August 26, 2022

Vastu Housing Finance Corporation Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loan^	541.30	-	-
Long-term bank lines – CC^	61.00	-	-
Long-term bank lines – Unallocated^	147.70	-	-
Long-term bank facilities (others)^	-	1,250.00	[ICRA]A+ (Stable); Reaffirmed/ assigned for enhanced amount
CP programme	25.00	25.00	[ICRA]A1+; Reaffirmed
Total	**775.00**	**1,275.00**	

**Instrument details are provided in Annexure I; ^ Change in limits*

Rationale

The ratings factor in the healthy growth in Vastu Housing Finance Corporation Limited's (VHFCL) assets under management (AUM), its comfortable asset quality metrics, and the improvement in its profitability in FY2022. VHFCL reported an AUM of Rs. 3,372 crore as on March 31, 2022 (Rs. 3,630 crore as on June 30, 2022) compared to Rs. 2,413 crore in March 2021, registering a growth of ~40% in FY2022. VHFCL reported a standalone net profit of Rs. 176 crore in FY2022 (Rs. 45 crore in Q1 FY2023) and consolidated net profit of Rs. 182 crore in FY2022, translating into a return on average managed assets (Roman) of 4.8% and a return on average net worth (Run) of 11.4% in FY2022 vis-à-vis Rs. 100 crore, 3.7% and 10.7%, respectively, in FY2021 on standalone basis.

Further, the ratings take support from the company's strong investor profile, its robust capitalisation profile with demonstrated ability to raise capital, experienced management team, strong technology driven processes and risk management systems and strong liquidity position. With a primary capital infusion of ~Rs. 925 crore in H2 FY2022, the capitalisation profile improved with a capital to risk weighted assets ratio (CRAR) of 99.80% as on March 31, 2022 (87.74% as on June 30, 2022) from 57.01% in March 2021. Further, the managed gearing[1] declined to 1.0 times as on March 31, 2022 from 2.0 times as on March 31, 2021. In terms of the asset quality, the company reported gross non-performing assets (GNPA) on AUM of 1.14%[2] as on March 31, 2022 (1.42% as on June 30, 2022), compared to 0.45% as on March 31, 2021. The ratings also continue to draw comfort from VHFCL's ability to raise longer-tenor borrowings, with a relatively well-diversified borrowing profile, at competitive rates. ICRA also notes that the company's portfolio remains granular with focus on self-occupied residential properties and nil exposure to the wholesale segment.

VHFCL's ratings are, however, constrained by the limited portfolio seasoning, in-line with most affordable housing companies, as a significant portion of the book was sourced in the last few years. In addition, the share of non-hosing loans (NHL) remained relatively high at 35% of on-book portfolio as on June 30, 2022 (35% of on-book portfolio as of March 31, 2021). Nonetheless, its low loan-to-value ratio (LTV below 40%), regular sell down of its NHL book to reduce its proportion in on-book portfolio and

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[1] Managed gearing = (on-book debt + off-book portfolio) / net worth

[2] On-book GNPA was 1.3% as on March 31, 2022 (0.9% without factoring in the Reserve Bank of India's (RBI) circular dated November 12, 2021, titled Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications) compared to 0.4% as on March 31, 2021

its intent to reduce the share of the NHL portfolio in the near to medium term provide some comfort. Moreover, as the underlying borrower segment remains vulnerable to income shocks, the company's ability to engage with the customers and continuously improve its systems and controls to maintain the asset quality remains critical. Its ability to scale up its operations significantly, while maintaining its leverage, sustain/enhance its profitability, maintain healthy asset quality indicators, contain slippages and recover from its restructured book will remain a monitorable. However, the comfort is drawn from the company's conservative customer selection practices with around 70% of its borrowers having 700+ bureau score with an average vintage of around seven years and with new to credit customers limited to 12%. ICRA notes that almost 100% of VHFCL's loan book is at a floating interest rate and the company can pass on rate hikes to its borrowers, as seen in last few months. However, ICRA expects that there could be some delay in passing on the rate increase impact. As a result, VHFCL's lending spread and net interest margin (NIM) are expected to compress to some extent in FY2023. Nonetheless, its profitability is expected to remain healthy.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the company would be able to grow as per its business plans supported by its experienced management team, given its healthy capitalisation profile and established systems and processes.

Key rating drivers and their description

Credit strengths

Strong commitment of shareholders and experienced management team– VHFCL was founded by Mr. Sandeep Menon and Mr. Sujay Patil while supported by Multiples Alternate Asset Management (which held a 70.2% stake as on March 31, 2022 in the company through the funds advised by it) as one of its early investors. Further, VHFCL onboarded three new investors, namely Norwest Venture Partners (NVP), Creation Investments and IIFL Funds, in H2 FY2022, which together held a 24.8% stake in VHFCL as on March 31, 2022. The company continues to benefit from the long-standing experience of the founders and shareholders in the retail finance business across various retail asset classes. Moreover, the company has an experienced management team with considerable depth, which includes people with extensive experience in retail and proven track record of execution. Over last few years, company has expanded its leadership team to achieve its stated growth plans. With the oversight of the board and the management, ICRA expects VHFCL to grow its portfolio prudently.

Good underwriting processes and conservative lending norms help maintain comfortable asset quality – VHFCL has built a strong proprietary technology and analytics platform, which supports faster turnaround time, enhances credit appraisal, ensures strong monitoring and improves client servicing. Around 50% of the customers have formal documented income and further the family income is substantiated by prudent underwriting practices, including repeated discussions with the borrower, reference checks, cash flow analysis and visits to the workplace to establish income, expenses and debt repayment capacity The technology platform ensures central portfolio tracking and monitoring systems.

Supported by strong underwriting and data analytics, the company reported GNPAs on AUM of 1.14%[3] as on March 31, 2022 (1.42% as on June 30, 2022), compared to 0.45% as on March 31, 2021. VHFCL's 90+ days past due (dpd) also declined to 0.85% of AUM as on March 31, 2022 from 1.13% as on December 31, 2021. In addition, it has an outstanding standard restructured book of 1.80% of AUM as on March 31, 2022, which is exhibiting good collection efficiency, mitigating the risk to an extent. With entire restructured portfolio getting billed, the collections increased, and the standard restructured book declined to 1.44% of AUM as on June 30, 2022. Further, the company's focus on the retail portfolio with no wholesale exposure provides comfort. Its ability to grow its book while maintaining the asset quality will remain a monitorable.

Improvement in profitability profile; expected to remain comfortable – VHFCL's profitability improved in FY2022 amid the increasing scale of operations and the reducing cost of funding along with lower funding requirement on account of a capital

[3] On-book GNPA was 1.3% as on March 31, 2022 (0.9% without factoring in the Reserve Bank of India's (RBI) circular dated November 12, 2021, titled Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications) compared to 0.4% as on March 31, 2021

raise. VHFCL's NIM improved with the reduction in the on-book gearing, improving its overall profitability. VHFCL reported a net profit of Rs. 176 crore in FY2022 (Rs. 45 crore in Q1 FY2023), translating into RoMA of 4.8% and RoNW of 11.4% in FY2022 vis-à-vis Rs. 100 crore, 3.7% and 10.7%, respectively, in FY2021.

ICRA notes that almost 100% of VHFCL's loan book is at a floating interest rate, which would help it pass on the increase in its borrowing cost, given the increasing interest rate scenario. Nevertheless, the lending spread and the NIM are expected to compress to some extent as the rate transmission happens with a lag and may also get capped because of the intense competition. The company's ability to maintain its yield and lending spreads in the competitive environment, keep the operating expenses at an optimum level and contain the credit cost impact will remain a monitorable from a profitability perspective while it scales up its operations.

Strong capitalisation level with low managed gearing[4] – The company's capitalisation profile is strong with a CRAR of 99.80% as on March 31, 2022 (87.74% as on June 30, 2022), up from 57.01% in March 2021. Further, its managed gearing declined to 1.0 time as on March 31, 2022, from 2.0 times in March 2021. The improvement in VHFCL's capitalisation profile was on account of the substantial capital of Rs. 925 crore raised in H2 FY2022. VHFCL has sufficient headroom to achieve its planned growth by deploying additional debt capital while simultaneously maintaining a good capitalisation and gearing level.

Diversified funding profile – The company's borrowing profile (including DA and securitisation) is relatively well-diversified with funding relationships with 19 lenders. Its on-book funding profile comprised banks (35%), non-banking financial companies (NBFCs; 13%), National Housing Bank (NHB; 38%) and non-convertible debentures (NCDs; 14%) as on March 31, 2022. In addition, it undertakes direct assignment and co-lending, which together accounted for ~17% of AUM (27% of its total borrowing including off-book) as on March 31, 2022. Further, ICRA notes that, given its floating rate loan exposure, the company does not have exposure to very low-cost fixed rate borrowing from the National Housing Bank (NHB), which needs to be deployed below a certain hurdle rate. Nevertheless, VHFCL's enjoys competitive marginal cost of funding (~7.5% in Q4 FY2022). Going forward, VHFCL's ability to maintain a diversified debt profile and raise funds at competitive rates would be important for scaling up its operations.

Credit challenges

Limited portfolio seasoning as significant portion of the book was sourced in the last few years – VHFCL has a moderate track record (in relation to the contractual housing loan tenor of up to 10-15 years and behavioural tenor of 6-7 years) as it commenced operations in FY2015. Moreover, its portfolio has grown considerably in the last 3 to 4 years as reflected by the 3-year compound annual growth rate (CAGR) of 37% in its AUM till March 31, 2022. VHFCL's disbursements over the last three fiscals comprised ~95% of its AUM as on March 31, 2022. Going forward as well, the portfolio growth rate is expected to remain high. Though the portfolio has witnessed various economic cycles over the past few years, its performance in the longer term is yet to be seen considering the limited vintage of a significant part of the portfolio as with most affordable housing companies.

Relatively vulnerable borrower profile and high proportion of non-home loan book – VHFCL's borrower profile mainly comprises mid-income self-employed professionals (~81% of the portfolio as on March 31, 2022), who could be vulnerable to economic cycles and the shocks associated with the same. However, the company's conservative customer selection practices with around 70% of its borrowers having 700+ bureau score with an average vintage of around seven years and with new to credit customers limited to 12% along with lower LTV ratios reduce the risk to a certain extent. Further, the proportion of NHL remained relatively high at around 35% of on-book portfolio as on June 30, 2022 (35% of on-book portfolio as of March 31, 2021). The company's ability to manage the borrower profile and maintain the asset quality, while growing its scale of operations, would be important from a rating perspective.

[4] *Managed gearing = (on-book debt + off-book portfolio) / net worth*

Liquidity position: Strong

The company has strong liquidity in the form of on-book cash and cash equivalents of ~Rs. 584 crore as on June 30, 2022, which is sufficient to meet its debt obligations of Rs. 350 crore over the 12-month period ending June 30, 2023, with collections due of Rs. 102 crore during this period. Additionally, VHFCL had Rs. 840 crore of sanctioned but unutilised funding lines from various lenders as on June 30, 2022.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the long-term rating if the company is able to report a healthy growth in its scale of operations and maintain a healthy profitability profile with RoMA > 4.0% on a sustainable basis, along with prudent capitalisation and good asset quality indicators on a consistent basis.

Negative factors – Pressure on the ratings could arise if there is a deterioration in the asset quality with the 90+ dpd exceeding 2.5% on a sustained basis, thereby affecting the profitability. The weakening of the capitalisation profile (managed gearing above 5.0 times on a sustained basis) or a stretch in the liquidity could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Vastu Housing Finance Corporation is a housing finance company registered with NHB. The company started its operations in August 2015 post change of management to Mr. Sandeep Menon and Mr. Sujay Patil while supported by Multiples Alternate Asset Management (which held a 70.2% stake as on March 31, 2022, in the company through the funds advised by it) as one of its early investors. With a capital raise in FY2022, VHFCL onboarded three new shareholders – Creation Investments Capital Management (10.09%), Norwest Venture Partners (10.09%) and IIFL Funds (4.65%).

The company's AUM stood at Rs. 3,630 crore as on June 30, 2022 (Rs. 2,413 crore as on March 31, 2021). It caters to the affordable housing segment (both home loan and NHL) with an average ticket size of Rs. 12-15 lakh. VHFCL had a net worth of Rs. 2,157 crore as on June 30, 2022 (limited review) and operates through 133 operational branches in 13 states.

Key financial indicators (audited; standalone)

Vastu Housing Finance Corporation Limited	FY2020	FY2021	FY2022	Q1 FY2023*
Total income	292	353	485	130^
Profit after tax	92	100	176	45
Net worth	887	995	2,106	2,157
Gross AUM	1,770	2,413	3,372	3,630
Total managed assets	2,363	3,047	4,398	4,549
Return on average managed assets	4.4%	3.7%	4.7%	4.0%
Return on average net worth	11.3%	10.7%	11.4%	8.5%
On-book gearing (times)	1.5	1.7	0.8	0.8
Managed gearing (times)	1.6	2.0	1.0	1.1
GNPA (on overall AUM)	0.33%	0.45%	1.14%	1.42%

Vastu Housing Finance Corporation Limited	FY2020	FY2021	FY2022	Q1 FY2023*
NNPA (on overall AUM)	0.26%	0.33%	0.85%	1.06%
Solvency (NNPA on overall AUM /Net worth)	0.51%	0.79%	1.35%	1.79%
CRAR	65.1%	57.0%	99.8%	87.7%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
Managed gearing = (on-book debt + off-book portfolio) / net worth; Net worth is adjusted for goodwill
Total managed assets = Total of balance sheet + ECL provision + off-book portfolio - Goodwill
** Limited review numbers for Q1 FY2023; ratios computed on basis of estimated balance sheet value for June 2022 and are annualised*
^ after excluding securitisation loss

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun-30-2022 (Rs. crore)	FY2023	FY2022		FY2021		FY2020
					Aug-26-2022	Sep-30-2021	Apr-05-2021	Mar-02-2021	May-06-2020	-
1	Long-term Fund-based term loan	Long term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	long-term fund based – CC	Long term	-	-	-	[ICRA]A+ (Stable)	-	-	-	-
3	Long-term bank lines – Unallocated	Long term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	-	-
4	Long-term bank facilities (others)	Long Term	1,250	830.17	[ICRA]A+ (Stable)	-	-	-	-	-
5	Commercial paper	Short Term	25.00	-	[ICRA]A1+	[ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities	Simple
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	CP programme-unutilised	NA	NA	NA	25.00	[ICRA]A1+
NA	Term loan	Sep-28-18	NA	5 years	7.77	[ICRA]A+ (Stable)
NA	Term loan	Mar-30-21	NA	5 years	62.50	[ICRA]A+ (Stable)
NA	Term loan	Sep-18 to Mar-22	NA	4 to 5 years	197.53	[ICRA]A+ (Stable)
NA	Term loan	Dec-12-21 May-27-22	NA	8 years	49.06	[ICRA]A+ (Stable)
NA	Term loan	Jul-09-19	NA	5 years	45.00	[ICRA]A+ (Stable)
NA	Term loan	Sep-30-19	NA	5 years	4.00	[ICRA]A+ (Stable)
NA	Term loan	Dec-31-20	NA	4 years	46.88	[ICRA]A+ (Stable)
NA	Term loan	Dec-20 to May-22	NA	8 years 7 months	278.88	[ICRA]A+ (Stable)
NA	Term loan	Sep-30-21	NA	3 years	16.25	[ICRA]A+ (Stable)
NA	Term loan	Jun-27-22	NA	7 years	50.00	[ICRA]A+ (Stable)
NA	Term loan	Dec-30-20	NA	4 years	2.29	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	3.00	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	1.00	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	10.00	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	10.00	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	10.00	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	30.00	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	5.00	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	1.00	[ICRA]A+ (Stable)
NA	Unallocated				419.83	[ICRA]A+ (Stable)

Source: Company; NA – Not available

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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