Management Discussion and Analysis

1. Indian Economy Overview

Global headwinds continued to persist in 2023 with growth at 3.1% amid high central bank policy rates to fight inflation, limited fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. Amid favourable global supply developments, inflation showed a downward trend, financial conditions eased, equity valuations improved, capital flows to most emerging market economies excluding China saw a pick up, and some low-income countries and frontier economies regained market access.

Global growth is expected to remain stable and maintain its momentum, projected at 3.1% in 2024 and 3.2% in 2025. Risks to the global outlook are now broadly balanced. Global headline inflation is expected to fall from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025 with advanced economies expected to witness faster disinflation than emerging markets and developing economies. Geopolitical tensions may result in new price spikes and persistent core inflation, which in turn will raise interest rate expectations and result in financial stress. However, easing fiscal policy is expected to boost short term economic activity.

According to PwC CEO's survey, India rose four ranks on the global investment destination ranking fifth place in 2024 as compared to ninth position it held in 2023. The Indian economy continued to remain as the fastest growing major economy in the world amid volatile global economic performance. Strong government push for infrastructure, digitalisation, ease of doing business, inclusive growth and improved quality of fiscal spending enabled India to remain resilient. Despite muted growth in exports, the economic growth was led by strong domestic consumption and sustained growth in capital expenditure.

According to the National Statistics Office (NSO)'s provisional estimates, the Indian economy is expected to grow by 8.2% in FY 2024, surpassing the 7% growth in FY 2023. Main driving factors include continued increase in investment, boost in private consumption, improved business sentiments and the robust financial positions of banks and corporations.

The construction sector witnessed RBI refrained from taking any action in the market. The RBI maintained its stance of withdrawal of accommodation, particularly given the prevailing inflationary pressures. The RBI has reiterated its commitment to maintaining headline inflation at 4%, with an estimated inflation rate of 4.5% for FY 2023-24. The RBI is keeping a close watch on food inflation.

(Source: IMF, Indian Economic Survey, NSO)

1.1. Indian Economy Outlook

The robust growth momentum seen in 2024 has been driven by several positive macroeconomic indicators, including improved labour market conditions, heightened urban demand, increased capital expenditure and emphasis on digitalisation and technology-driven solutions.

With the likelihood of a normal monsoon and strong growth in manufacturing and service sectors, the Indian economy is expected to continue on its growth journey. Increased household consumption, growth in fixed investment, upturn in the private capital expenditure cycle, improved business sentiments, healthy balance sheets of banks and corporates, and the government's unwavering commitment on capital expenditure are reflective of strong future growth potential. The Indian economy is poised to grow at 7.2% in FY2025 despite continued geopolitical tensions, volatility in international commodity prices, and geoeconomic fragmentation. Over the medium term, the fiscal deficit and debt are projected to decline, led by strong output growth and consolidation efforts by the government. This will be amid global economic growth slowdown due to high global interest rates, geopolitical tensions and sluggish global demand.

(Source: RBI)

2. Industry Overview

2.1. Indian Housing Sector Overview

Contributing nearly 11% to the GDP, the housing sector is regarded as the engine of economic growth led by its strong forward and backward linkages with more than 250 ancillary industries. Recognising the importance of housing as a basic human need and its importance in job creation, the government attaches immense importance to the growth of the housing sector.

According to a 2011 census, ~240 million houses were used for residential purposes or residence-cum-other use purposes out of the total 330 million houses in India. About half of these houses did not have proper living conditions. As per the estimates of the Twelfth Five Year Plan, the shortage of housing in the rural segment of society stood at 43.13 million while that in the urban segment stood at 18.78 million. As per an RBI-appointed Committee on the Development of Housing Finance Securitisation market report (September 2019), India's housing shortage has grown since the Twelfth Five Year Plan, estimated to have increased to 100 million units by 2022. A majority of the household shortage is for the lower income group (LIG) and the economically weaker section (EWS) with 5-7% shortage for the medium income group (MIG) and the high income group (HIG). Urban housing shortage arises more from congestion and rural housing shortage is due to non-serviceable and kutcha houses (low quality houses) followed by congested houses. An estimated ₹ 50-60 trillion worth of incremental housing loans are needed if this entire shortage is to be addressed, as against the overall outstanding housing loans (excluding Pradhan Mantri Awas Yojana (PMAY) of ₹ 31.1 trillion as of March 2023. This indicates the immense latent potential of the housing finance market.

The year 2023 witnessed a high volume of registrations and interest from homebuyers with 19,050 + RERA registrations at pan India level, of which 45% projects were in the residential segment. The Indian residential market has witnessed remarkable growth in 2023, with sales in the top 8 cities of 4.1 lakh units up 33% YoY, surpassing the peak seen in 2013. The number of new launches in 2023 increased 20% YoY to 5.2 lakh units, with new supply at an all-time high and sales velocity sustaining momentum. The growth in residential real estate is attributable to stable repo rate scenarios, rapid urbanisation, rising population, increasing disposable income and growing nuclear family culture.

The same momentum of 2023 continued in Q1 2024, with top seven cities clocking the highest ever quarterly sales of 1.3 lakh units sales as compared to 1.1 lakh units in Q1 2023. Though new supply addition saw an increase of 1.1 lakh units, the available inventory declined 7%. The mid-segment homes priced at ₹ 40-80 lakh continued to capture the largest 33% share of new supply. Housing demand was broad-based across price points.

According to a report by the Confederation of Real Estate Developers' Associations of India, (CREDAI), housing demand in India is projected to reach 93 million units by 2036 with several tier II and III cities expected to spearhead both demand and supply. The real estate sector in India is considered a crucial element for economic growth and vital for reaching the US$ 5 trillion goal.

(Source: Housing demand in India to reach 93 million by 2036: CREDAI - The Economic Times (indiatimes.com); Real Insight Residential – Annual Round-up 2023; Residential market viewpoints (Q1 2024) by ANAROCK)

2.2. Indian Housing Finance Market Overview

According to CRISIL, the Indian housing finance market grew at a healthy 13% CAGR (growth in loan outstanding - total housing loans on the books of all financiers put together) from ₹15 trillion in FY2018 to ₹ 29 trillion in FY2023 led by strong growth in normal housing loans (>₹1.5 million). The strong growth was led by an increase in disposable income, robust demand in smaller cities markets, stable interest rates scenario and strong government push for housing. In volume terms, the low-income housing loans (>₹1.5 million) constituted 52% of the total loans outstanding, though in value terms they constituted only 15% share as on FY2023.

Banks continue to remain the primary source of borrowing across ticket size. However, since bank loans are only accessible to customers whose income sources, banking behaviour and credit history can be easily assessed, customers who lack formal income proof avail loans from housing finance companies (HFCs). In low-income housing loan segments of up to ₹ 0.75 million and ₹ 0.75-1.5 million, PSUs have seen strong competition from HFCs. In terms of disbursement, the market share of HFCs increased in FY2023 from FY2022 in ticket size of up to ₹ 0.75 million and ₹ 0.75-1.5 million by 4% and 3% respectively to 35% in each category, whereas PSUs witnessed a market share decline of 4% and 1% respectively during the same period. In 9M FY2024, the market share of HFCs increased by 3% to 38% each in ticket size of up to ₹ 0.75 million and ₹ 0.75-1.5 million. The low-income housing segment which generally includes houses on the outskirts of these areas and semi-urban and rural areas, is also the focus of government schemes such as affordable housing in partnership and CLSS under PMAY, and refinance under the NHB's affordable housing fund.

Among all large financial asset classes, housing finance has the lowest annual credit costs due to the collateral and the secured nature of the funding. The GNPA ratio for MSME loans and auto loans is 3-5% and 5-7% respectively for NBFCs in the past two years. Housing loans, in contrast, had GNPAs of 1-2%. Thus, for HFCs the asset quality is better in comparison to other NBFCs operating in asset classes having higher GNPA levels.

Gross NPA levels have seen steady improvement in loans of all ticket sizes except loans of up to ₹ 0.75 million from FY2021 till 9M FY2024. Though asset quality improved in the ticket size of up to ₹ 0.75 million from 5.9% in FY2021 to 5.5% in FY2023, GNPA increased to 6% in 9M FY2024. Loans with ticket size ₹2.5 -5 million have the best GNPA ratio which improved from 2.4% in FY 2021 to 1.2% in 9M FY2024.

As per CIBIL data, the size of the housing finance market focusing on low-income housing loans was around ₹ 4.4 trillion as of December 2023, constituting a 14% share. The growth in the segment is expected at 8-10% CAGR between FY2023 and FY2026 led by a strong government focus on affordable housing.

2.3. Key Growth Drivers

Housing growth in India is inherently driven by favourable demographics, low mortgage penetration, rising urbanisation and nuclearisation, rising income levels and an increasing share of independent housing demand.

A strong appetite for home ownership among end-buyers is evident signalling good traction for housing demand in 2024 and beyond. Continued stability in interest rate and escalation in property prices bode well for housing segment demand. Strong government push with schemes like Housing for All, Smart Cities Mission, Pradhan Mantri Awas Yojana – Gramin (PMAY-G), Rural Housing Interest Subsidy Scheme (RHISS), Pradhan Mantri Awas Yojana-Urban (PMAY-U), Credit Linked Subsidy Scheme (CLSS), etc. are expected to drive the demand for housing sector.

2.4. Key challenges

While housing finance has evolved manifold in India, challenges such as affordability, housing quality, and access to finance for marginalised sections of the population remain. High inflation amid a challenging macro-economic environment can act as a double-edged sword, increasing input costs and raising interest rates. This would increase the cost burden on end-consumers who may also struggle to avail affordable loans. High global inflation could negatively influence foreign investment in the capital-intensive real estate sector.

Such a condition will hamper the growth of residential real estate and in turn, housing finance.

3. Company Overview

Aadhar Housing Finance Limited (hereafter referred to as "Aadhar" or "the Company") is one of the largest low-income housing finance companies in India servicing the home financing needs of economically weaker and low-to-middle income customers, who require small ticket mortgage loans. Aadhar endeavours to empower underserved millions to own their first homes. Aadhar, , with an AUM at ₹211 billion, is a retail focused HFC catering to the needs of the salaried, self-employed and informal business segments. The Company offers a range of mortgage-related loan products, including loans for residential property purchase and construction; home improvement and extension loans; loans for commercial property construction and acquisition and loans against residential properties (LAP) which are micro lap with the ticket size ranging from 7-8 lakhs. The Company's robust financially inclusive, customer centric lending business model has enabled it to remain consistent and resilient through various external economic events.

The Company boasts of an extensive network of 534 branches and offices including 140 sales offices across 20 states and union territories, as of 31st March 2024, operating in approximately 11,300+ pin codes across India. The widely dispersed network ensures no state accounts for more than 14% in terms of Gross AUM and is well positioned to meet the specific needs of the target customers across geographies, in urban and semi-urban areas.

Backed by a strong parent Company, Blackstone Company's BCP Topco VII Pte. Ltd., which held 98.72% stake as at 31st March 2024 (76.5% stake post IPO in May 2024) in the Company, extends robust resources, relationships and expertise. The Company has built a strong brand equity especially among the financial sector owing to the Blackstone Group's unwavering professionalism and corporate governance. This ensures funding at highly competitive rates, acting as an enabler to establish trust and reliability among consumers. In addition, the Company enjoys immense support from the Board of Directors and a highly experienced senior management team. The Board is composed of a balanced team of independent directors along with qualified and experienced personnel, who have extensive knowledge and understanding of the housing finance and banking industries. An industry veteran, Mr. O.P. Bhatt, is the Chairman of the Board of Directors. He has previously served as the former Chairman of the State Bank Group.

Reflecting strong culture and ethics, the Company strives to drive positive change in society and improve lives. Social objectives are an intricate part of the Company operations. It provides a source of employment to a number of Indians with its widespread presence in urban and semi-urban locations pan India. Unwavering commitment to contribute to the economic upliftment of targeted customers, the Company has partnered with various government schemes like PMAY-G to enhance affordability. The Company's values-driven ESG approach is aimed at inclusive growth and equal opportunity for all.

The Company successfully concluded its Rs 3000 crs IPO in May 2024 and the equity shares of the Company were listed on the stock exchanges on 15th May 2024. The primary portion of the IPO was Rs 1000 crs which will help the Company in its future growth plans. The Offer for Sale (OFS) portion was Rs 2000 crs and the sole selling shareholder was BCP Topco.

3.1. Operational performance

Aadhar is a retail-focused HFC catering to the needs of the low-income housing segment, serving economically weaker and low-to-middle income customers, who require small ticket mortgage loans. A majority of its customers are first-time home buyers who may or may not have access to formal credit. In addition to housing loans, the Company offers loans against property, loans for renovation and property extension and loans for purchase of commercial property.

- The number of loan accounts increased to 266,000+ at FY 2024 end from 233,000+ at FY 2023 end
- AUM grew by 23% to ₹ 21,121 crore as on FY 2024 end from ₹ 17,223 crore as on FY 2023 end.
- Disbursements grew 20% to ₹7,072 crore in FY 2024 from ₹5,903 crore in FY 2023.
- GNPA decreased to 1.08% on AUM at FY 2024 end from 1.16% in FY 2023 end.
- In terms of liquidity, the unencumbered liquidity was ₹1,500 crore at FY 2024 end.
- Capital adequacy was strong at 38.46% which is well above the NHB norms and the gross debt to equity was 3.14.
- The Company operates out of 534 branches and offices as of FY 2024 end.
- As of 31st March 2024, salaried customers accounted for 57% of Gross AUM and self-employed customers accounted for 43% of Gross AUM.
- As of 31st March 2024, home loans and non home loans accounted for 75% and 25% of Gross AUM, respectively.
- The average ticket size of AUM was ₹9.7 Lakh, with an average loan-to-value of 59%, as of 31st March 2024.
- The Company has assigned a portfolio of ₹ 3,600 crore and fresh Direct Assignment during the year is ₹1,182 crore.
- Co-lent portfolio is ₹ 541 crore as on FY 2024 end. Fresh Co-Lending done during the year is ₹449 crores.

Aadhar operates through multiple lead sourcing channels such as Direct Selling Teams, Direct Selling Agents, Aadhar Mitras/Mahila Aadhar Mitras, digital channels and call centres with a continuous focus on ground level activities such as market combing, loan tents, and various other marketing activities to assist the front-end teams reach their target audience.

The Company continues to support the government's inclusive agenda and actively participates in several affordable housing schemes like PMAY to provide subsidies to borrowers from economically weaker segments in the payment of interest.

3.2. Financial performance Standalone

- Total income increased by 27% for the year ended 31st March 2024 on y-o-y basis.
- Operating expenses are very stable and the overall cost-to-income ratio moved to 34.9% in FY 2024.
- Profit after Tax for FY 2024 at ₹750 crore was 33% higher than FY 2023 PAT (before exceptional item) of ₹564 crore.
- The Company has delivered a strong ROA of 4.2% in FY 2024 as compared to 3.6% in FY 2023
- The Company has delivered strong ROE of 18.4% in FY 2024 as compared to 16.5% in FY 2023

**FY23 PAT, ROA and ROE is before exceptional items*

3.3. Company Strategy and Outlook

Credit penetration in India is significantly lower than other developing countries with robust growth potential. In terms of the credit to GDP ratio, India has a low credit penetration at 91.9 (H1 FY2024) as compared with other developing countries, such as China (229.5), United States (151.5), United Kingdom (144.9) and Germany (123.6). Similarly, in terms of credit to households as a proportion of GDP as well, India lags other markets, with retail credit hovering at around 26% of GDP as of FY 2023. With rising financial awareness, government's continuous efforts for financial inclusion and rising credit accessibility to the underserved population, credit penetration in India is expected to rise led by growth in retail credit. To leverage this opportunity the Company is constantly expanding its distribution network across the length and breadth of the nation. In addition, the Company is also improving its digital presence to expand operations with lower incremental costs. The Company has strategised a systematic approach of testing before expanding and categorising branches into main, small, micro and ultra-micro, to ensure high efficiency in maximising returns.

The Company has a diversified borrowing strategy with 26% of borrowings from National Housing Bank (NHB), term loans from banks contributing 55% and the balance from NCD's. place with MF's, DFIs etc.As part of its liability strategy the Company does Direct Assignment of its portfolio to public sector and private sector banks. The Company has also entered into co-lending partnerships with two public sector banks to leverage its distribution network and widen funding sources.

The Company remains focused on the low-income housing segment mortgage market and economically weaker and low-to-middle income group segment of the economy. This approach of financial inclusion for these customers together with digital expansion will enhance the Company's loan portfolio.

With a view to reduce operating expenses the Company is leveraging the fully built-out distribution and collection infrastructure. Coupled with technology enhancement and increased use of analytics across the business, the Company aims to improve its operating efficiency.

The key strategies for growth are:

- Expand Distribution Network to Achieve Deeper Penetration in key states
- Continue to focus on target customers and grow customer base
- Continue to invest in and roll out digital and technology enabled solutions across business to improve customer experience and improve cost efficiency and productivity
- Use of data analytics with a view of improving business metrics and enhance risk management
- Efficient risk management practices to ensure that various types of business risks are identified early and are mitigated or controlled
- Optimise borrowing costs and work on improving the cost to income ratio

With these strategies in place, the Company is in a good position to maintain low NPA and credit cost levels, maintain interest spreads and improve cost efficiencies, to deliver sustainable return ratios.

3.4. Customer base

Aadhar's target customer segment comprises individuals from the economically weaker and low-to-middle income segments in urban and semi-urban areas having limited access to formal banking credit. The Company offers loans to both salaried and self-employed individuals in both the formal and informal segments. Customers from informal employment sectors who do not have formal income proofs, pay slips, or income tax returns, and may be normally excluded from being served by banks or large financial institutions are served by the Company. As a result of its expertise, experience and business model, the Company effectively serves such customers and grows its business, while monitoring and mitigating risks effectively. The Company has developed detailed customer interviews as part of the personal discussion process, which provides deep insights into behavioural traits and other data points which substitute some of the traditional data.

Though the Company caters to both salaried and self-employed customers, the focus has traditionally been on salaried customers having a stable flow of income making them more resilient to economic cycles. As on March 31, 2024, the salaried customers constituted 57% of the AUM with a majority of the customers being formal salaried (customers who have a documented monthly salary typically credited directly in their bank accounts). The self employed customers constituted 43% of the AUM and informal segment ((customers that do not have formal income documentation) contributing a major portion of this.

The Company undertakes various efforts to provide seamless service to its customers and cater to the ever-evolving needs. The Company made available online payment facility for EMI payments, welcome calling in regional languages, SMS facility in 5 vernacular languages, introduced CRM system, customer awareness programme, notice board display in branches in English and regional language, mandate/NACH activation online, conducted half-yearly training for all branch staff/ call centre, GRO (Grievance Redressal Officers) details and contact numbers were updated on the website and detailed FAQs made available as knowledge centres. Aadhar's mobile app service and customer service web application have received good customer response.

The total number of loan accounts as of FY 2024 end was 266,000+ as compared to 233,000+, 204,000+ and 182,000+ at the end of FY 2023, FY 2022 and FY 2021 respectively.

3.5. Loan sourcing

The Company uses direct selling teams, channel partners and digital platforms to generate loans through both in-house and external sources. Its primary sales approach is its direct-selling teams, which include DSTs and relationship managers. The direct selling agents (DSA), "Aadhar Mitras" and "Mahila Aadhar Mitras," act as lead providers to the direct-selling teams. The Company also generates business through corporate channel partners and digital platforms such as digital lead aggregators under the 'Digital Aadhar Mitra' programme website and social media platforms.

Aadhar Mitras are individuals who may be in a non-allied industry and act as lead providers to the DSTs. For every referral that results in a loan disbursal, the Aadhar Mitras earn a referral fee. To ensure authenticity, the Company ensures document verification of every Aadhar Mitra followed by training programmes. The "Mahila Aadhar Mitra" programme, enrolling women as Aadhar Mitras, aids the Company to widen its network while contributing to the social cause of women upliftment.

The Company's unique Aadhar Gram Unnati (AGU) product enables it to test the waters in new geographies, particularly semi-urban locations. Depending on market demand in such locations, the Company can then make an informed decision to establish business presence by setting up branches to leverage on local demand. This enables the Company to cover a wider geographical area and increase customer access. The Company also operates through its corporate channel partners, digital platforms, website and social media platforms.

3.6. Branch network

The Company conducts its operations pan India through a well-diversified network of 534 branches and offices in 534 districts, covering 11,300+ pin codes in 20 states and union territories. The top 5 states account for 56% of the total branch network. No single state constitute over 15% of the total AUM, ensuring well spread geographical distribution. The Company caters to the housing needs across the length and breadth of the country covering 534 districts in the 20 states that the Company operates in. The Company also serves in 11,000+ pin codes.

In FY 2024, the Company added 59 new branches to its already wide network.

The Company's branch network comprises several types of branches, including:

pan India branch network is divided into the following types of branches:

- Main Branch
- Small Branch
- Micro Branch
- Ultra Micro Branch
- Sales Offices

The branch type required to cater to the needs of a particular location is decided based on the business potential of that location. Multiple factors including portfolio size, portfolio performance, branch operating expenses and the vintage of the branch are monitored on an ongoing basis to keep a check on individual branch performance. This enables the Company to remain nimble and flexible, and expand in a cost-effective way. The Company's gross AUM is spread widely across India, with not more than 27% coming from the top two states.

3.7. Credit approval and disbursement process

For credit underwriting, the Company uses both technology and manual verification methods with the help of well-trained credit officers. The credit team is capable of underwriting customers belonging to both formal and informal employment segments. For the formal employment segment, the Company verifies KYC documents and income of customers using technology led solutions like the online verification of PAN, Aadhar number, Voter identification data, EPF, TDS, company/ employer profile and income tax returns. For the informal customer segment, pre-defined policies and processes are used adhering to which the credit manager visits the customer's business and residential premises and assesses the income.

The Company has RPUs for centralised underwriting and branch led decentralised processing mechanisms:

- Regional central processing (through RPUs): The Company has 16 RPUs, i.e., one in each business region, where all loan applications for formal salaried customers are processed. This ensures standardisation, cost optimisation and better turnaround time.
- Decentralised processing: For loan applications of customers from informal segments (self-employed customers or customers who receive their salary in cash), the Company utilises branch led processing through branch credit managers as such cases require on-ground verification of the business and income assessment.

We source and onboard our customers through digital means where a member of our sales team meets the customer in person and captures the demographic and income details, KYC and income documents on a mobile application. The application form is digitally signed by customer through an OTP sent to their mobile device. Once sales team submits the file, it moves into processing with all data and documents (stored digitally). Once the loan application is submitted digitally, our Centralized

Data Entry Team begins checking the loan application and supporting documents. If all documents are complete the file is moved to our Operations Team, after which the loan application is assigned to a credit manager in our loan origination system. The credit manager screens the database to avoid duplication with prior applications or existing customers and conducts credit bureau checks. Our credit manager checks the complete credit bureau report where the credit score of the applicant is reviewed along with a track record of loan repayments, if any. Thereafter, the credit manager processes the file for various online and offline verifications as well as arranges physical or video conference meetings with the customer to underwrite the case for decision.

For credit underwriting, (i) for formal banking salaried customers, a credit manager conducts the discussions over the telephone and (ii) for self-employed and informal salaried customers, the credit manager visits the customer's place of business and residence. The purpose of such visit is to understand their business, revenue streams and expenses and, assess the monthly net business income, or review the proof of salary for informal salaried customers. The credit manager fills in details in a pre-defined template which is mandatory for credit appraisal. During the physical visit to the customer, the credit manager also captures the photographs of the customer's business place with date and time stamp and attaches such photographs in the system. The loan eligibility is determined based on the income assessment and existing loan EMIs. The credit manager then prepares the credit appraisal memo. The loan application is then sent to our sanctioning authority for final approval.

The approval for the loan is provided once the legal evaluation and technical evaluation are done and the RCU – please use full form if being used for the first time - verifications are completed.

The Company has established a credit assessment system consisting of four components:

Underwriting: The credit managers in branches and central underwriting hubs, perform in-depth verification of customers, assess their business and financing requirements and analyse their loan repayment capacity. The current and projected cash flow of a customer's business are also evaluated by the credit managers.

Legal assessments: The Company's in-house team of lawyers performs legal assessments. For further assistance, like document verification and property title examination, the Company makes use of services of empanelled vendors, such as lawyers or law firms. The Company's in-house legal team reviews the legal reports prepared by the empanelled lawyers. Verification of all collateral is the responsibility of the Company's regional legal manager.

Technical assessments: The Company's in-house team of engineers and empanelled valuers, conducts technical assessments for loans related to construction, home improvement or home extension. This includes site visits, technical evaluation of properties, and periodic reviews of construction projects. Additional valuation from independent third parties is sought for properties that exceed a certain threshold. Such properties are also visited by branch managers or credit managers.

Risk containment unit: For timely risk identification and mitigation multiple measures are undertaken by the risk control unit. Trigger-based checks, document scrutinisation and field investigations, are conducted by the unit. Certain customers are personally visited to check for fraud at the early stages. To ensure compliance with regulatory requirements and mitigate potential risks, the risk control unit also conducts geography-specific risk assessments and authenticates demand letters and employment certifications.

3.8. Loan collection and monitoring

The Company has well established processes and a strong four-tier collections infrastructure comprising tele-calling, field collection, legal recovery and settlement to aid loan collections. At the outset of loan disbursement, the Company provides its customers with the option to make their payments using different methods such as automated clearing house payment gateways, post-dated cheques and other digital modes of payment. The Company has also entered into an arrangement with payment systems to augment its digital payment gateways. However, given the limited digital access of customers in semi-urban areas, the Company has entered into an agreement with service providers to provide assisted digital payment services, to facilitate seamless cash payments through their network.

Pre-authorisations for electronic auto-debits from bank accounts are collected from customers. In case of delays in registering the auto-debit facility, post-dated cheques are collected in advance. Instalments are collected from borrowers by field executives with the support of third-party call centres.

A structured collection process is employed, consisting of pre delinquency management, delinquency management, and recovery management.

Pre-Delinquency Management: A well-defined process is set to send reminders to customers who are likely to bounce, identified with the help of Data Science Management team, through text messages, pre-recorded voice calls and calls from tele-callers. Tele callers give reminder calls and encourage customers to clear the EMI from their bank account.

Delinquency Management: Customers who eventually fall under delinquency are managed through a well-defined collection process with the help of well-trained in-house collection team and call centre. Based on the volume of loan disbursements in the area, each executive is assigned a specific number of borrowers. The field team uses the collection app, which has an offline feature enabling the employees to login anytime anywhere across the country. Field executives visit borrowers to collect overdue instalments based on allocation and PTP/pick up generated. Digital receipts are provided to customers via link on SMS. Geo-tagging, geo-tracking, route planner and scorecard features are available for better planning and effective execution. The operations team is empowered with control features to track and ensure deposition of amount collected from customers for which e-receipts have been issued. A senior member of the Company's collections team may visit the customer in case of delayed payments. Due notices are sent and subsequent legal action is initiated if the customer's ability or intent to repay is in question. The Company reviews all customer accounts at periodic intervals, especially for customers with larger exposures or who have missed payments.

Recovery Management: The Company may initiate the process of repossessing collateral under SARFAESI ACT 2002, in the event a customer defaults on their loan and is classified as NPA. During the enforcement of assets, help is sought from local authorities to repossess assets. The Company ensures such customers are appropriately dealt with. Services of the legal team and external lawyers are sought to initiate and monitor legal proceedings. The entire collection field team is equipped with a mobility application for handy customer information useful for collection with the capability to issue digital receipts to customers. Other legal tools like Sec 138, Arbitration is also used where customer is available and alternate source of recovery is a more viable option than property.

3.9. Treasury function

The Company's capital requirements and asset liability management is the responsibility of its dedicated treasury department. The treasury team is also responsible for liquidity management and control, diversifying fund-raising sources, managing interest rate risk and investing surplus funds in accordance with the criteria set forth in our investment policy. Multiple sources of financing are resorted to by the Company including term loans, working capital facilities, Non-convertible Debentures (NCDs), refinancing from the National Housing Bank (NHB), and subordinated debt borrowings from banks, mutual funds and insurance companies. The Company assigns loans through direct assignment / co-lend to banks and financial institutions, enabling it to optimise its cost of borrowings, funding, liquidity requirements, capital management and asset liability management. On a periodic basis, the treasury team submit reports to the asset liability management committee. The observations are further submitted to the Board.

As of March 31st, 2024, the Company's total borrowings comprised 55% loans from banks, 20% from non-convertible debentures, 25% loans from NHB, 0.4% subordinate debt, and 0% public deposits. To maximise NHB borrowings to the extent allowed by NHB regulations and in compliance with their limits sanctioned as per the credit appraisal method, the Company intends to maintain / increase the share of NHB borrowings in its overall borrowing mix.

To avoid the risk emanating from any cumulative asset/ liability mismatches, the Company utilises effective asset liability management strategies. Under the Company's Direct Assignment programme, an important part of the overall borrowing strategy, pools of Home Loans and Loan against Property are sold to PSUs and private sector banks. The Company intends to use the Direct Assignment programme to strengthen its relationship with its banking partners. The Company has appointed a security trustee in respect of its banking arrangements with the approval and consent of its secured lenders. The security trustee is entrusted with the responsibility of the Company's assets that are provided as security.

Led by the Company's flexible fundraising strategy, Company is intending to further optimise its borrowing costs . The Company is striving to diversify its funding sources, identify new sources and pools of capital, and implement robust asset liability management policies. To reduce its overall cost of borrowing, the Company intends to increase the share of NHB refinancing, to the extent possible, in its total borrowings and also access international sources of funding.

In November 2020, with the intention to improve the flow of credit to the unserved and underserved sector of the economy and offer affordable funding to the ultimate beneficiary, the RBI amended the co-lending framework. Under the terms of the revised Co-Lending Model (CLM), based on a prior agreement in a manner akin to a bilateral assignment, banks are allowed to co-lend with all registered NBFCs (including HFCs).

Accordingly, the Company initiated a strategy to expand its distribution network and broaden its sources of funds. Subsequently, the Company entered into co-lending agreements. The co-lending agreement leverages the banks' low-cost funds and the NBFC's or HFC's efficient customer acquisition and management, including collections. This enables the NBFCs/HFCs to leverage the larger balance sheet of their bank partner and expand the customer base at a low cost.

3.10. Risk management framework

Risk management is an important part of the Company's operations given the nature of its business. Realising this, a set of internal policies are obligated with an aim to enhance the robustness of business operations. The Company faces a multitude of risks being in the lending business, including credit, liquidity, operational, interest rate, cash management, and collateral risks. The Company's risk management framework is managed by the Board and sub-committees, including the Audit Committee, the Asset Liability Management Committee, and the Risk Management Committee. The full-time Chief Risk Officer leads the framework. To minimise the impact of various risks, the Company follows prudent lending practices and implements various measures such as robust credit history verification from credit bureaus, multiple verifications of a customer's business and residence, income verification, and KYC document validation.

The Company has a formal risk management structure that includes an active and experienced Board of Directors, a senior management team, and a centralised risk management team led by an independent Chief Risk Officer. The Executive Risk Management Committee (ERMC), comprising senior management, screens risk indicators, stress scenarios, and risk appetite, and initiates appropriate measures. The Company's Risk Appetite Statement (RAS) defines the aggregate level and types of risk acceptable for normal course of conduct. The RAS influences business decisions based on balancing risk and return, ensuring optimum use of capital. The Risk Management Committee closely monitors the RAS and conducts quarterly audits.

The Company has implemented a three-line of defence model to create a robust control environment to manage risks.

- The first line of defence owns the risks. It is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them
- 'Risk and Compliance' forms the second line of defence responsible for monitoring the first line by setting the limits, reviewing and putting constraints on the first line operations commensurate with the risk appetite
- The Company's Internal Audit function forms the third line of the defence, responsible for independent and objective assurance of the adequacy of the design and operational effectiveness of the risk management framework and control governance process.

3.11. Branding and marketing

The Company strives to establish a strong customer connection through a blend of local outreach activities and social media efforts to ensure relevance across the diversified customer base. The Company engages in various activities such as branding of DSA/Aadhar Mitra, local marketing activities, wall paintings for local branding and advertising, and branding of Aadhar Mitra boards to increase visibility in the target markets. To strengthen its brand recall, the Company provides branded merchandise to its partners and sales force.

The Company leverages its social media handles extensively to connect and interact with prospective and existing customers, promote its services, and update customers on new products or service offerings in a cost-effective manner. The website and call centre aid in generating leads and sourcing new business. Public relations initiatives enable the Company to spread awareness among its target audience and stakeholders. These initiatives ensure the Company holds a strong brand recall.

3.12. Information Technology

The business is dependent on information technology (IT) systems and the Company remains committed to investing in upgrading its systems, to improve operational efficiency, customer service and decision-making process while improving business continuity and reducing the risk and negative impacts of system failures.

Digital solutions are an integral part of various aspects of business, including credit underwriting, risk management, fraud detection, and collections to centrally process loan applications, analyse credit risks, identify fraud and utilise an objective cognitive rule-based policy to make credit decisions. These technology-led initiatives allow the Company to increase customer penetration through third party utilisation for sourcing customers while keeping credit appraisals in-house. Effective use of digital solutions allows data integration across all platforms while reducing manual intervention.

Overall customer experience is enhanced manifold led by digitisation of work processes through convenient accessibility, better service and engagement, and faster turnaround times. Additionally, digitisation leads to cost reduction for the Company enhancing productivity.

The Company proactively automated processes through Robotic process automation. This included automation of

- user creation, activation, deactivation in DOB & LOS modules,
- Loan Cancellation
- PDC clearance status updation
- branch asset depreciation & amortisation
- Direct Assignment / co-lending documents download automation
- automation of DOB UAT application creation

In addition, the Company successfully implemented features through inhouse software development. The key developments include physical asset verification module, document tracking module, part prepayment automation for tenure reduction, insurance portal, E-NACH functionality, teal integration for digital legal search and BBPS IPPB integration for collections payments.

To ensure safe and secure access, the major branches are equipped with an SD WAN network. The Company undertook automating load balancing of Linux servers which improved server uptime. All Company websites have secure access through SSL certification updation.

In October 2021, as a part of its Digital Transformation Programme, the Company replaced its enterprise-wide loan management system with the 'TCS Lending and Securitization Platform'. An effective analytics platform aids in data-backed decision-making and in developing a comprehensive information management system. The Company provides online payment facility through an online payment gateway on its website, spanning various digital modes including internet banking, UPI, and debit cards, and has joined hands with banks and online payment aggregators to improve collection efficiency. A three-layered multiprotocol label switching security at branches, restricts unauthorised access to its network, manages network broadcasting, and provides security from spoofing attacks. Remote working has been made available through secure VPN access. The Company has a dedicated IT infrastructure with a data centre hosted in Mumbai and a data recovery centre hosted in Hyderabad. The adoption of layered security architecture in the overall IT infrastructure ensures high up-time for better customer service and acquisition.

The Company's sales mobility app has been provided to all field sales teams and channel partners for submitting customer leads and documents through a digital onboarding process. The app allows the front-line sales employees to directly enter data into the app with in-built validations like PAN check, Aadhaar OTP verification, credit bureau check, etc. The application form is digitally generated once data is entered and validated. This leads to prompt data capture and an improved First Time Right (FTR) ratio.

The Company undertook digitisation of its compliance and information security through

- automated data flow to NHB,
- developing AVACOM compliance software for tracking all compliances across the Company,
- developing FINTRAK insider trading management application,
- implementing EDR Crowdstrike for endpoints security and
- Bitlocker Encryption to avoid data leakage for lost devices.
- The Company has also brought about annual vulnerability assessment and penetration testing at data centre and DR sites and SIEM integration for 24x7 monitoring of security incident.

The customer app available in both English and Hindi languages, enables the customer to access his account in a secure manner with easy login through OTP/MPIN. The app not only offers unique onboarding features for prospective new customers but also provides customer services for existing customers. The app allows for direct integration with CRM for raising requests.

3.13. Data Analytics

The Company's data science practice led by our Chief Data Officer (CDO) has been set up based on the concept of a data-driven strategy. In conjugation with artificial intelligence and machine learning, data analytics can aid in achieving business objectives more efficiently. The Company is in a robust position to manage risk, grow its business, perform market research and improve data and analytics integration led by the centralised data and data science function, coupled with the CDO role. The data science team includes data engineers, visualisation and data discovery experts and data scientists.

Currently, the data analytics team is focussed on:

- Enhancing asset quality by increasing the robustness of its risk analytics for credit risk underwriting.
- Collections analysis and identification of high-risk customer cohorts.
- Automating its risk-based pricing solutions to improve approval rates and pricing of credit risk, thereby boosting overall yields and profitability.
- Integrating its branch opening strategy with its data science initiatives to maximise effectiveness.

The Company aims to blend data analytics within the Company's business model enabling better risk management and improving productivity and decision-making process.

3.14. Human resource development

Human capital is considered to play a pivotal role in elevating organisational awareness and driving productivity and business growth. The Company fosters a growth-oriented work culture with a safe, productive and healthy environment. Various HR policies enable the Company to provide a holistic growth environment and a superior employee experience. The HR function constantly endeavours to align employee goals with Company goals.

The Company constantly endeavours to attract and retain the best talent by providing ample growth opportunities to all employees alike. Regular technical and soft skill training sessions are conducted for employees at all levels. The Company encourages employees to ensure balance between personal and professional growth. Annually, an Employee Engagement Survey is conducted through an independent consultant to better understand employee needs and fill in areas of gaps.

The Company mobile app, AHFL connect, acts as a single touch point for workline, aadhar neo platform, CRM and helpdesk. It has several helpful features like asset tracking option, allows sharing digital business cards via whatsapp, storage of litigation videos, job referral option, instant password reset, etc. The app has enabled the Company to establish effective communication amongst all employees.

As of March 31, 2024, the Company had 3,931 employees on its payrolls.

3.15. Corporate Social Responsibility

At its heart, CSR reflects an organization's understanding of the social and environmental impacts of its business operations and taking steps to mitigate any negative effects, making a positive contribution to the world. Rooted in ethical principles, CSR represents a commitment by businesses to contribute to society and uphold its ethical and moral standards.

At Aadhar, CSR is not just about giving back to the community, but also helping the community grow as the organization grows. Several initiatives have been undertaken with an aim of ensuring inclusive development, by catering to the vast, underserved sections of the society. The Company undertakes various CSR initiatives to contribute to the socio-economic development of the society through its philanthropic approach, social interventions and volunteering efforts. These are in addition to the social objectives that are at the core of the business operations. Various interventions have been undertaken across thematic areas primarily focus on the improvement of health, education and skilling, promotion of sports and environment conservation The various interventions are guided by the principles of Sustainability, Accountability and Transparency.

During the year, the Company pledged different initiatives in the area of health, including support to Aanganwadis for early childcare and education, 'AHFL Clinic on Wheels' to provide solutions for gynaecological issues of women through teleconsultation and telemedicine services, creating awareness about menstrual hygiene and sanitation amongst adolescent school going girls, distribution of mobility aid to the physically challenged, prevention of malnutrition by providing nutritious meals to the students, and organizing health camps for the underserved. Furthermore, planned interventions around education and skilling included setting up digital libraries in police stations for children of lower-income segments preparing for competitive exams, skilling youth of destitute homes, providing scholarships for higher education to the children of low-income families, skilling women and empowering acid attack survivors. The Company also extended its support towards the training of para-athletes to promote paralympic sports. Fostering support towards the conservation of environment, the organization is also executing projects focusing on natural resource conservation and installation of solar panels with the purpose to mitigate dependency on non-renewable sources of energy.

CSR as a whole is considered as a crucial part of operations for both the community and the Company. As a result, the achievements of any organization are the combination of efforts of the employees, company and the society. In the last year, a lot of initiatives received enthusiastic participation and volunteering efforts of the employees. This forged a strong bond between the employees and the company, which further helped the former feel more connected to the world around them.

The details of the various CSR activities carried out by the Company have been provided as part of the Directors' Report on Page No. 62.

3.16. Internal Control

The Company has devised a comprehensive internal control system with a strong culture of integrity and ethics at its core, in keeping with the size and industry of operations. The internal control framework ensures adherence to regulations, safeguarding of assets, detection and prevention of frauds and errors, adequacy and completeness of accounting records, and timely preparation of reliable financial information. The internal control system keeps a strong check on systems and procedures to monitor transactions, maintain key back-up procedures and undertake contingency planning. Alongwith In-house Audit Team, an audit firm is assigned the task of conducting internal and process audits, to ensure procedures and processes adequately comply with the internal controls system. Periodic Audit Committee meetings are held to take cognisance of the reports submitted by the internal auditors and ensure appropriate corrective action is undertaken.

3.17. Awards and accolades

- Recognised as India's Leading NBFC (mid) at the Dun & Bradstreet BFSI & Fintech Summit 2023
- Certified as Great Place to Work by the Great Place to Work Institute, India for the fifth consecutive year.
- Awarded the Resilient Organization of the Year award at India Credit Risk Management Summit & Awards 2023 by Synnex Group.
- Conferred with the Best Data Analytics Initiative of the Year (HFC) at the 2nd Annual NBFC & FinTech Excellence Awards 2023 by Quantic Business Media Pvt Ltd.
- Awarded Best Financial Crime Investigation and Reporting Company at the Fraud Risk Management Summit & Awards 2023
- Awarded Best New Product Initiative and Best Cyber Security Initiative accolades at the DNA Awards 2023.
- Awarded Best Risk and Cyber Security Initiatives in Mid-Layer NBFCs at the 18th Annual Summit & Awards for Banking & Financial Sector Lending by the ASSOCHAM.
- Awarded with Excellence in Housing Finance award in the Western Region during the 12th Real Estate Summit by the ASSOCHAM.
- Awarded the Best Initiative in Technology Orientation [NBFC/HFC/MFI] at the ETBFSI Excellence Awards 2023.
- Awarded the Leading Technology Re-Orientation of the Year [NBFC/Housing Finance /MicroFinance Companies] for the initiative Aadhar MobileX at ETBFSI Exceller Awards 2023.
- Awarded the "Best Technology Re-Orientation Initiative Delivering Business Value" at the BFSI Excellence Award, 2023.

4. Cautionary Statement

It is worth noting that past performance does not necessarily indicate future results, and some information in this Management Discussion and Analysis ("MD&A") section may contain statements describing the Company's objectives, plans, projections, estimates, and expectations which may be 'forward-looking' within the meaning of applicable securities laws and regulations. The Company has based these forward-looking statements on its present beliefs, expectations, and intentions regarding the facts, actions, and events that may occur in the future. Forward-looking statements typically include words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will," or other similar words. A forward-looking statement may also include a statement of the assumptions or basis underlying the forward-looking statement. Actual results may differ materially from those expressed or implied due to external and internal factors beyond the Company's control. The Company does not undertake any obligation to update, amend or modify the forward-looking statements in this MD&A after the publication date based on subsequent developments, information, or events.