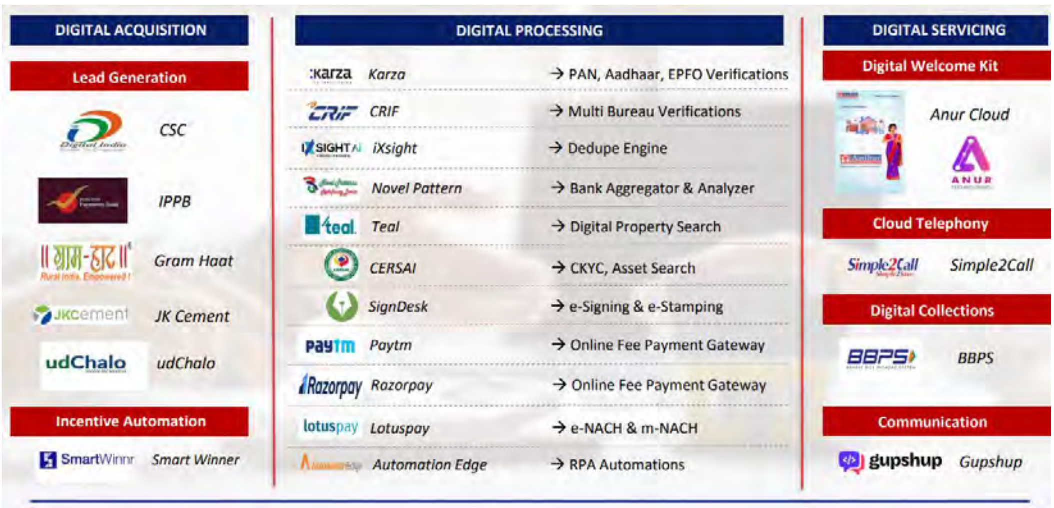
Continued investment in digital platforms delivers measurable gains in faster turnaround, productivity and rising customer satisfaction. In terms of key figures related to technology adoption/benefits, we can classify it into 4Ds namely Digital Acquisition (25-35 minutes of door to login time), Digital Processing (paper-less on boarding), Digital Collections (97% NACH Conversion) and Digital Servicing (>129k customer app logins). Moreover, it currently has 40+ fintech integrations for its digital platform.

The integration of digital solutions has fundamentally reshaped how Aadhar interacts with customers, processes applications, manages risk, and drives business growth. By integrating advanced digital tools, robust infrastructure, and intelligent automation, it is well positioned to deliver improved efficiency, compliance, and service excellence while ensuring its platforms remain resilient and future-ready.

Aadhar's investments in AI-driven analytics, automation, mobility, and fintech capabilities put it at the forefront of digital transformation in the housing finance sector. Moreover, Aadhar's technology-led objective is paving the way for a future-ready, scalable, and customer-first organisation. It is leveraging data science and artificial intelligence to build intelligent, adaptive systems that drive sharper decisions and stronger business outcomes. By embedding AI across the credit lifecycle, from underwriting and pricing to collections and retention, Aadhar is delivering scalable solutions that mitigate risk, enhance customer experience, and generate lasting value.

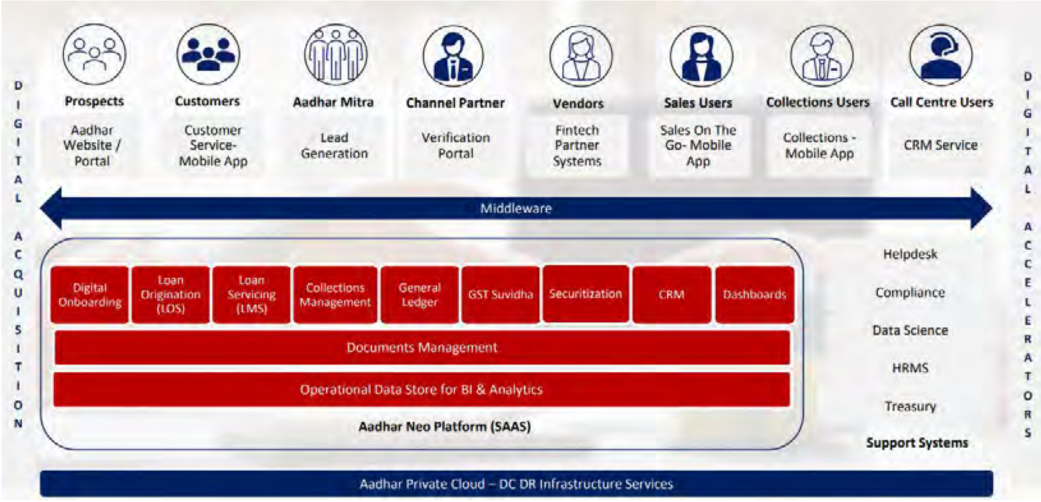
Key risks: 1) Slower-than-expected AUM growth; and 2) spreads coming under pressure due to competition.

Exhibit 17: IT platform augmented with digital capabilities



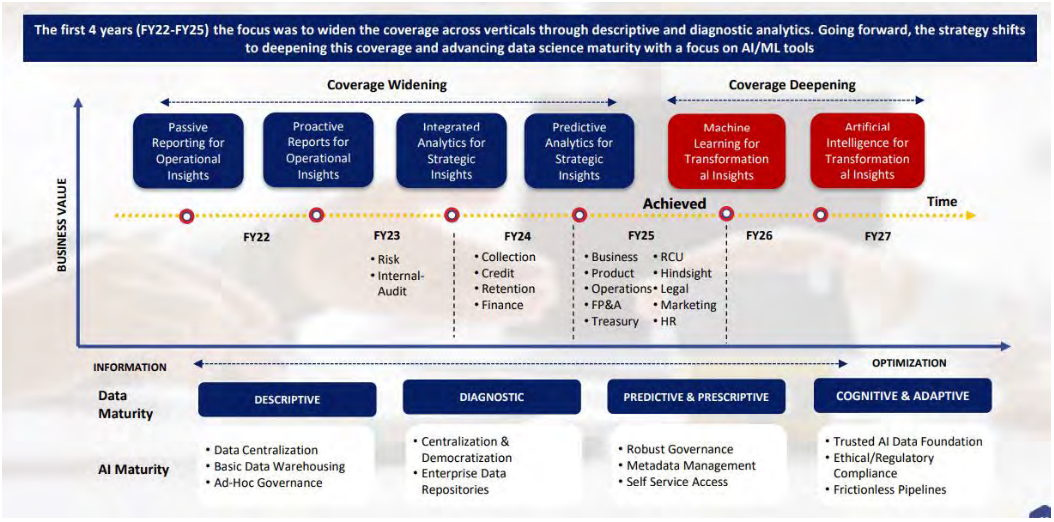
Source: Company data, I-Sec research

Exhibit 18: Technology architecture



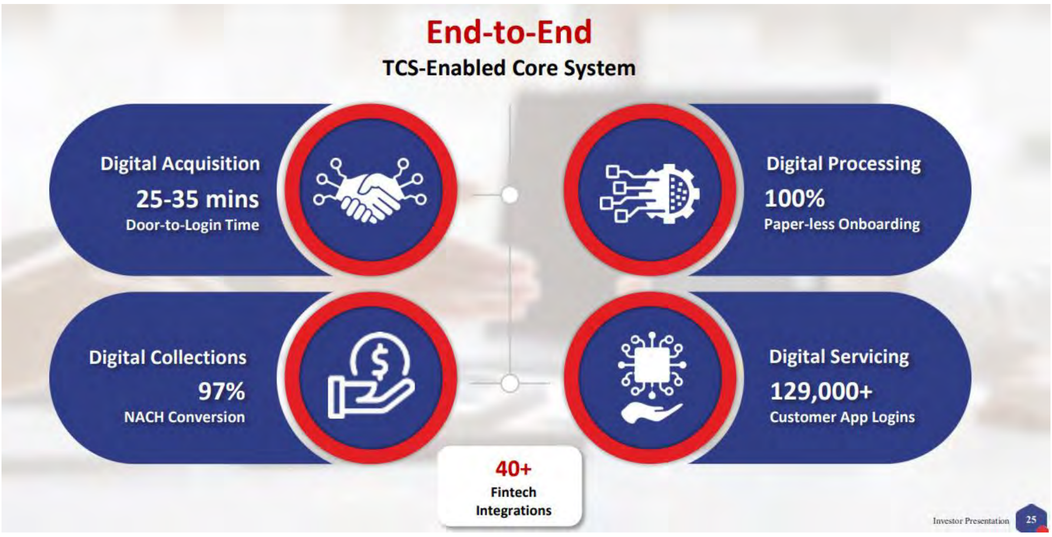
Source: Company data, I-Sec research

Exhibit 19: Data and analytics maturity: In sync with organisational growth



Source: Company data, I-Sec research

Exhibit 20: TCS- enabled core system



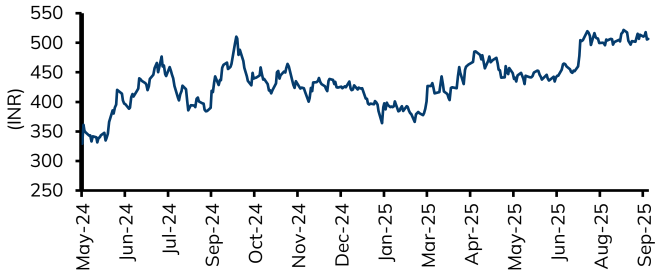
Source: Company data, I-Sec research

Exhibit 21: Shareholding pattern

%	Dec'24	Mar'25	Jun'25
Promoters	75.7	75.6	75.5
Institutional investors	13.6	13.9	13.8
MFs and others	5.8	5.2	5.2
FIs/Banks	2.4	2.4	1.4
Insurance	1.1	1.1	0.9
FIIs	4.3	5.3	5.6
Others	10.7	10.5	10.5

Source: Bloomberg, I-Sec research

Exhibit 22: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 23: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Interest Income	22,752	27,190	32,170	38,246
Net gain on fair value changes	1,430	1,890	2,212	2,559
Interest Expenses	(9,867)	(11,738)	(13,762)	(15,990)
Net Interest Income (NII)	**12,885**	**15,452**	**18,408**	**22,256**
Other Income	1,685	2,006	2,362	2,802
Total Income (net of interest expenses)	**16,000**	**19,349**	**22,982**	**27,617**
Employee benefit expenses	(3,457)	(4,072)	(4,557)	(5,157)
Depreciation and amortization	(210)	(252)	(265)	(278)
Fee and commission expenses	-	-	-	-
Other operating expenses	(2,329)	(2,716)	(3,277)	(3,902)
Total Operating Expense	**(5,995)**	**(7,040)**	**(8,099)**	**(9,338)**
Pre Provisioning Profits (PPoP)	**10,005**	**12,309**	**14,882**	**18,280**
Provisions and write offs	(412)	(571)	(723)	(658)
Profit before tax (PBT)	**9,592**	**11,738**	**14,159**	**17,621**
Total tax expenses	(2,107)	(2,617)	(3,157)	(3,929)
Profit after tax (PAT)	**7,485**	**9,121**	**11,003**	**13,693**

Source Company data, I-Sec research

Exhibit 24: Balance sheet

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Share capital	3,948	4,314	4,314	4,314
Reserves & surplus	40,513	59,366	70,368	84,061
Shareholders' funds	**44,460**	**63,680**	**74,682**	**88,375**
Borrowings	**1,38,989**	**1,62,621**	**1,92,522**	**2,30,919**
Provisions & Other Liabilities	7,409	5,862	6,403	6,999
Deferred tax liabilities (net)	-	-	-	-
Current Liabilities and short-term provisions	-	-	-	-
Total Liabilities and Stakeholder's Equity	**1,90,857**	**2,32,163**	**2,73,607**	**3,26,293**
Cash and balance with RBI	12,714	17,218	15,709	18,808
Fixed assets	300	315	378	454
Loans	**1,69,029**	**2,04,841**	**2,45,238**	**2,93,620**
Investments	4,578	5,089	6,643	6,643
Deferred tax assets (net)	102	111	133	159
Current Assets including cash and bank	-	-	-	-
Other Assets	4,133	4,589	5,507	6,609
Total Assets	**1,90,857**	**2,32,163**	**2,73,607**	**3,26,293**

Source Company data, I-Sec research

Exhibit 25: Key Ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
AUM and Disbursements (INR mn)				
AUM	2,11,209	2,55,307	3,06,420	3,67,792
On-book Loans	1,69,029	2,04,841	2,45,238	2,93,620
Off-book Loans	42,180	50,466	61,182	74,172
Disbursements	70,724	81,922	97,883	1,16,216
Sanctions	-	-	-	-
Repayments	31,743	37,824	46,770	54,844
Growth (%):				
Total AUM (%)	22.6	20.9	20.0	20.0
Disbursements (%)	19.8	15.8	19.5	18.7
Sanctions (%)	-	-	-	-
Repayments (%)	(8.2)	19.2	23.7	17.3
Loan book (on balance sheet) (%)	22.0	21.2	19.7	19.7
Total Assets (%)	14.9	21.6	17.9	19.3
Net Interest Income (NII) (%)	31.9	19.9	19.1	20.9
Non-interest income (%)	201.7	19.1	17.7	18.6
Total Income (net of interest expenses) (%)	33.9	20.9	18.8	20.2
Operating Expenses (%)	41.0	17.4	15.1	15.3
Employee Cost (%)	23.9	17.8	11.9	13.2
Non-Employee Cost (%)	79.5	16.6	20.7	19.1
Pre provisioning operating profits (PPoP) (%)	30.0	23.0	20.9	22.8
Provisions (%)	(16.2)	38.4	26.7	(8.9)
PBT (%)	37.9	22.4	20.6	24.4
PAT (%)	37.4	21.9	20.6	24.4
EPS (%)	37.4	11.5	20.6	24.4
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	8.4	8.3	8.2	8.3
NIM on IEA (%)	6.2	6.2	6.2	6.3
NIM on AUM (%)	6.7	6.6	6.6	6.6
Yield on loan assets (%)	14.8	14.5	14.3	14.2
Yield on IEA (%)	11.0	11.0	10.8	10.8
Yield on AUM (%)	11.9	11.7	11.5	11.3
Cost of borrowings (%)	7.6	7.8	7.7	7.6
Interest Spreads (%)	7.2	6.8	6.5	6.6
Operating efficiencies				
Non interest income as % of total income	49.8	49.7	50.1	51.0
Cost to income ratio	37.5	36.4	35.2	33.8
Op.costs/avg assets (%)	3.4	3.3	3.2	3.1
Op.costs/avg AUM (%)	3.1	3.0	2.9	2.8
No of employees (estimate) (x)	5,98,50,00,000	6,28,42,50,000	6,79,44,95,605	7,29,97,41,211
No of branches (x)	523	580	630	680
Salaries as % of non-interest costs (%)	57.7	57.8	56.3	55.2
NII /employee (INR mn)	2.2	2.5	2.7	3.0
AUM/employee (INR mn)	35.3	40.6	45.1	50.4
AUM/ branch (INR mn)	403.8	440.2	486.4	540.9
Capital Structure				
Average gearing ratio (x)	3.1	2.6	2.6	2.6
Leverage (x)	4.3	3.6	3.7	3.7
CAR (%)	38.4	44.6	55.8	55.1
Tier 1 CAR (%)	37.7	44.1	55.4	54.7
Tier 2 CAR (%)	0.7	0.5	0.4	0.4
RWA (estimate) - INR mn	99,467	1,20,541	1,34,881	1,61,491
RWA as a % of loan assets	58.8	58.8	55.0	55.0

Source Company data, I-Sec research

	FY24A	FY25A	FY26E	FY27E
Asset quality and provisioning				
GNPA (%)	1.1	1.1	1.2	1.1
NNPA (%)	0.6	0.7	0.8	0.7
GNPA (INR mn)	1,869	2,229	2,883	3,158
NNPA (INR mn)	1,098	1,461	1,861	2,038
Coverage ratio (%)	41.3	34.5	35.5	35.5
Credit Costs as a % of avg AUM (bps)	22	24	26	20
Credit Costs as a % of avg on book loans (bps)	27	31	32	24
Return ratios				
RoAA (%)	4.2	4.3	4.4	4.6
RoAE (%)	18.4	16.9	15.9	16.8
ROAAUM (%)	3.9	3.9	3.9	4.1
Dividend Payout ratio (%)	-	-	-	-
Valuation Ratios				
No of shares	395	431	431	431
No of shares (fully diluted)	395	431	431	431
ESOP Outstanding	-	-	-	-
EPS (INR)	19.0	21.1	25.5	31.7
EPS fully diluted (INR)	19.0	21.1	25.5	31.7
Price to Earnings (x)	26.7	23.9	19.8	15.9
Price to Earnings (fully diluted) (x)	26.7	23.9	19.8	15.9
Book Value (fully diluted)	113	148	173	205
Adjusted book value	111	145	170	201
Price to Book	4.5	3.4	2.9	2.5
Price to Adjusted Book	4.6	3.5	3.0	2.5
DPS (INR)	-	-	-	-
Dividend yield (%)	-	-	-	-

Source Company data, I-Sec research

Exhibit 26: Key Metrics

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
DuPont Analysis				
Average Assets (INR mn)	1,78,495	2,11,510	2,52,885	2,99,950
Average Loans (INR mn)	1,53,772	1,86,935	2,25,039	2,69,429
Average Equity (INR mn)	40,708	54,070	69,181	81,529
Interest earned (%)	12.7	12.9	12.7	12.8
Net gain on fair value changes (%)	0.8	0.9	0.9	0.9
Interest expended (%)	5.5	5.5	5.4	5.3
Gross Interest Spread (%)	**7.2**	**7.3**	**7.3**	**7.4**
Credit cost (%)	0.2	0.3	0.3	0.2
Net Interest Spread (%)	**7.0**	**7.0**	**7.0**	**7.2**
Operating cost (%)	3.4	3.3	3.2	3.1
Lending spread (%)	**3.6**	**3.7**	**3.8**	**4.1**
Non interest income (%)	0.9	0.9	0.9	0.9
Operating Spread (%)	**4.6**	**4.7**	**4.7**	**5.0**
Tax rate (%)	22.0	22.3	22.3	22.3
ROAA (%)	**4.2**	**4.3**	**4.4**	**4.6**
Effective leverage (AA/ AE)	4.4	3.9	3.7	3.7
RoAE (%)	**18.4**	**16.9**	**15.9**	**16.8**

Source Company data, I-Sec research

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