

CMP: ₹ 455

Target: ₹ 550 (21%)

Target Period: 12 months

BUY

Steady quarter; on track across parameters...

About the stock: Established in 2010, Aadhar is the largest player in affordable housing space with AUM of ₹25,531 crore. Diversification in terms of business mix, customer base and distribution remain core strength.

- Business mix remains well balanced and granular with home loans comprising ~74% of AUM, while LAP constitutes remaining 26%. Salaried borrowers mix comprised 56% salaried and 44% self-employed segments of AUM.
- As of March, 2025, Aadhar operates 580 branches across 21 states and union territories.

Q4FY25 performance: Aadhar Housing Finance delivered steady Q4FY25 results, with AUM rising to ~₹25,531 crore, up 21% YoY. Non-housing loans grew faster, forming 26% of AUM. Reported spread reported sequential decline of ~10 bps to 5.7% which could be attributable to increase in cost of borrowings. PAT rose 21% YoY and 4% QoQ to ₹245 crore. Credit cost remain stable at ₹63.9 crore. Company reported stable GNPA and NNPA at 1.1%/0.7% respectively. RoE improved to 15.9%, while RoA remained steady at 4.4%.

Investment Rationale

- Levers to offset pressure on yields to safeguard margins:** Aadhar is facing challenge of yields being under pressure owing to elevated competition resulting in incremental yield being ~30-40 bps lower than book yield. Management is undertaking strategy scaling higher-yielding emerging markets (interior geographies) offering differential yields to the extent of 200-300 bps over urban markets is expected to provide support without any impact on business momentum. With ~79% of borrowings linked to floating rate, and expectations of falling rates from 2QFY26, the cost of funds (currently at 8.2%) is likely to decline, aiding in margin protection. Thus, we bake in margins to remain broadly steady in FY26-27E.
- Resilient asset quality and focus on operational efficiency to RoA steady:** Company has delivered strong operational efficiency, a >100 bps YoY reduction in C/I ratio to 36.4% in FY25, surpassing its initial guidance of 80 bps improvement. This was driven by higher productivity and steady revenue growth, with operating expenses growing at 17% YoY against 21% AUM/NII growth. With expansion momentum to continue at steady pace, management anticipates a further 30-50 bps reduction in C/I in FY26.
- Granularity, balanced business mix remain core strategy:** Maintaining a balanced and granular business mix has remain core strategy which has led to sustained performance. The portfolio is entirely secured, comprising 74% home loans and 26% LAP. A significant share of the AUM is towards salaried borrowers (~56% of AUM), though self-employed segment has been gradually scaling. Overall, combination of operational efficiency, competitive borrowing costs, and portfolio mix shift enhances the company's profitability outlook.

Rating and Target Price

- Aadhar remains an attractive play in the affordable housing finance segment with a robust business model combining efficiency, stability and prudent underwriting practice, leading to healthy and sustainable performance across cycles. Expect AUM growth to sustain at ~20%, while steady asset quality and steady margins & efficiency is expected to result in earnings CAGR of ~21% in FY26-27E.
- Given its strong RoA of 4%+ and RoE of ~16%, while delivering credit growth of ~20%, valuations remain attractive. We maintain our multiple at 2.7x FY27E BV and thus target price of ₹550. Recommend a BUY rating.

Key Financial Summary

₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	977	1288	1545	25.8%	1882	2289	21.7%
PPP	745	1001	1229	28.5%	1490	1815	21.5%
PAT	544	749	911	29.3%	1098	1338	21.2%
ABV (₹)	91	110	145	26.1%	170	200	17.6%
P/E	32.9	23.9	21.6		17.9	14.7	
P/ABV	5.0	4.1	3.1		2.7	2.3	
RoA	3.3	4.2	4.3		4.3	4.4	
RoE	14.7	18.4	16.8		15.9	16.4	

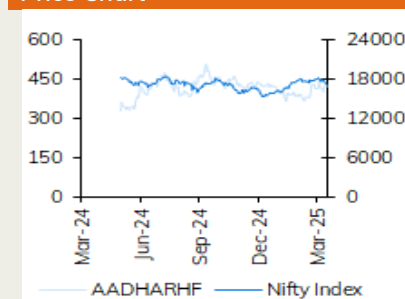
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 20,191 crore
52 week H/L	517 / 292
Net worth	₹ 6,367 crore
Face Value	10.0
DII Holding (%)	8.6
FII Holding (%)	5.32

Shareholding pattern

Holding (%)	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	76.5	75.9	75.7	75.6
FII	4.2	4.3	4.3	5.3
DII	8.5	9.5	9.3	8.6
Public	10.9	10.3	10.7	10.5

Price Chart**Key risks**

- Competition on yields could impact business growth
- Shift towards self-employed and interior geographies pose higher risk of delinquencies

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Concall highlights and outlook

Guidance for FY26E

- AUM growth of 20%-21% backed by disbursement growth of 18-19%.
- GNPA to be maintained between 1.10%–1.15%.
- Cost-to-Income is projected to decline by ~30–50 bps.
- No significant MCLR movement despite repo cut; expects borrowing cost to decline from 2QFY26.

Business Update

- AUM at ₹2,55,307 crores, up 7% QoQ and 21% YoY and Q4 disbursement at ₹ 25,663 crore, up ~18% QoQ.
- Company added 57 new branches in FY25 and has 299k live customer base. It has entered north east with first branch in Guwahati.
- Customers overlap with MFI declined from 9,096 as of Q3 to 7,077 as of Q4FY25.
- BT out improved by ~50 bps QoQ to 6.49%. Target is to take it to ~6%.
- It has divided the country into urban and emerging locations effective 1 Apr'25. Urban: Top 15 cities. Emerging: >400 branches and classified into A, B and C
- AUM mix - 55% currently is from Urban and balance is from Emerging and going ahead, emerging AUM growth would be higher than urban locations. In couple of years, company is targeting 55% share from Emerging and 45% from Urban. Such higher focus on emerging markets (in interior geographies) with higher yields (~14-16%) compared to urban markets (with ~12% yields) is to provide support to blended yields at ~13.5%.
- Aadhar is already engaged with both credit rating agencies. It does not foresee that this credit rating upgrade should be prolonged.
- Login to sanction was 60% in FY25 (61.8% in FY24) and Sanction to disbursement was 62% (62.5% in FY24).
- First ECB issuance done in Q4FY25 of USD 50 mn. This is a fully hedged transaction and all-in cost including hedge comes at 8.1%.
- Incremental ATS at ₹ 13 lakhs (HL at ₹ 15 lakhs and non-HL at ₹ 9 lakhs).
- ~60% sourcing is now in-house (including Aadhar Mitra) and balance is split between DSA and connectors/retail DSA. Of this, 25% of overall sourcing was from corporate DSA.
- Exposure of any single state in overall AUM to remain within 14-14.5% level.

Margin

- C/I has fallen 104 bps on an annual basis. Majority of expansion has already been done and hence management expects C/I to decline in FY26 as well by 30-50 bps.
- Opex related to marketing contest accounted (which it runs in H2 of each fiscal) in Q3 and Q4.
- Company is holding liquidity of ₹ 2200 crore, which is ~10% of loan book. Overall, liquidity to be maintained at ~8% of borrowing mix. Further, undrawn lines over and above the stated liquidity would be available.

Asset Quality

- 60-70bps of Stage-2 is actually Stage-1 as per days overdue, but classified under Stage-2, without any state-specific concerns.
- Not under-taken any additional or prudential write-offs in Q4. Q4 write-offs at ₹ 8-9 crore and ₹ 32 crore for FY25.

Exhibit 1: Variance Analysis

	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Comments
NII	408	335	21.8	407	0.1	Healthy growth coupled with relatively steady margins led continued traction Pressure on yield owing to elevated competition
Calculated NIM (%)	7.0%	7.0%	1 bps	7.4%	-44 bps	
Other Income	111	95	16.9	93	19.3	
Net Total Income	519	430	20.8	501	3.7	
Staff cost	109	97	12.0	103	6.4	
Other Operating Expenses	87	78	11.4	72	21.2	
PPP	323	254	27.0	326	-1.0	
Provision	6	-4	-254.3	19	-65.8	Steady slippages kept provision benign
PBT	316	258	22.5	308	2.9	
Tax Outgo	71	57	25.1	68	4.2	
PAT	245	202	21.7	239	2.5	Steady growth with lower provision aided earnings
Key Metrics						
GNPA	273	232	17.6	326	-16.2	Asset quality continues to remain strong
NNPA	179	137	30.2	221	-19.0	
Loan Book	25531	21121	20.9	23976	6.5	Focus increasing on low tier geographies
Borrowings	15141	13057	16.0	23165	-34.6	
Disbursements	2566	2168	18.4	2094	22.6	

Source: Company, ICICI Direct Research

Financial Summary

Profit and loss statement		₹ crore		
(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	2,275	2,719	3,263	3,931
Interest Expended	987	1,174	1,380	1,643
Net Interest Income	1,288	1,545	1,882	2,289
Growth (%)	31.9	19.9	21.8	21.6
Non Interest Income	312	389	442	507
Net Income	1,600	1,934	2,324	2,796
Employee cost	403	464	543	636
Other operating exp.	196	240	291	345
Operating Income	1,001	1,229	1,490	1,815
Provisions	41	57	83	99
PBT	959	1,172	1,408	1,716
Taxes	210	261	310	377
Net Profit	749	911	1,098	1,338
Growth (%)	37.7	21.5	20.6	21.9
EPS (₹)	19.0	21.1	25.5	31.0

Source: Company, ICICI Direct Research

Exhibit 2: Key ratios				
(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Valuation</u>				
No. of Shares (crore)	197.4	215.7	215.7	215.7
EPS (₹)	19.0	21.1	25.5	31.0
BV (₹)	112.7	147.7	173.2	204.2
ABV (₹)	109.9	144.7	169.6	199.9
P/E	23.9	21.6	17.9	14.7
P/BV	4.0	3.1	2.6	2.2
P/adj.BV	4.1	3.1	2.7	2.3
<u>Yields & Margins (%)</u>				
Yield on avg assets	10.9	10.0	9.9	9.9
Avg. cost on funds	7.6	7.8	7.8	7.8
NIM	6.2	6.2	6.3	6.4
Spreads	6.2	6.0	6.0	6.1
<u>Quality and Efficiency (%)</u>				
Cost / Total net income	42.5	39.9	39.2	38.3
GNPA	1.1	1.2	1.2	1.2
NNPA	0.6	0.6	0.6	0.6
RoE	18.4	16.8	15.9	16.4
RoA	4.2	4.3	4.3	4.4

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Sources of Funds</u>				
Capital	395	431	431	431
Reserves and Surplus	4,055	5,941	7,038	8,377
Networth	4,450	6,372	7,470	8,808
Borrowings	13,960	16,323	19,341	23,015
Other Liabilities & Provision:	684	529	900	998
Total	19,093	23,223	27,710	32,821
<u>Applications of Funds</u>				
Investments	462	513	616	738
Advances	16,903	20,489	24,461	29,344
Other Assets	1,728	2,221	2,633	2,739
Total	19,093	23,223	27,710	32,821

Source: Company, ICICI Direct Research

Exhibit 4: Growth ratios				
(% growth)	FY24	FY25	FY26E	FY27E
Total assets	14.9	21.6	19.3	18.4
Advances	22.0	21.2	19.4	20.0
Borrowings	14.9	16.0	19.0	19.0
Total Income	31.2	20.8	20.2	20.3
Net interest income	31.9	19.9	21.8	21.6
Operating expenses	26.4	17.6	18.3	17.6
Operating profit	34.3	22.8	21.3	21.8
Net profit	37.7	21.5	20.6	21.9
Book value	20.3	31.0	17.2	17.9
EPS	37.6	11.1	20.6	21.9

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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