

Date: 23rd December, 2022

The General Manager,
BSE Limited,
P.J. Towers, Dalal Street,
Mumbai- 400001

Kind Attn.: Listing Corporate Relationship Department

Sub: – Intimation of new credit rating assigned by India Ratings and Research Pvt Ltd. for yet to be issued Non-Convertible Debentures and withdrawal of Short-Term Issuer Ratings of Aadhar Housing Finance Limited.

Ref.: Company Code- 10844 /11302

Dear Sir/ Madam,

The Company has existing rating for its Non-Convertible Debentures (NCDs) from CARE Ratings Limited, Brickwork Ratings India Pvt. Ltd. and ICRA Limited which is active.

In accordance with regulation 51(2) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we further wish to inform you that India Ratings and Research Private Limited has assigned **new rating** vide press release dated 22nd December, 2022, as shown below for the Non-Convertible Debentures of the Company.

Details of credit rating by India Ratings and Research Private Limited							
New rating details							
Sr. No.	Instrument Type	Amount rated (Rs. in Cr.)	Credit rating assigned	Outlook (Stable/ Positive/ Negative/ No Outlook)	Rating Action (New/ Upgrade/ Downgrade/ Re-Affirm/ Other)	Rating type	Date of Credit rating
1	2	3	4	5	6	7	8
1	Non -Convertible Debenture (NCDs) which are yet to be issued	500	IND AA/Stable	Stable	New	Long term	22-12-2022

Further, we wish to inform you that, India Ratings and Research Private Limited has withdrawn Short-Term Issuer Ratings of the Company in compliance with the Securities and Exchange Board of India (SEBI) Circular No. SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2022/146 dated 31st October 2022 as short term issuer rating scale is not a prescribed rating scale by the SEBI.

A copy of the press release received from India Ratings and Research Private Limited is enclosed along with this letter. Kindly take this on your record & acknowledge the receipt.

For Aadhar Housing Finance Limited



Harshada Pathak
Assistant Company Secretary

Encl.: As above
CC: Debenture Trustees

Aadhar Housing Finance Ltd.

CIN: U66010KA1990PLC011409
Regd. Office: 2nd Floor, No. 3, JVT Towers, 8th 'A' Main Road,
S.R Nagar, Bengaluru – 560 027, Karnataka.
Toll Free No: 1800 3004 2020 www.aadharhousing.com



India Ratings Rates Aadhar Housing Finance's NCDs at 'IND AA'/Stable; Withdraws Short-Term Issuer Rating

Dec 22, 2022 | Housing Finance Company

India Ratings and Research (Ind-Ra) has taken the following rating actions on Aadhar Housing Finance Limited (Aadhar):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Non-convertible debenture (NCD) [^]	-	-	-	INR5,000	IND AA/Stable	Assigned
Short-Term Issuer Rating*	-	-	-	-	WD	Withdrawn

*Ind-Ra has withdrawn the Short-Term Issuer Ratings of Aadhar, in compliance with the Securities and Exchange Board of India's (SEBI) Circular SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2022/146 dated 31 October 2022 and based on further discussions with SEBI, as Short-Term Issuer Rating scale is not a prescribed rating scale by the SEBI or any financial sector regulators or authorities.

[^]yet to be issued

Key Rating Drivers

Significant Player in Affordable Housing Finance Space: Aadhar is a significant player in the affordable housing finance space with assets under management (AUM) of INR157 billion at end-1HFY23. The company has developed a well-entrenched franchisee on a pan-India level. It has a more diversified geographical presence than other players in

the affordable housing finance segment. At end-September 2022, the company had a network of 354 branches and offices spread across 20 states and union territories. It has presence in bigger states such as Maharashtra, Uttar Pradesh, Rajasthan, Gujarat and Madhya Pradesh which accounted for a significant portion of its portfolio at end-June 2022. It has a well-developed network of Aadhar *mitras* which help Aadhar in sourcing the potential customers from its focus geographies. Aadhar has started offering granular smaller ticket size loans under its Aadhar Gram Unnati vertical. It is expanding its product bouquet to offer loans to the affordable housing finance customer. The company focusses on borrowers from low-income groups and economically weaker sections with an average ticket size of INR0.8 million-1 million. A larger proportion of Aadhar's borrowers were from the formal salaried segment than informal salaried and self-employed segments at end-June 2022.

Adequate Capitalisation: Aadhar is adequately capitalised (2QFY23 total CAR: 44.69%, leverage: 3.2x) to grow the loan book at a healthy rate over the medium term, according to Ind-Ra. Aadhar is in the process of raising equity capital through the initial public offering (IPO) route, for which, it has the approval in place. The IPO, which includes a fresh equity issuance of INR15 billion, would further augment the present capital base (tangible net worth of INR34 billion at end-September 2022). Aadhar is backed by global investment firm Blackstone Group through BCP Topco VII Pte. Ltd. (holds 98.7% stake) which infused around INR13 billion in Aadhar in FY20 while acquiring it from the erstwhile promoters. Under Ind-Ra's stress case scenario, the company's capitalisation levels remain adequate after absorbing any spike in the credit cost in case of any incremental asset quality challenge. Ind-Ra expects Aadhar's leverage to remain moderate over the medium term.

Diversified Funding Lines: Aadhar has the ability to raise funds from multiple lenders; it has borrowed funds from about 21 public and private sector banks (including National Housing Bank (NHB; 'IND AAA'/Stable)). The company's capital markets instruments have seen interest from mutual funds and insurance companies. Aadhar had raised INR38.3 billion in external funding (excluding assignment) during FY22 and INR9.2 billion in 1HFY23. Its borrowings are predominantly in the form of bank loans (2QFY23: 45%), an NHB refinancing facility (20%), capital market instruments (15%) and direct assignment (20%). The cost of funding till October-November 2022 did not show any increase, however, when existing borrowings see a reset in their rates, the FY23 exit cost of funds could see the increase. The funding cost gets the benefit of NHB as a lender which offers funds at significantly lower rates than the market. In FY22, Aadhar raised INR16 billion from NHB at a competitive cost for a tenor of 7-10 years. The company also has the flexibility to raise funds through the assignment route and had raised INR7.7 billion through this route in FY22.

Liquidity Indicator - Adequate: Aadhar maintains adequate liquidity to cover its repayment obligations in the form of liquid investments and cash bank balances. At end-September 2022, Aadhar had cash and bank balances, and liquid investments of INR12 billion, which is more than adequate to meet its debt obligations of INR8.4 billion maturing during October 2022 to March 2023. Based on Aadhar's asset-liability statement (behavioural; factoring in prepayments,) at end-1HFY23, on a cumulative level, there was a positive cumulative mismatch till the one-year bucket after including the inflow from the line of credit. The company had unutilised bank lines of INR16.1 billion at end-September 2022. According to Ind-Ra, funds can be mobilised by securitising assets to support liquidity. As per the company's asset-liability management policy, it maintains an on-balance sheet liquidity at 8%-10% of loan book, which is adequate to cover six-to-seven months of debt obligations on a steady-state basis.

Stable Profitability: Aadhar has been able to maintain its yields at 13.0%-13.5% during FY19-1HFY23, amid competition. The company's net interest margins (excluding non-interest income) improved to 6.2% in 1HFY23 (FY22: 5.5%, FY21: 4.7%) owing to an improvement in its cost of funds by 115bp between FY21 and H1FY23. However, with a rise in the interest rates, Aadhar has the ability to pass on the rate increase to its customers due to the floating rate nature of loans but the margins could be slightly compressed. The company increased the benchmark rates by 50bp in October 2022 and if the Reserve Bank of India (RBI) raises the repo rate further, the benchmark lending rates may further increase. The company's cost to income for 1HFY23 was 35%, which could improve as Aadhar's franchise expands. Furthermore, the newly rolled out information technology systems may drive cost efficiency in the medium term. The company's resilience to the pandemic is reflected in its low credit cost (impairments divided by the average loan book) (1HFY23: 0.8%, FY22: 0.4%, FY21: 0.6%), which, along with other factors, has improved Aadhar's return on average assets (3.4%, 3.2%, 2.6%). Aadhar's ability to control credit costs as it expands operations will remain key for

maintaining profitability.

Stable Asset Quality but Vulnerable Borrower Class: Aadhar has an established presence in the affordable housing finance segment and has more than doubled its AUM in September 2022 since FY17 levels. Aadhar's borrowers are from the low-income groups and economically-backward sections, and have limited buffers to absorb volatility in income levels. Therefore, these borrowers are susceptible to see an impairment in their repayment behaviour due to any shock they witness in their income generating potential. However, despite the pandemic, Aadhar's asset quality has shown resilience, supported by its prudent underwriting practices and robust collection infrastructure. The operating profit buffers are adequate to absorb the increase in credit cost in a stress scenario. The collection efficiency for 1QFY23 was strong which includes overdue collection. The company's gross non-performing assets on the loan book remained steady at 1.89% at 1HFY23 (FY22: 1.52%, FY21: 1.21%; accounting for the RBI's Non-Performing Assets circular of November 2021). The company's restructured book has come out of the moratorium and there could be slippages from this book over the medium term, according to Ind-Ra. However, the resultant credit cost will not lead to a disproportionate impact on profitability.

Note: Ratios are as per Ind-Ra's calculations

Rating Sensitivities

Positive: A significant increase in the franchisee with control on asset quality while maintaining capital and liquidity buffers and further geographical and funding diversification will result in a positive rating action.

Negative: Deterioration in the asset quality (gross non-performing assets increasing above 5% on a sustained basis), high leverage, challenges in fund raising and diluted liquidity buffers would lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Aadhar, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

Company Profile

Aadhar is a housing finance company with affordable housing finance and loan against property as its key product offerings. The company began operations in 1990. At end-June 2022, Blackstone Group held the majority ownership in Aadhar through BCP Topco VII Pte. Limited.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Tangible assets (INR billion)	144	136
Tangible equity (INR billion)	31	27
Profit after tax (INR billion)	4.4	3.4
Return on average assets (%)	3.2	2.6
Tier 1 capital adequacy ratio (%)	44.2	42.6
Source: Ind-Ra, Aadhar		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating			Historical Rating		
	Rating Type	Rated Limits (million)	Rating/Outlook	7 December 2021	14 October 2020	15 October 2019
Issuer rating	Short-term	-	WD	INDA1+	INDA1+	INDA1+
NCD	Long-term	INR5,000	INDAA/Stable	-	-	-

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCD	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Contact

Primary Analyst

Pankaj Naik

Director

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

+91 22 40001723

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Jinay Gala

Associate Director

+91 22 40356138

Chairperson

Karan Gupta

Director

+91 22 40001744

Media Relation

Ankur Dahiya

Senior Manager – Corporate Communication

+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Ratings Navigator for Corporates

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

DISCLAIMER

All credit ratings assigned by india ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.indiaratings.co.in/rating-definitions>. In addition, rating definitions and the terms of use of such ratings are available on the agency's public website www.indiaratings.co.in. Published ratings, criteria, and methodologies are available from this site at all times. India ratings' code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the code of conduct section of this site.