Vastu Housing Finance Corporation Limited (Revised)
July 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,750.00 (Enhanced from 3,100.00)	CARE AA-; Positive	Reaffirmed; Outlook revised from Stable
Non Convertible Debentures	250.00	CARE AA-; Positive	Reaffirmed; Outlook revised from Stable
Non Convertible Debentures	150.00	CARE AA-; Positive	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the enhanced long-term bank facilities and non-convertible debentures (NCDs) of Vastu Housing Finance Corporation Limited (VHFCL) continue to derive strength from comfortable capitalisation levels with latest equity infusion done in Q4FY24, substantial growth in the asset under management (AUM) with improved scale of operations, fairly diversified resource profile, experience of the management team and healthy profitable levels of the company as reflected in return on total assets (ROTA). The loan assets, while having moderate level of seasoning , exhibit a strong quality, based on lagged analysis. The company has grown the vehicles loans portfolio through its wholly owned NBFC 'Vastu Finserve India Private Limited' (Vastu Finserve; rated 'CARE AA-; Positive) which provides some diversification in portfolio. Strong capitalisation levels provide the company sufficient room to grow its loan book in the medium to long term as well as improves the ability to absorb any unforeseen stress in asset quality, if any. However, going forward, with growth in the AUM, CARE Ratings Limited (CARE Ratings) expects the gearing levels to increase, although remain under 3.5x in the medium term.

The rating is constrained on account of moderate level of seasoning of the loan book and exposure to target customer segment which has high vulnerability to economic down cycles in-line with most affordable housing companies. The asset quality parameters of the company remained comfortable and will continue to be a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of business with comfortable capitalisation and good asset quality indicators on a consistent basis
- Expansion of its resource profile
- Stable profitability parameters.

Negative factors

- Significant deterioration in the asset quality with gross non-performing assets (GNPA) above 2% on a sustained basis.
- Increase in leverage with overall gearing of more than 3.5x in the medium term.
- Moderation in profitability parameters with ROTA below 2.5% coupled with moderation in liquidity.

Analytical approach:

CARE Ratings has analysed VHFCL's credit profile by considering the consolidated financial statement of VHFCL along with its wholly-owned subsidiary, Vastu Finserve India Private Limited.

Outlook: Positive –

The positive outlook factors growth in scale of operations, equity capital infusion in Q4FY24, and improvement in financial metrics during FY24. The company's ability to maintain growth in its loan portfolio while sustaining its profitability profile and asset quality, accompanied with strengthening of its resource profile remain key rating monitorable. The outlook may be revised to 'Stable' if there is moderation in asset quality and financial profile.

Detailed description of the key rating drivers

Key strengths

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capitalisation levels with backing of private equity investor and demonstrated ability to raise capital

VHFCL has been maintaining comfortable capitalisation levels as it has raised equity capital in the initial stages of operations to support growth in the loan portfolio. Over the years, the company has demonstrated ability to raise capital at regular intervals.. Further, during FY24, the company had raised fresh equity capital of ₹621.22 crores from International Finance Corporation (IFC) and existing investors namely 360 One Wealth and Asset Management (formerly, IIFL Wealth and Asset Management), Norwest Capital LLC (Norwest), Creation Investments India IV LLC (Creation). During FY22, the company had already raised ₹925 crore from a consortium of investors comprising Norwest, Creation and fund advised by IIFL Wealth.

The tangible net worth (TNW; consolidated) stood at ₹3,397 crore as on March 31, 2024, as compared to ₹2,403 crore as on March 31, 2023. The capital adequacy ratio (CAR) and Tier-I CAR (Standalone) stood comfortable at 63.76% and 63.31%, respectively, as on March 31, 2024, as compared to 67.62% and 67.08%, respectively, as on March 31, 2023.

Equity raise and low leverage provides VHFCL strong room to grow its book over the next 5 years while maintaining strong capitalisation. CARE Ratings expects the company to increase its leverage in next couple of years to grow its business and maintain overall gearing of up to 3.5x on steady state basis.

Experienced management with significant depth

The company has an experienced management team, which includes people with extensive experience in retail lending. The Board of Directors of the company is chaired by Ms. Renuka Ramnath, who is the Founder and CEO of Multiples Private Equity and the operations of the company are headed by Mr. Sandeep Menon, who is the Founder and Managing Director and CEO of the company having 25+ years of experience across general management, risk management and business strategy in managing retail assets for banks. Furthermore, it has a strong and experienced senior management team with a proven track record of execution including level 1 and 2 with a proven track record of execution.

Strong Technology-driven processes and risk management systems

As on March 31, 2024, VHFCL AUM on consolidated basis comprises of home loans (51.44%), loan against property (30.02%), vehicle finance (18.4%). The company also plans to increase the product offerings in next few years to help diversify as well as grow its loan book. The company since inception has a dedicated in-house tech and data science team and has developed PULSE, a digital platform for customer on boarding, underwriting, customer service and internal operations. The company uses data science and analytics to help the business and credit teams with origination and underwriting decisions, this has helped the company to maintain robust asset quality parameters. The company has analytics-driven underwriting and follows prudent customer selection which can be seen from low loan to value (LTV) ratio (around 45%) and around 82% of the AUM having bureau score of 700+ as on March 31, 2024.

Healthy profitability

On a consolidated basis, the net interest margin (NIM) stood at 7.71% for FY24 as compared with 8.50% in FY23 primarily due to increase in leverage during the period and also because of the macro-led increase in market rates. The company's opex to average assets stood at 4.03% in FY24 as compared to 4.10% in FY23 on account of setting up of the vehicle finance business and new branch openings and increase in employees. The consolidated credit cost stood at 0.53% in FY24 as compared to 0.38% in FY23,while for standalone VHFCL credit cost stood at 0.29% in FY24 as compared to 0.26% in FY23. Consolidated return on total assets (ROTA) stood at 4.56% in FY24 as against 5.41% in FY23**.**

Moderately diversified resource profile

As on March 31, 2024, term loan from bank constituted 68% of total borrowings, term loan from NBFCs constituted 3%, NHB refinance constituted 27%, and borrowing from capital market instruments (long term) constituted 2% of borrowings on standalone basis. The company has diversified lender base of more than 26 active lenders as on March 31, 2024, with presence of private and public sector banks, NHB and NBFC's. The company did not have short-term borrowings like commercial paper (CP). The ability of the company to continue to raise liabilities at competitive rates will remain key monitorable. The management has indicated to maintain sufficient liquidity at all times on a steady state basis.

Key weaknesses

Relatively moderate level of seasoning of loan book and relatively moderate scale as compared to peers

The company has started its operation in FY16, with significant loan book achieved post FY21 and with contractual loan tenor of around 15 years and behavioural tenor of 6-7 years. The majority of the book is built in the last three years. The company has moderate vintage of 9 years, and the performance of the loan portfolio over multiple business cycle is yet to be seen. The company's consolidated AUM stood at about ₹9,137 crore as on March 31,2024 with CAGR of 53% over last 3 years. The vehicle loans constitute about 18.4% of the overall consolidated AUM. The asset quality of the company at standalone AUM basis remained comfortable with the Gross Stage 3 accounts at 0.89% and Net Stage 3 accounts at 0.70% as on March 31, 2024, as compared with 0.88% and 0.68%respectively as on March 31, 2023. CARE Ratings will continue to monitor the ability of the company to maintain robust asset quality while further scaling up the business.

Exposure to target segment which could be relatively vulnerable to economic down cycles

The key focus segment of the company primarily consists of the lower and emerging middle-income groups, who are under-served by traditional financiers. Additionally, self-employed customers formed 82% of AUM as on March 31, 2024. The customers in the target segment are relatively vulnerable to macro environment shocks and VHFCL requires strong risk management process and underwriting skills to effectively contain the risk. The same is mitigated partly on account of the secured nature of lending.

Liquidity: Strong
As on March 31,2024, the company had consolidated debt repayments of ₹1,365 crore and inflows from loan portfolio of ₹950 crore for the next one year. To take care of the said mismatches, the company had an on-balance sheet liquidity on a consolidated basis which comprised of cash & bank balance and liquid investments of ₹1,422 crore as on March 31,2024. On a standalone basis, the company does not have any negative cumulative mismatch across all bucket as per ALM submitted as on March 31, 2024. The company also has consolidated undrawn sanction and bank lines of ₹1,473 crore available as on March 31, 2024. CARE Ratings takes comfort from the ability of the company to raise resources.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Consolidation
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Housing Finance Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

VHFCL is a non-deposit-taking housing finance company headquartered out of Mumbai. The company is majority owned by funds advised by Multiples Alternate Asset Management. VHFCL has presence in 14 states with 172 branches as on March 31, 2024. VHFCL provides home loans and loan against property on a standalone basis and commercial vehicle finance through its wholly-owned subsidiary, Vastu Finserve (India) Private, which is an NBFC. The subsidiary business was formed to increase product offerings to existing and target new customer base. The target segment of the group is self-employed, emerging middle-income group in Tier-II, Tier-III cities, and towns.

Brief Financials (₹ crore) – VHFCL (Consolidated)$	31-03-2022 12M (A)	31-03-2023 12M (A)	31-03-2024 12M (A)
Total income	520	769	1,255
PAT	182	285	361
Total assets (adjusted for intangibles)	4061	6484	9339
Net NPA on AUM (%)	0.80	0.63	0.76
ROTA (%) (PAT/ Average tangible total assets)	5.25	5.41	4.56

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available. All ratios are as per CARE Ratings' calculation on consolidated on book basis.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

List of subsidiaries consolidated: Annexure-6

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	Proposed	-	-	-	250.00	CARE AA-; Positive
Debentures-Non-Convertible Debentures	Proposed	-	-	-	150.00	CARE AA-; Positive
Fund-based - LT-Term Loan		-	-	Mar 31, 2026	3750.00	CARE AA-; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	3750.00	CARE AA-; Positive	-	1)CARE AA-; Stable (09-Jan-24) 2)CARE AA-; Stable (09-Oct-23)	1)CARE AA-; Stable (20-Jan-23) 2)CARE AA-; Stable (28-Dec-22) 3)CARE A+; Positive (05-Sep-22)	1)CARE A+; Positive (07-Jan-22) 2)CARE A; Positive (21-Jul-21)
2	Debentures-Non Convertible Debentures	LT	250.00	CARE AA-; Positive	-	1)CARE AA-; Stable (09-Jan-24) 2)CARE AA-; Stable (09-Oct-	1)CARE AA-; Stable (20-Jan-23) 2)CARE AA-; Stable (28-Dec-	-

						23)	22) 3)CARE A+; Positive (05-Sep-22)	
3	Debentures-Non Convertible Debentures	LT	150.00	CARE AA-; Positive	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Vastu Finserve India Private Limited	Full	Wholly owned subsidiary

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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