

May 31, 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)	2,650.0	3,150.0	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
CP programme	25.0	25.0	[ICRA]A1+; reaffirmed
Total	2,675.0	3,175.0	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in Vastu Housing Finance Corporation Limited's (Vastu) healthy scale of operations with assets under management (AUM) of Rs. 5,293 crore as on March 31, 2023 registering a growth of 57% in FY2023. In addition, the company has witnessed an improvement in its profitability metrics, supported by the higher net interest margin (NIM) and low credit costs given the improvement in the asset quality metrics.

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 67.6% as on March 31, 2023 (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 1.5 times (on-book gearing of 1.2 times) as on March 31, 2023 compared to 0.8 times (on-book gearing of 0.6 times) as on March 31, 2022.

In terms of the asset quality, Vastu reported gross non-performing assets (GNPAs) on AUM of 0.9% as on March 31, 2023 (0.9% on on-book portfolio) compared to 1.1% as on March 31, 2022 (1.3% on on-book portfolio). The improvement was on account of recoveries, write-offs and low incremental slippages. 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 had repriced its loan book four times in 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, its margins remain susceptible to intense competition in the industry, which may impact its ability to pass on rate hikes to borrowers.

Vastu's ratings are 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) was around 30% of the on-book portfolio (41% of AUM) as on March 31, 2023 compared to 35% (43% of AUM) as on March 31, 2022. The increasing disbursements in the HL segment and the regular sell-down of the NHL book, to reduce its proportion in the on-book portfolio, 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 of Vastu's conservative customer selection practices with ~77% of its borrowers having a credit bureau score of 700+ and new-to-credit customers limited to ~15% as on March 31, 2023.

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

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

Healthy scale of operations – Vastu enjoys a healthy scale of operations with its standalone AUM at Rs. 5,293 crore as on March 31, 2023. The company has witnessed a healthy growth over the past few years, aided by its experienced management team and strong investor base. Its investors include Multiples Alternate Asset Management (one of its early investors), 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 the second-line management, with people having 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 increase its scale of operations further as per its plans while maintaining a healthy financial profile.

Comfortable asset quality metrics and profitability indicators – Vastu has maintained comfortable asset quality metrics with GNPA on AUM of 0.9% as on March 31, 2023 (0.9% 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 0.8% of AUM as on March 31, 2023 from 1.4% as on June 30, 2022 and it has been billing for more than 12 months now. Further, the company's focus on the retail portfolio, with no wholesale exposure, provides comfort.

Vastu's profitability improved in FY2023 amid the increasing scale of operations and higher NIM. The improvement in the NIM was 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 a comfortable level). Further, its credit cost remained comfortable in FY2023 at 0.2% of the average managed assets (AMA) compared to 0.5% in FY2022. Vastu reported a standalone profit of Rs. 274 crore in FY2023, translating into an annualised return on AMA (RoMA) of 5.0% and a return on average net worth (RoNW) of 12.2% against Rs. 176 crore, 4.8% and 11.4%, respectively, in FY2022.

Strong capitalisation and low managed gearing – The company's capitalisation profile remains strong with a CRAR of 67.6% as on March 31, 2023 (99.8% as on March 31, 2022), up from 57.0% in March 2021. Further, its managed gearing was comfortable at 1.5 times (on-book gearing of 1.2 times) as on March 31, 2023 vis-à-vis 0.8 times (on-book gearing of 0.6 times) as on March 31, 2022. Its capitalisation profile and gearing were supported 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 has funding relationships with 18 active lenders (22 including non-convertible debenture (NCD) investors) in addition to other lending relationships. Its on-book funding profile comprised banks (65%), non-banking financial companies (NBFCs; 11%), National Housing Bank (NHB; 16%) and NCDs (8%) as on March 31, 2023. In addition, it undertakes DA and co-lending, which together accounted for ~17% of the AUM (24% of its borrowing including off-book funding) as on March 31, 2023. 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 compound annual growth rate (CAGR) of ~44% in its

standalone AUM during March 2020-March 2023. Vastu's disbursements over the last 3 years comprised ~102% of its AUM as on March 31, 2023. 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 (~81% of the portfolio as on March 31, 2023), who could be vulnerable to economic cycles and the shocks associated with the same. However, the company's conservative customer selection practices, with ~77% of its borrowers having a credit bureau score of 700+ and with new-to-credit customers limited to ~15% as on March 31, 2023 along with lower loan-to-value (LTV) ratios (39% as on March 31, 2023), reduce the risk to a certain extent. Further, the proportion of NHLs was ~30% of the on-book portfolio (41% of AUM) as on March 31, 2023. 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

Vastu has strong liquidity in the form of unencumbered on-book cash and investments (including deposits) of ~Rs. 786 crore as on March 31, 2023, which is sufficient to meet its debt obligations of Rs. 704 crore for the 12-month period ending March 31, 2024, with collections due (excluding interest) of Rs. 166 crore during this period, as per its static asset-liability management (ALM) statement of March 2023. Additionally, the company had ~Rs. 769 crore of sanctioned but unutilised funding lines from various lenders and committed disbursements of Rs. 280 crore as on March 31, 2023.

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, post the change of management to Mr. Sandeep Menon and Mr. Sujay Patil, with support from Multiples Alternate Asset Management (which held a 69.9% stake as on March 31, 2023, in the company through the funds advised by it), which is one of its early investors. With a capital raise in FY2022, Vastu onboarded three new shareholders – Creation Investments Capital Management with a 10.06% stake, Norwest Venture Partners with a 10.06% stake and IIFL Funds with a 5.56% stake as on March 31, 2023.

The company's standalone AUM was Rs. 5,293 crore as on March 31, 2023 (Rs. 3,372 crore as on March 31, 2022). It caters to the affordable housing segment (both HL and NHL) with an average ticket size of Rs. 12-15 lakh. Vastu reported a net worth of Rs. 2,398 crore as on March 31, 2023 and operates through 149 operational branches (excluding 5 head office branches) in 13 states.

Key financial indicators (audited; standalone)

Vastu Housing Finance Corporation Limited	FY2021	FY2022	FY2023
Accounting as per	IndAS	IndAS	IndAS
Total income	353	485	692
Profit after tax	100	176	274
Net worth	995	2,106	2,398
Gross AUM (IGAAP valuation)	2,413	3,372	5,293
Total managed assets	3,047	4,398	6,661
Return on average managed assets	3.7%	4.8%	5.0%
Return on average net worth	10.7%	11.4%	12.2%
On-book gearing (times)	1.6	0.6	1.2
Managed gearing (times)	1.8	0.8	1.5
Gross NPA (on AUM)	0.4%	1.1%	0.9%
Net NPA (on AUM)	0.3%	0.9%	0.7%
Gross NPA (on-book)	0.5%	1.3%	0.9%
Net NPA (on-book)	0.4%	1.0%	0.7%
Solvency (Net NPA on AUM/Net worth)	0.8%	1.4%	1.5%
CRAR	57.0%	99.8%	67.6%

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 a 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	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years								
		Amount Rated (Rs. crore)	Amount Outstanding as of Apr-30-2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023				Date & Rating in FY2022		Date & Rating in FY2021	
				May-31-2023	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	3,150	2,897.99	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)^	-	-	-	-	
5 Commercial paper	Short term	25.00	-	[ICRA]A1+	[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](https://www.icra.in)

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	Sep 2017 to Mar 2023	NA	NA	3,150.0	[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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