

May 06, 2020

Vastu Housing Finance Corporation Limited: Rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines	250.00	250.00	[ICRA]A(Stable); reaffirmed
Total	250.00	250.00	

Rationale

The reaffirmation in rating factors in Vastu Housing Finance Corporation Limited's (VHFCL) strong investor profile (Multiples Alternate Asset Management through the funds advised by it with a stake of 94.13% as on March 31, 2020) with capital commitment from the shareholders which would help Vastu meet its growth targets while maintaining comfortable capitalisation in the medium term, experience of the senior management in the retail lending business, demonstrated scalability, good asset quality indicators, adequate liquidity position supported by available cash and bank balances and unutilized sanctioned bank lines and improving profitability indicators. The rating also draws comfort from Vastu's ability to raise longer-tenor borrowings with the company's relatively well-diversified borrowing profile. ICRA expects the company to grow profitably while maintaining prudent underwriting norms given the good growth opportunities in the large untapped affordable housing finance segment.

ICRA notes that the company's portfolio is granular with no exposure in wholesale segment and geographically well diversified with focus on self-occupied residential properties. Further, good underwriting norms supported by technology and data science driven underwriting practices and good portfolio tracking systems have enabled the company to report good asset quality indicators (0.32% as on March 31, 2020) which allows for robust risk management. The Company's strength in process, policy, technology, analytics and risk management has contributed to strong asset quality metrics with GNPA at 0.32%, better than most peers.

The profitability indicators improved as the company reported a return on average total assets (RoA) and return on average net-worth (RoE) of 4.47% and 11.22%, respectively, as on FY2020, vis-à-vis 2.56% and 6.42%, respectively, in FY2019 supported by higher non-interest income, moderation in operating expense ratios and low credit costs. ICRA expects the operating expenses to further moderate as the company continues to grow, thereby positively impacting its profitability going forward. While the growth prospects remain good, Vastu's ability to maintain the asset quality as it expands the portfolio and manage the impact of COVID-19 will be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Strong commitment of the shareholders and experience of management in retail finance businesses- Vastu was founded by Mr. Sandeep Menon Mr. Sujay Patil and Multiples Alternate Asset Management (which holds 94.13% stake in the Company through the funds advised by it). The company benefits from the long-standing experience of the shareholders in the retail finance business across various retail asset classes. Moreover, Vastu has a strong and

experienced senior management team with a proven track record of execution. With the oversight of the Board and the management, ICRA expects the company to grow its portfolio prudently.

Robust Portfolio Fundamentals, good systems and processes- The company's portfolio is 100% retail geographically diversified portfolio. The company has built a strong technology and analytics platform, which supports faster turnaround times, enhances credit appraisal, ensures strong monitoring and improves client servicing. Vastu has laid down 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 in the absence of formal income proof or tax returns. The technology platform ensures central portfolio tracking and monitoring systems

Comfortable capitalisation level; expected to remain healthy- The company's capitalisation is comfortable with a net worth of Rs. 887 crore as of March 31, 2020 and a gearing of 1.5 times. The capital adequacy ratio stood at 64.7% as of March 31, 2020. ICRA draws comfort from the demonstrated record of the shareholders in infusing equity into the company (Rs. 354 crore infused in FY2016-18 and Rs. 378 crore in FY2019). ICRA expects Vastu to maintain prudent capitalisation with moderate leverage levels.

Diversified funding profile- The company's borrowing profile is relatively well-diversified with funding from banks (39%), financial institutions (44%; including NCD of 28%) and National Housing Bank (NHB; 18%) as on March 31, 2020. Going forward, the company's ability to diversify its funding profile and raise funds at competitive rates would be important for scaling up operations.

Credit challenges

Ability to maintain asset quality while expanding the scale of operations - Vastu's gross NPA stood at Rs. 5.74 crore (0.32%) on an AUM of Rs. 1,770 crore as on March 31, 2020, representing good asset quality indicators vis-à-vis industry average in affordable housing segment. The company has conservative lending norms with the portfolio having an average loan-to-value (LTV) ratio of < 40%. While Vastu has demonstrated good asset quality indicators till date albeit a seasoning of 4 years, the Company's ability to maintain prudent asset quality over cycles and manage the impact of COVID 19 will be monitorable.

To maintain profitability indicators while scaling up operations- Vastu has demonstrated improvement in its profitability levels as the company reported a return on average total assets (RoA) and return on average net-worth (RoE) of 4.47% and 11.22%, respectively, as per audited financials for FY2020, vis-à-vis 2.56% and 6.42%, respectively, in FY2019 supported by reduction in operating expense ratios from 3.82% in FY2019 to 2.81% in FY2020.

Liquidity position: Adequate

The company had adequate cash and cash equivalents and unutilised sanctions to the tune of Rs. 483 crore and Rs. 51 crore, respectively, as on March 31, 2020. It has loan repayments of Rs. 100.8 crore due by September 2020. These are covered adequately by its on-balance sheet liquidity. While the present liquidity is comfortable to make the repayments over the near term, regular flow of funds will be critical for maintaining normal business growth.

Rating sensitivities

Positive Triggers- ICRA could upgrade the rating if the company demonstrates an improvement in its profitability indicators with RoMA of over 3.50% on a sustainable basis. This, along with prudent capitalisation and good asset quality with a gross NPA of less than 1.50% on a sustained basis, could result in a rating upgrade.

Negative triggers- Pressure on the company's rating could arise if there is a deterioration in the asset quality with the gross NPA exceeding 2.50% on a sustained basis, thereby affecting profitability. Sustained weakening of the capitalisation profile (managed gearing above 4.0 times) or a stretch in the liquidity could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing 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 commenced operations in August 2015 following a change in its ownership. The company is owned by Multiples Alternate Asset Management through the funds managed by it (94.13%) with the balance being held by Mr. Pramod Bhasin (2.06%), Mr. Vikram Gandhi (1.25%) and the founding team and others (2.56%) as on March 31, 2020.

The company's asset under management stood at Rs. 1,770 crore as on March 31, 2020. The company caters to the affordable housing segment (both home loan and LAP) with an average ticket size of Rs. 12 lakh. Post multiple rounds of equity infusion, the company's networth stood at Rs 381 crore as at September 2018. Post rights issue in FY2019, the share capital stood at Rs. 518.46 crore with a total net worth of Rs. 887 crore as on March 31, 2020. The Company currently operates across 63 operational branches in 12 states with a team of more than 800 employees as on March 31, 2020.

In FY20 (IndAS audited financials), Vastu reported a net profit of Rs. 92.3 crore on a total asset base of Rs. 2,267 crore compared to a net profit of Rs. 36.1 crore on a total asset base of Rs. 1,863.3 crore in FY2019. VHFCL reported a capital adequacy ratio of 64.7 % as on March 31, 2020 and gross and net NPA of 0.32% and 0.27%, respectively, as on March 31, 2020.

Key financial indicators

For period ending	FY2018	FY2019	FY2020
	IGAAP	IndAS	IndAS
Number of months	12	12	12
Net interest income	59.2	89.9	118.3
Profit before tax	27.5	49.4	119.4
Profit after tax	19.6	36.1	92.3
AUM	744	1,323	1,770
Total assets	961	1,863	2,267
Tier 1 %	79.9%	82.3%	63.8%
% CRAR	80.9%	83.2%	64.7%
Gearing (times)	1.55	1.31	1.46
% Net profit / Average total assets [^]	3.22%	2.56%	4.47%
% Return on net worth [^]	8.01%	6.42%	11.22%
% Gross NPAs	0.00%	0.09%	0.32%
% Net NPAs	0.00%	0.07%	0.27%
% Net NPA / Net worth	0.00%	0.13%	0.54%

Amount in Rs. crore; [^] Annualised; All ratios are as per ICRA calculations

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sr. No.	Name of Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	06-May-20	FY2020	FY2019	FY2018
1	Long-term Bank Lines ¹	Long Term	250.00	-	[ICRA] A(Stable)	-	[ICRA] A(Stable)	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

¹ Unallocated

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	Long-term Bank Lines - Unallocated	NA	NA	NA	250.00	[ICRA]A(Stable)

Source: Vastu

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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