August 21, 2024

Vastu Housing Finance Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities – Others	3,900.0	3,900.0	[ICRA]AA- (Stable); reaffirmed
CP programme	25.0	25.0	[ICRA]A1+; reaffirmed
Total	**3,925.0**	**3,925.0**	

**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 capital support to VFIPL from VHFCL.

The ratings continue to factor in the Group's strong capitalisation profile, supported by the fresh capital raise and healthy internal accretion. Given the equity infusion of Rs. 621 crore in VHFCL in FY2024 and healthy internal accruals, the Group's consolidated managed gearing remained low at 2.0 times as on March 31, 2024. In terms of asset quality, VHFCL and VFIPL reported on-book gross non-performing assets (NPAs) of 0.9% (0.9% on assets under management (AUM) basis) and 2.2% (1.9% on AUM basis), respectively, as on March 31, 2024. On a consolidated basis, the Group's on-book gross NPA stood at 1.1% (1.1% on AUM basis) as on March 31, 2024. ICRA notes that the NPAs increased in Q1 FY2025 to 1.2% (on-book basis) and 2.9% (on-book basis) for VHFCL and VFIPL, respectively, but remain comfortable.

The ratings also take into consideration the Group's healthy profitability indicators, supported by low leverage, direct assignment (DA) gains and limited credit costs. It reported a consolidated profit after tax (PAT) of Rs. 361 crore (Rs. 70 crore in Q1 FY2025), translating into a return on average managed assets (RoMA) of 3.9% and a return on average net worth (RoNW) of 12.4% in FY2024 (after raising Rs. 621 crore equity in February and March 2024) against Rs. 285 crore, 4.7% and 12.6%, respectively, in FY2023.

The ratings are constrained by the limited portfolio seasoning of the Group 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 early stages of operations having commenced its operations ~5 years ago. Since the underlying borrower segment remains vulnerable to income shocks, the Group's ability to manage asset quality across cycles is critical. Nevertheless, ICRA takes note of the Group's conservative customer selection and underwriting practices, which mitigate the credit risk to some extent.

The Stable outlook reflects ICRA's opinion that the Group will be able to maintain a healthy credit profile upheld by its strong capitalisation profile. This, along with an experienced management team and established systems and processes, shall continue to support portfolio expansion while controlling asset quality.

Key rating drivers and their description

Credit strengths

Strong capitalisation profile – The Group's capitalisation profile remains strong, supported by regular capital infusions and a healthy earnings profile. It had raised Rs. 621 crore of primary equity capital in FY2024. This, along with healthy internal accruals, increased the Group's consolidated net worth to Rs. 3,398 crore as on March 31, 2024 (Rs. 3,428 crore in June 2024) from Rs. 2,408 crore as on March 31, 2023. VHFCL's standalone capital-to-risk weighted assets ratio (CRAR) of 63.8%, as on

March 31, 2024, was well above the regulatory requirement of 15%, while its managed gearing (consolidated) remained low at 2.0 times (1.8 times as on March 31, 2023). Given the growth plans, ICRA expects the consolidated managed gearing to remain below 4.5 times over the next three years (until March 2027).

Healthy asset quality metrics and earnings profile – The Group's asset quality metrics have remained healthy so far with on-book gross NPA of 1.1% as on March 31, 2024 (1.1% on AUM basis and 90+ days past due (dpd) of 1.0%) compared to 0.9% (0.9% on AUM basis and 90+ dpd of 0.8%) in March 2023. Furthermore, the Group had an adequate provision coverage ratio (PCR) of ~35% on its GNPAs as on March 31, 2024 (~32% in March 2023). The solvency (net NPA/net worth) also remained comfortable at 1.6% as on March 31, 2024 compared to 1.3% in March 2023. ICRA takes note of the higher gross NPAs of 1.2% (on-book basis) and 2.9% (on-book basis) for VHFCL and VFIPL, respectively, in Q1 FY2025 though the same remains comfortable. The Group's ability to maintain its asset quality metrics and limit incremental slippages shall remain monitorable.

The Group's earnings profile remains healthy, supported by low leverage and limited credit costs. Its net interest margin (NIM; including DA income) moderated to 8.2% {with respect to average managed assets (AMA)} from 8.9% in FY2023 largely on account of the increase in the cost of funds and the gearing. The Group's margins remain susceptible to interest rate movements with intense competition in the industry and fixed rate portfolio of VFIPL, given its nature of business. Nonetheless, VHFCL's portfolio is on a floating rate and loan tenors of VFIPL are significantly lower than VHFCL, which provides some comfort. Also, the company has increased its lending rates and passed on 235 bps interest rate hikes to its borrowers over the past ~2 years, thereby managing its margin to an extent in a rising interest rate scenario. The Group reported a profit after tax (PAT) of Rs. 361 crore in FY2024, translating into a RoMA of 3.9% and RoNW of 12.4% (after raising Rs. 621 crore equity in February and March 2024) compared to Rs. 285 crore, 4.7% and 12.6%, respectively, in FY2023. ICRA notes the Group has witnessed moderation in its earnings profile in Q1 FY2025, which is on account of lower DA income and increase in credit cost, however overall profitability for FY2025 is expected to remain comfortable. Nevertheless, it remains important for the company to maintain healthy credit costs while improving its operational efficiency further as it continues to scale up its operations.

Diversified funding profile – The Group has a diversified borrowing profile including DA and co-lending and had funding relationships with more than 35 lenders as of June 2024. VHFCL's funding (including off-book funding) profile comprised loans from banks (51%), DA and co-lending (26%), funding from National Housing Bank (NHB; 20%), loans from non-banking financial companies (NBFCs; 2%) and non-convertible debentures (NCDs; 1%) as on March 31, 2024. VFIPL's funding profile (including off-book funding) comprised loans from banks (45%), NCDs (22%), DA (19%) and loans from NBFCs (14%) as on March 31, 2024. 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. The Group is not in breach of any of the covenants for its debt funding.

Credit challenges

Limited portfolio seasoning – As it commenced operations in FY2015, VHFCL has a track record of around nine years (in relation to the contractual loan tenor of up to 20 years; behavioural tenure is around 7-8 years). Its standalone AUM increased at a compound annual growth rate (CAGR) of ~45% during March 2021-March 2024. VHFCL's standalone disbursements in the last three fiscals (FY2022 to FY2024) was equivalent to ~108% of its standalone AUM as on March 31, 2024. 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 operations in FY2019 and has grown at a rapid pace since then. It reported a growth of 114% in the AUM in FY2024 (~182% in FY2023) on a relatively smaller asset base. Given its early stage of operations with around 5 years of track record (in relation to contractual tenor of 3-4 years; behavioural tenure of ~2.5 years) and the significant growth in its portfolio in the last three years, its 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 borrowers (~82% of the portfolio as on March 31, 2024). Further, the proportion of non-housing loans (NHLs) was ~37% of the standalone AUM as on March 31, 2024. Nonetheless, ICRA takes note of the company's conservative customer selection practices, with ~83% of its AUM pertaining to borrowers with a credit bureau score of 700+ and the share of new-to-credit customers limited to ~4% as on March 31, 2024, along with a median loan-to-value (LTV) ratio of 46% and average LTV of 41% as on March 31, 2024, reducing the risk to a certain extent.

VFIPL too maintains good credit underwriting norms, which are expected to help keep its asset quality under control. Around 74% of its borrowers had a credit bureau score of 700+ as on March 31, 2024, which reduces the risk to a certain extent.

Liquidity position: Strong

The Group's liquidity profile is strong with ~Rs. 1,422-crore unencumbered on-book liquidity (including deposits) as on March 31, 2024, which is sufficient to meet its debt obligations of Rs. 1,325 crore for the 12-month period ending March 31, 2025, with collections of Rs. 1,188 crore expected during this period. Additionally, it had ~Rs. 1,473 crore of sanctioned unutilised funding lines from various lenders as on March 31, 2024.

On a standalone basis, VHFCL maintained strong liquidity in the form of unencumbered on-book cash and investments (including deposits) of ~Rs. 1,017 crore along with unavailed sanctioned lines of ~Rs. 1,218 crore from various lenders as on March 31, 2024. VHFCL reported a liquidity coverage ratio (LCR) of 181.06% for the quarter ended June 30, 2024 (297.92% for quarter ended March 31, 2024), which was well above the regulatory requirement of 60%.

VFIPL also maintained strong liquidity in the form of unencumbered on-book cash and investments (including deposits) of ~Rs. 405 crore along with unavailed sanctioned lines of ~Rs. 255 crore from various lenders as on March 31, 2024. The LCR was 430.58% for the quarter ended June 30, 2024 (399.73% for the quarter ended March 31, 2024).

Rating sensitivities

Positive factors – A significant increase in the scale of operations, while maintaining healthy asset quality and earnings along with prudent capitalisation on a sustained basis, could positively impact the long-term rating.

Negative factors – Pressure on the ratings could arise in case of a deterioration in the capitalisation profile, with the managed gearing exceeding 4.5 times, or a deterioration in the asset quality, with the 90+ dpd exceeding 3.0%, thereby impacting earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VHFCL. As on June 30, 2024, the company had one subsidiary, which is enlisted in Annexure II.

About the company

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 operations in August 2015, following the change in management to Mr. Sandeep Menon and Mr. Sujay Patil, with support from

Multiples and its affiliate funds (63.3% stake in the company, as on March 31, 2024, through the funds advised by it), which is one of its early investors.

VHFCL's standalone AUM was Rs. 7,420 crore as on March 31, 2024 (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 and loan against property with an average ticket size of Rs. 4-8 lakh. 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. 1,717 crore as on March 31, 2024 (Rs. 803 crore as on March 31, 2023). The Group's overall AUM stood at Rs. 9,137 crore as on March 31, 2024 (Rs. 6,097 crore as on March 31, 2023) managed via 206 branches spread across 14 states.

Key financial indicators (audited)

VHFCL (consolidated)	FY2023	FY2024	Q1 FY2025
Total income	769	1,255	326*
PAT	285	361	70
Total managed assets	7,477	11,061	NA
Return on managed assets	4.7%	3.9%	NA
Managed gearing (times)	1.8	2.0	NA
Gross NPA	0.9%	1.1%	1.5%

Source: Company, ICRA Research; All ratios as per ICRA's calculations and estimates; Amount in Rs. crore; Dpd – Days past due
**Total income adjusted for loss on derecognition of financial assets*

VHFCL (standalone)	FY2023	FY2024	Q1 FY2025
Total income	692	1,020	257*
PAT	274	332	68
Total managed assets	6,666	9,370	NA
Return on managed assets	5.0%	4.1%	NA
Managed gearing (times)	1.5	1.6	NA
Gross NPA	0.9%	0.9%	1.2%
CRAR	67.6%	63.8%	NA

Source: Company, ICRA Research; All ratios as per ICRA's calculations and estimates; Amount in Rs. crore; Dpd – Days past due
**Total income adjusted for loss on derecognition of financial assets*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025	FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Aug 21, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based bank facilities – Others	Long term	3,900.0	[ICRA]AA- (Stable)	Aug-11-2023	[ICRA]AA- (Stable)	Mar-28-2023	[ICRA]AA- (Stable)	Sep-30-2021	[ICRA]A (Stable)
				May-31-2023	[ICRA]AA- (Stable)	Feb-10-2023	[ICRA]AA- (Stable)	Apr-5-2021	[ICRA]A (Stable)
						Aug-26-2022	[ICRA]A+ (Stable)		
CP programme	Short term	25.0	[ICRA]A1+	Aug-11-2023	[ICRA]A1+	Mar-28-2023	[ICRA]A1+	Sep-30-2021	[ICRA]A1+
				May-31-2023	[ICRA]A1+	Feb-10-2023	[ICRA]A1+		
						Aug-26-2022	[ICRA]A1+		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities – Others	Simple
Commercial paper (CP) programme	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
Not issued yet	**CP programme**	NA	NA	NA	25.0	[ICRA]A1+
NA	**Long-term bank facilities (others)**	Sep-2017 to Feb-2024	NA	NA	3,900.0	[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

Company Name	VHFCL Ownership	Consolidation Approach
Vastu Finserve India Private Limited	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Prateek Mittal
+91 33 7150 1100
prateek.mittal@icraindia.com

Jatin Arora
+91 124 4545 846
jatin.arora@icraindia.com

Arti Verma
+91 124 4545 873
arti.verma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches