August 11, 2023

Vastu Finserve India Private Limited: [ICRA]AA- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities (others)	400.00	[ICRA]AA- (Stable); assigned
Total	**400.00**	

**Instrument details are provided in Annexure I*

Rationale

To arrive at the ratings, ICRA has taken a consolidated view of Vastu Housing Finance Corporation Limited (VHFCL) and its wholly-owned subsidiary (Vastu Finserve India Private Limited; VFIPL), hereafter referred to as the Group, given their shared brand name, operational synergies and financial interlinkages.

The ratings factor in the Group's healthy consolidated profitability metrics and asset quality indicators, while growing at a rapid pace. Its profitability has been supported by healthy net interest margins (NIM) and low credit costs. The ratings also take into consideration the Group's comfortable capitalisation profile with the demonstrated ability to raise capital, its experienced management team, and strong liquidity position. Given the sizeable equity infusion of ~Rs. 925 crore in VHFCL in FY2022 and the healthy internal accruals, the Group's consolidated managed gearing[1] remained comfortable at 2.1 times as on June 30, 2023. In addition, it has a diversified funding profile in the form of multiple lenders and instruments.

In terms of asset quality, VHFCL and VFIPL reported on-book gross non-performing assets (GNPA)/ gross stage 3 (GS3) of 1.1% and 1.0%, respectively, as on June 30, 2023; on a consolidated basis, the Group's GNPA/GS3 is estimated at 1.1% as on June 30, 2023. The ratings continue to draw comfort from the Group'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 of VHFCL is at a floating interest rate and the company had repriced its loan book four times in FY2023 and once in Q1 FY2024. While VFIPL's loan book is at a fixed rate, it is of a relatively shorter duration. Given the significant growth, the share of the book generated at new rates remains high. On the other hand, it has been able to keep the cost of incremental funding at a competitive level, thus maintaining adequate NIM, which has helped sustain 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.

The ratings are constrained by the limited portfolio seasoning, as a significant portion of VHFCL's book was sourced in the last few years, in line with most affordable housing finance companies (AHFCs), while VFIPL is in the nascent stage of operations and a large part of its book was originated in the last two years. The Group reported consolidated assets under management (AUM) of Rs. 6,770 crore as on June 30, 2023, registering an annualised growth of ~52% in Q1 FY2024. Of this, the home loan (HL) segment accounted for ~51%, followed by loan against property (LAP; ~33%) and vehicle finance (VF) and other loans (16%). Furthermore, since the underlying borrower segment remains vulnerable to income shocks, the Group'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 VHFCL'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. VFIPL too maintains stringent credit underwriting norms, which are expected to help keep its asset quality under control.

[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 Group will 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 comfortable capitalisation profile and established systems and processes.

Key rating drivers and their description

Credit strengths

Healthy asset quality metrics and profitability indicators – The Group has maintained healthy asset quality metrics so far. On a consolidated basis, it had GNPA/ GS3 (on AUM) of 1.0% (1.1% of on-book portfolio) as on June 30, 2023 compared to 0.9% (0.9% of on-book portfolio) as on March 31, 2023. VHFCL reported standalone GNPA/ GS3 of 1.1% of the AUM as on June 30, 2023 (1.1% of on-book portfolio) compared to 0.9% as on March 31, 2023 (0.9% of on-book portfolio). VFIPL reported GNPA/GS3 of 0.9% of the AUM (1.0% of on-book portfolio) as on June 30, 2023 against 0.8% (0.8% of on-book portfolio) as on March 31, 2023.

The Group's profitability metrics remain healthy with the increasing scale of operations, supported by strong NIMs and low credit costs. The overall NIM was supported by the repricing of the loan book (VHFCL), incremental debt fund raising at competitive rates, and lower negative carry with the decline in on-book liquidity (though maintained at a comfortable level). While ICRA notes the increase in the cost of average funding in Q1 FY2024 compared to FY2023, given the repricing of some of the existing loans and incremental borrowings at higher rates, the Group's ability to pass on the same to customers is expected to help the company limit the impact on its NIM and hence maintain comfortable profitability. Further, the Group's credit cost remained low on account of the comfortable asset quality. It reported a consolidated profit after tax (PAT) of Rs. 285 crore in FY2023 (Rs. 75 crore in Q1 FY2024), translating into an annualised return on average managed assets (RoMA) of 4.7% (3.8% in Q1 FY2024) and a return on average net worth (RoNW) of 12.6% (12.2% in Q1 FY2024) against Rs. 182 crore, 4.7% and 11.7%, respectively, in FY2022.

VHFCL reported a standalone PAT of Rs. 66 crore in Q1 FY2024, translating into a RoMA of 3.8% and RoNW of 10.9% against Rs. 274 crore, 5.0% and 12.2%, respectively, in FY2023. VFIPL reported a profit of ~Rs. 8 crore, translating into RoMA and RoNW of 10.8% and 2.8%, respectively, in Q1 FY2024 against Rs. 11 crore, 5.1% and 1.5%, respectively, in FY2023.

Comfortable capitalisation profile – The Group's capitalisation profile remains comfortable with a low consolidated managed gearing of 2.1 times (on-book gearing of 1.7 times) as on June 30, 2023 vis-à-vis 1.0 times (on-book gearing of 0.7 times) as on March 31, 2022. The capitalisation profile and gearing were supported by the substantial capital infusion of ~Rs. 925 crore in VHFCL in FY2022 and healthy internal capital accruals. The Group has sufficient headroom to achieve its planned growth by deploying additional debt capital while maintaining an adequate capitalisation and gearing level. VHFCL reported a standalone managed gearing of 1.7 times and a capital-to-risk weighted assets ratio (CRAR) of 65.0% as on June 30, 2023. VFIPL reported a standalone managed gearing of 3.0 times and a CRAR of 29.3% as on June 30, 2023.

Diversified funding profile – The Group has a diversified borrowing profile, including direct assignment (DA), and has funding relationships with multiple active lenders (including non-convertible debenture (NCD) investors) in addition to other lending relationships. VHFCL's on-book funding profile (standalone) comprised banks (73%), non-banking financial companies (NBFCs; 10%), National Housing Bank (NHB; 13%) and NCDs (3%) as on June 30, 2023. In addition, it undertakes DA and co-lending, which accounted for ~17% of the AUM (23% of its borrowing including off-book funding) as on June 30, 2023. VFIPL's on-book borrowing profile comprised banks (67%), NBFCs (15%) and NCDs (18%) as on June 30, 2023. Going forward, the Group'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 – 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), in line with the industry average, as it commenced operations in FY2015. Moreover, as seen with most other AHFCs, VHFCL's portfolio has increased 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. Its disbursements over the last three 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.

VFIPL started its operations in FY2019 and has grown at a rapid pace since then. It reported a growth of 182% in AUM in FY2023 (~224% annualised growth in Q1 FY2024) on a relatively smaller asset base. Given the nascent stage of operations and the significant growth witnessed in the portfolio in the last two years, the company's long-term performance is yet to be seen.

Relatively vulnerable borrower profile – The Group caters to borrowers in the mid-income category, largely comprising self-employed borrowers, who could be vulnerable to economic cycles and the shocks associated with the same. Its ability to manage the borrower profile and maintain the asset quality, while growing its scale of operations, would be important from a rating perspective.

On a standalone basis, VHFCL's borrower profile mainly comprises self-employed professionals (~81% of the portfolio as on March 31, 2023). Further, the proportion of non-HLs (NHLs) was ~30% of the on-book portfolio (41% of AUM) as on March 31, 2023. Nonetheless, ICRA takes note of the company'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, along with lower loan-to-value (LTV) ratios (39% as on March 31, 2023), which reduce the risk to a certain extent.

VFIPL too maintains stringent credit underwriting norms, which are expected to help keep its asset quality under control. Around 68% of its borrowers had a credit bureau score of 700+ as on March 31, 2023, which reduces the risk to a certain extent.

Liquidity position: Strong

The Group had a combined liquidity of Rs. 1,102 crore, as on June 30, 2023, in the form of unencumbered on-book cash and investments (including deposits), which is sufficient to meet its debt obligations of Rs. 1,113 crore for the 12-month period ending June 30, 2024, with collections due (excluding interest) of Rs. 429 crore during this period. Additionally, it had ~Rs. 759 crore of sanctioned but unutilised funding lines from various lenders as on June 30, 2023.

On a standalone basis, VFIPL has strong liquidity in the form of unencumbered on-book cash and investments (including deposits) of ~Rs. 208 crore along with unavailed sanctioned lines of ~Rs. 79 crore from various lenders as on June 30, 2023.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the long-term rating if the Group 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 on a sustained basis 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 ICRA's Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the group

The Vastu Group comprises two major operational entities – Vastu Housing Finance Corporation Limited (VHFCL) and its 100% subsidiary, Vastu Finserve India Private Limited (VFIPL). VHFCL is a housing finance company registered with NHB. It started its operations in August 2015, post the change in management to Mr. Sandeep Menon and Mr. Sujay Patil, with support from Multiples Alternate Asset Management (69.9% stake in the company, as on March 31, 2023, through the funds advised by it), which is one of its early investors. With a capital raise in FY2022, VHFCL 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. VHFCL's standalone AUM was Rs. 5,692 crore as on June 30, 2023 (Rs. 5,293 crore as on March 31, 2023). It caters to the affordable housing segment (both HL and NHL) with an average ticket size of Rs. 12-15 lakh.

VFIPL is a wholly-owned subsidiary of VHFCL and provides vehicle loans, business loans and loan against property. Its primary product offering is in the vehicle loan segment at present, mainly used vehicles covering commercial vehicles, personal vehicles and a small portion of three-wheelers. The company's standalone AUM was Rs. 1,078 crore as on June 30, 2023 (Rs. 803 crore as on March 31, 2023). It provides vehicle loans and business loans with an average ticket size of Rs. 4-8 lakh.

The Group's overall AUM stood at Rs. 6,770 crore as on June 30, 2023 (Rs. 6,097 crore as on March 31, 2023) managed via 186 branches spread across 14 states.

Key financial indicators (audited; consolidated)

Vastu Group	FY2021	FY2022	FY2023	Q1 FY2024
Accounting as per	IndAS	IndAS	IndAS	IndAS
Total income	362	520	769	264
Profit after tax	96	182	285	75
Net worth	988	2,125	2,408	2,485
Gross AUM (IGAAP valuation)	2,559	3,657	6,097	6,770
Total managed assets	3,141	4,662	7,468	8,187
Return on average managed assets	3.5%	4.7%	4.7%	3.8%
Return on average net worth	10.2%	11.7%	12.6%	12.2%
On-book gearing (times)	1.7	0.7	1.4	1.7
Managed gearing (times)	1.9	1.0	1.8	2.1
GNPA/GS3 (on AUM)	0.4%	1.2%	0.9%	1.0%
NNPA/NS3 (on AUM)	0.3%	0.8%	0.6%	0.8%
GNPA/GS3 (on-book)	0.5%	1.2%	0.9%	1.1%
NNPA/NS3 (on-book)	0.3%	0.9%	0.6%	0.7%
Solvency (NNPA on AUM/Net worth)	0.8%	1.4%	1.6%	2.1%
CRAR ^	57.0%	99.8%	67.7%	65.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; ^Standalone values for VHFCL

Key financial indicators (audited; standalone)

Vastu Housing Finance Corporation Limited	FY2021	FY2022	FY2023	Q1 FY2024
Accounting as per	IndAS	IndAS	IndAS	IndAS
Total income	11	42	83	46
Profit after tax	-4.7	5.4	11.1	8.5
Net worth	93	124	310	318
Gross AUM (IGAAP valuation)	146	284	803	1,078
Total managed assets	198	371	1,113	1,318
Return on average managed assets	-3.8%	1.9%	1.5%	2.8%
Return on average net worth	-6.6%	5.0%	5.1%	10.8%
On-book gearing (times)	1.0	1.9	2.3	2.7
Managed gearing (times)	1.0	1.9	2.4	3.0
GNPA/ GS3 (on AUM)	0.0%	0.8%	0.8%	0.9%
NNPA/NS3 (on AUM)	0.0%	0.3%	0.3%	0.4%
GNPA/GS3 (on-book)	0.0%	0.8%	0.8%	1.0%
NNPA/NS3 (on-book)	0.0%	0.3%	0.3%	0.4%
Solvency (NNPA on AUM/Net worth)	0.0%	0.8%	0.8%	1.2%
CRAR	49.2%	42.6%	38.3%	29.3%

Source: Company financials, ICRA Research; All ratios and values as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information:

The Group 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	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun-30-2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Aug-11-2023	-	-	-
1	Long-term fund-based bank facilities (others)	Long term	400.00	0.00	[ICRA]AA- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities (others)	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 (others)**	Aug-2023	1-year MCLR + 1.45%	Sep-2026	400.0	[ICRA]AA- (Stable)

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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