

March 28, 2023

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 bank facilities (others)	1,250.0	2,650.0	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
CP programme	25.0	25.0	[ICRA]A1+; reaffirmed
Total	1,275.0	2,675.0	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in the healthy growth in Vastu Housing Finance Corporation Limited's (Vastu) assets under management (AUM) and the improvement in its profitability metrics, while maintaining comfortable asset quality metrics and a strong capitalisation profile and gearing. During March 2020 to December 2022, Vastu's AUM increased at a compound annual growth rate (CAGR) of ~40%. In addition, it witnessed an improvement in its profitability in FY2022 and 9M FY2023, supported by the higher net interest margin (NIM) and low credit cost.

The ratings also take into consideration the company's strong capitalisation profile with demonstrated ability to raise capital from existing as well as new investors, its experienced management team and strong liquidity position. Vastu reported a robust capital to risk weighted assets ratio (CRAR) of 78.6% as on December 31, 2022 (99.8% as on March 31, 2022), given the sizeable equity infusion of ~Rs. 925 crore in FY2022 and healthy internal accruals. Its managed gearing¹ was reported at 1.2 times (on-book gearing of 0.9 times) as on December 31, 2022 compared to 0.8 times (on-book gearing of 0.6 times) as on March 31, 2022.

In terms of the asset quality, the company reported gross non-performing assets (GNPAs) on AUM of 1.3% as on December 31, 2022 (1.4% on on-book portfolio) compared to 1.1% as on March 31, 2022 (1.3% on on-book portfolio). The ratings also continue to draw comfort from Vastu's ability to raise longer-tenor borrowings, with a relatively well-diversified borrowing profile, at competitive rates. ICRA notes that almost the entire loan book is at a floating interest rate and the company has repriced its loan book thrice YTD FY2023. On the other hand, it has been able to maintain the cost of incremental funding at a competitive level, thus improving its NIM, which has helped improve its profitability. Nevertheless, the company's margins remain susceptible to intense competition in the industry, which may impact its ability to pass on the rate hikes to borrowers.

Vastu's ratings are, however, constrained by the limited portfolio seasoning, in line with most affordable housing finance companies (AHFCs), as a significant portion of the book was sourced in the last few years. In addition, the share of non-housing loans (NHLs) remained relatively high at 32% of the on-book portfolio (42% of AUM) as on December 31, 2022 compared to 35% (43% of AUM) as on March 31, 2022. The regular sell-down of the NHL book, to reduce its proportion in the on-book portfolio, and the management's intent to cut down the share of the NHL portfolio in the near-to-medium term provide some comfort.

Since the underlying borrower segment remains vulnerable to income shocks, the company's ability to engage with customers and improve its systems and controls continuously to maintain the asset quality remains critical. Nevertheless, ICRA takes note

¹ Managed gearing = (on-book debt + off-book portfolio)/Net worth

of Vastu's conservative customer selection practices with ~75% of its borrowers having a credit bureau score of 700+ and new-to-credit customers limited to ~12% as on December 31, 2022.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company would be able to maintain a healthy credit profile, with a steady growth in its scale of operations and good profitability supported by its experienced management team, its strong capitalisation profile and established systems and processes.

Key rating drivers and their description

Credit strengths

Experienced management team – Vastu continues to benefit from its experienced management team and strong investor base. Its investors include Multiples Alternate Asset Management (one of its early investors) and recently onboarded investors like Norwest Venture Partners (NVP), Creation Investments Capital Management (Creation) and IIFL Funds (IIFL). Over the last few years, the company has expanded its leadership team, including second line management people with experience in retail financing and an established track record of execution across various retail asset classes. With the oversight of the board and the management, ICRA expects Vastu to achieve its stated growth plans while maintaining a healthy financial profile.

Steady growth in AUM and improvement in profitability, while maintaining comfortable asset quality metrics – Vastu has been able to maintain a healthy pace of growth in its AUM over the last few years and its standalone AUM stood at Rs. 4,507 crore as on December 31, 2022. In addition, it has maintained comfortable asset quality metrics with GNPA on AUM of 1.3% as on December 31, 2022 (1.4% on on-book portfolio) compared to 1.1% as on March 31, 2022 (1.3% on on-book portfolio). Moreover, its standard restructured book reduced to 0.9% of AUM as on December 31, 2022 from 1.4% as on June 30, 2022 and it has been billing for more than 9 months now. Further, the company's focus on the retail portfolio, with no wholesale exposure, provides comfort.

Vastu's profitability improved in 9M FY2023 amid the increasing scale of operations and higher NIM. The improvement in the NIM was also supported by the repricing of the loan book, incremental debt fund raising at competitive rates, and lower negative carry with the decline in on-book liquidity (though maintained at comfortable level). Further, its credit cost remained comfortable in 9M FY2023 at 0.2% of the average managed assets (AMA; annualised) against 0.5% in FY2022. Vastu reported a standalone profit of Rs. 183 crore in 9M FY2023, translating into an annualised return on AMA (RoMA) of 5.0% and a return on average net worth (RoNW) of 11.0% against Rs. 176 crore, 4.8% and 11.4%, respectively, in FY2022. Its ability to grow its book while maintaining the asset quality and credit cost will remain a key monitorable.

Strong capitalisation and low managed gearing – The company's capitalisation profile remains strong with a CRAR of 78.6% as on December 31, 2022 (99.8% as on March 31, 2022), up from 57.0% in March 2021. Further, its managed gearing stood at 1.2 times (on-book gearing of 0.9 times) as on December 31, 2022 compared to 0.8 times (on-book gearing of 0.6 times) as on March 31, 2022. The managed gearing improved from 1.8 times (on-book gearing of 1.6 times) as on March 31, 2021, driven by the substantial capital infusion of ~Rs. 925 crore in FY2022 and healthy internal capital accruals. Vastu has sufficient headroom to achieve its planned growth by deploying additional debt capital while maintaining a good capitalisation and gearing level.

Diversified funding profile – Vastu has a diversified borrowing profile including direct assignment (DA) and securitisation and has funding relationships with 15 active lenders (20 including non-convertible debenture (NCD) investors) in addition to other lending relationships. Its on-book funding profile comprised banks (58%), non-banking financial companies (NBFCs; 6%), National Housing Bank (NHB; 23%) and NCDs (13%) as on December 31, 2022. In addition, it undertakes DA and co-lending, which together accounted for ~16% of the AUM (26% of its borrowing including off-book funding) as on December 31, 2022. Further, ICRA notes that Vastu raised funds at a competitive cost of 8.2% in 9M FY2023. Going forward, Vastu'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 – Vastu 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), in line with the industry average, as it commenced operations in FY2015. Moreover, as seen with most of the other AHFCs, Vastu's portfolio has grown considerably in the last 3-4 years as reflected by the CAGR of ~40% in its standalone AUM during March 2020-December 2022. Vastu's disbursements over the last 33 months comprised ~96% of its AUM as on December 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 AHFCs.

Relatively vulnerable borrower profile and high proportion of NHL book – Vastu's borrower profile mainly comprises mid-income self-employed professionals (~82% of the portfolio as on December 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 ~75% of its borrowers having a credit bureau score of 700+ and with new-to-credit customers limited to ~12% as on December 31, 2022 along with lower loan-to-value (LTV) ratios (39% as on December 31, 2022), reduce the risk to a certain extent. Further, the proportion of NHLs remained relatively high at around 32% of the on-book portfolio (42% of AUM) as on December 31, 2022. 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.

Liquidity position: Strong

The company has strong liquidity in the form of unencumbered on-book cash and investments (including deposits) of ~Rs. 557 crore as on December 31, 2022, which is sufficient to meet its debt obligations of Rs. 283 crore over the six-month period ending June 30, 2023, with collections due (excluding interest) of Rs. 52 crore during this period. Additionally, Vastu had ~Rs. 769 crore of sanctioned but unutilised funding lines from various lenders as on December 31, 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 substantial improvement in its scale of operations and maintain a healthy profitability profile with RoMA of more than 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 in case of an increase in the managed gearing beyond 5 times or a deterioration in the asset quality indicators (90+ days past due (dpd) above 2.5%) on a sustained basis, thereby impacting the earnings.

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 Limited is a housing finance company registered with NHB. The company started its operations in August 2015, following the change in the management to Mr. Sandeep Menon and Mr. Sujay Patil while

supported by one of its early investors – Multiples Alternate Asset Management (70.2% stake in the company, as on December 31, 2022, through the funds advised by it). With a capital raise in FY2022, Vastu onboarded three new shareholders – Creation Investments Capital Management (10.09%), Norwest Venture Partners (10.09%) and IIFL Funds (5.58%).

The company's AUM stood at Rs. 4,507 crore as on December 31, 2022 (Rs. 3,372 crore as on March 31, 2022). It caters to the affordable housing segment (both home loans and NHLs) with an average ticket size of Rs. 12-15 lakh and had 141 operational branches (excluding 5 regional head offices) in 13 states as on December 31, 2022.

Key financial indicators (audited; standalone)

Vastu Housing Finance Corporation Limited	FY2021	FY2022	9M FY2023
Accounting as per	Ind AS	Ind AS	Ind AS
Total income	353	485	467
Profit after tax	100	176	183
Net worth	995	2,106	2,301
Gross AUM (IGAAP valuation)	2,413	3,372	4,507
Total managed assets	3,047	4,398	5,537
Return on average managed assets	3.7%	4.8%	5.0%
Return on average net worth	10.7%	11.4%	11.0%
On-book gearing (times)	1.6	0.6	0.9
Managed gearing (times)	1.8	0.8	1.2
Gross NPA (on AUM)	0.4%	1.1%	1.3%
Net NPA (on AUM)	0.3%	0.9%	1.0%
Gross NPA (on-book)	0.5%	1.3%	1.4%
Net NPA (on-book)	0.4%	1.0%	1.0%
Solvency (Net NPA on AUM/Net worth)	0.8%	1.4%	2.0%
CRAR	57.0%	99.8%	78.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information:

Vastu also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

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 Dec-31-2022 (Rs. crore)	Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Mar-28-2023	Feb-10-2023	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	2,650	2,379.45	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)^	-	-	-	-	-
5	Commercial paper	Short term	25.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	-

^ Change in limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities (others)	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	Long-term fund-based bank facilities	Aug 2017 to Dec 2022	NA	Jan 2023 to Jun 2030	2,650.0	[ICRA]AA- (Stable)
Not issued	CP programme	NA	NA	NA	25.0	[ICRA]A1+

Source: Company

[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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Branches



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