

Press Release

Varashakti Housing Finance Private Limited

January 18, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	110.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	110.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on Rs. 110.00 cr. bank facilities of Varashakti Housing Finance Private Limited (VHFPL). The outlook is '**Stable**'.

The rating factors in VHFPL's experienced management in lending segment and the institutional support. The promoters have supported VHFPL through fundings via equity and debt which has enabled the company to maintain healthy capital structure while scaling up its operations. VHFPL has maintained healthy capital structure with Capital Adequacy Ratio (CAR) of ~ 55.59 percent and gearing of 1.87 times as on September 30, 2021. Acuité believes that the company is well positioned to benefit from the demand for housing finance and centralized in-house credit appraisal/ monitoring processes. The rating also factors in improvement in disbursements & collections pattern in Q3 of FY2022. As on September 30, 2021 VHFPL had healthy asset quality marked by on-time portfolio of ~90 percent and GNPA & NNPA at 1.12 percent and 0.95 percent respectively.

Given the nascent stage of company's operations, the rating is constrained by the modest scale of operations and relatively low seasoning of loan portfolio. Also, the business operations are geographically concentrated in Tamil Nadu. The rating is also constrained by inherent risks associated with lending in this segment. Going forward, the company's ability to raise capital and profitably scale up its business operations shall be key monitorable.

About the company

Tamil Nadu based VHFPL operates in the affordable housing segment essentially catering to the housing finance needs of Economically Weaker Section (EWS) and Low Income Group (LIG). It also offers unsecured Home improvement loans. VHFPL commenced its lending operations in June 2019 and is promoted by Mr. C.V. Sankar and his family members through their trust and companies having a total promoter shareholding of 74.14 percent as on September 30, 2021. VHFPL is led by Mr. CV Sankar and is supported by seasoned professionals.

VHFPL operates in Tamil Nadu through a network of 20 branches spread across 17 districts. The company has recently expanded in Karnataka with 2 branches in December 2021.

Analytical Approach

Acuité has considered standalone business and financial risk profile of VHFPL to arrive at the rating.

Key Rating Drivers

Strength

- **Experienced management and comfortable capitalization levels**

Varashakti Housing Finance Private Limited (VHFPL) operates in the affordable housing segment essentially catering to the housing finance needs of Economically Weaker Section (EWS) - household income less than Rs. 3 lakhs per annum and Low-Income Group (LIG) – household income between Rs. 3 lakhs per annum and Rs. 6 lakhs per annum. It also offers unsecured Home improvement loans (Ticket size upto Rs.1.5 Lakh).

VHFPL is promoted by Mr. C.V. Sankar and his family through their trust and other companies having total promoter shareholding of 74.14 percent as on September 30, 2021. VHFPL is led by Mr. C.V. Sankar (ex-IAS officer) who has held several positions such as Secretary, Principal Secretary and Additional Chief Secretary for Government of Tamil Nadu and is supported by seasoned professionals like Mr. Ramanath Dash as Independent Director who has over two decades of experience having served Reserve Bank of India as a Regional Director for the states of Andhra Pradesh and Telangana. The company operates in Tamil Nadu and has plans to expand its presence in Karnataka and near-by states.

The company's capital structure is supported by a networth of Rs. 18.14 Cr. as on March 31, 2021. The promoter group infused around Rs. 7 Cr. in FY2021. The networth as on September 30, 2021 stood at 18.01 Cr. The reduction in networth is on account of losses accounted for in reserves & surplus. Capital Adequacy Ratio (CAR) stood at 66.67 percent as on March 31, 2021. CAR as on September 30, 2021 stood at 55.59 percent.

Acuité believes that the company will benefit from its experienced promoters and established presence in the financial services industry also, the comfortable capitalization levels will support its growth plans over the medium term.

- **Steady growth in business operations and healthy asset quality**

VHFPL commenced its lending operations in June 2019 and has been growing its business steadily with outstanding loan portfolio of Rs. 48.43 Cr. as on September 30, 2021 as compared to Rs. 16.09 Cr. as on March 31, 2020. The company's on time portfolio stood at ~90 percent as on September 30, 2021 and ~99 percent as on March 31, 2021. The GNPA & NNPA levels stood at 1.12 percent and 0.95 percent respectively as on September 30, 2021 and Nil as on March 31, 2021. Overall collection efficiency for standard assets stood at an average of 87.11 percent for 12 months ended November 30, 2021.

Acuité believes that the company's ability to scale up its operations while maintaining asset quality given low seasoning will remain a key rating monitorable.

Weakness

- **Susceptible to inherent risks in LAP segment amidst relatively low seasoned portfolio and geographic concentration**

VHFPL commenced its lending operations in June 2019 and made major disbursements since FY2020 & FY2021. VHFPL's product portfolio comprises housing loans and loan against property having an average tenure of 10 years and home improvement loans having an average tenure of 2-2.5 years. The company's loan portfolio stood at Rs. 48.43 Cr. as on September 30, 2021 from Rs. 16.09 Cr. as on March 31, 2020. Of the 48.43 Cr. loan portfolio, around 84.85 percent of VHFPL's loan book is towards secured loans while, 15.15 percent is towards unsecured loans as on September 30, 2021. VHFPL operates in the state of Tamil Nadu with a network of 20 branches spread across 17 districts. VHFPL disbursed loans amounting to Rs. 28.82 Cr. and Rs. 16.64 Cr. in FY2021 and upto November 2021 respectively. VHFPL had around 60 percent of its loan portfolio with a tenure of more than 5 years outstanding as on September 30, 2021. This exposes the company towards the risk of low seasoning of its loan portfolio along with geographic concentration in the state of Tamil Nadu. Occurrence of events such as slowdown in economic activity or shifting of activity to other geographies could impact the cash flows of the borrowers, thereby impacting the credit profile of VHFPL.

Acuité believes that the company's ability to scale-up its business model as well as geographically diversify its operations are critical.

- **Moderate financial risk profile**

VHFPL's financial risk profile remains moderate however, the company saw an increase in its net interest income to Rs. 3.11 Cr. for FY2021 from Rs. 1.22 Cr. for FY2020. Net Interest Income for H1 FY2022 also improved to Rs. 2.71 Cr. as on September 30, 2021. VHFPL reported losses of Rs. 1.33 Cr. for FY2021 (P.Y.: Rs. 0.77 Cr.) During H1 FY2022, losses declined to Rs. 0.13 Cr. on account of an improvement in operating income and fructification of new branches.

Acuité believes, going forward, the ability of the company to mobilize additional funding through debt /equity and its ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

Rating Sensitivity

- Promoter support and ability to raise capital
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in regulatory environment

Material Covenants

VHFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from the company, VHFPL is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity: Adequate

VHFPL overall liquidity profile remains adequate. The company has maintained unencumbered cash and bank balances of ~Rs. 1.90 cr. as on September 30, 2021. The borrowing profile of VHFPL of Rs. 33.76 Cr. as on September 30, 2021 comprised Term loans from NBFC/FI's and loans from promoters & promoter group. VHFPL's overall collection efficiency during October and November 2021 were around 81 percent and 78 percent respectively.

Outlook: Stable

Acuité believes that VHFPL will maintain a 'Stable' outlook over the near to medium owing to experience of the management in lending activities. The outlook may be revised to 'Positive' in case of higher than envisaged growth in loan portfolio while improving profitability and asset quality metrics. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in asset quality or profitability metrics, while scaling up its operations.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	46.14	17.49
Total Income*	Rs. Cr.	3.86	1.56
PAT	Rs. Cr.	(1.33)	(0.77)
Networth	Rs. Cr.	18.14	12.47

Return on Average Assets (RoAA)	(%)	(4.19)	(5.01)
Return on Net Worth (RoNW)	(%)	(8.70)	(5.99)
Total Debt/Tangible Net Worth (Gearing)	Times	1.52	0.39
Gross NPA's	(%)	1.12	-
Net NPA's	(%)	0.95	-

*Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable):

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	28.55	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB- Stable Assigned
Vivrit Capital Private Ltd.	Not Applicable	Term Loan	11-02-2020	15.50	10-02-2023	0.53	ACUITE BBB- Stable Assigned
Vivrit Capital Private Ltd.	Not Applicable	Term Loan	31-07-2020	15.50	31-07-2023	0.66	ACUITE BBB- Stable Assigned
Eclear Leasing & Finance Private	Not Applicable	Term Loan	17-08-2020	15.25	17-08-2022	0.62	ACUITE BBB- Stable Assigned
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	30-10-2020	15.50	30-10-2022	0.62	ACUITE BBB- Stable Assigned
Northern Arc Capital (formerly IFMR Capital)	Not Applicable	Term Loan	31-10-2020	15.00	31-10-2022	1.74	ACUITE BBB- Stable Assigned
Ashv Finance (formally known as Intellegrow)	Not Applicable	Term Loan	22-12-2020	15.75	22-12-2022	1.05	ACUITE BBB- Stable Assigned
Vivrit Capital Private Ltd.	Not Applicable	Term Loan	29-12-2020	15.50	29-12-2023	0.78	ACUITE BBB- Stable Assigned
Northern Arc Capital (formerly IFMR Capital)	Not Applicable	Term Loan	12-02-2021	14.60	13-08-2022	1.91	ACUITE BBB- Stable Assigned
Vivrit Capital Private Ltd.	Not Applicable	Term Loan	12-02-2021	15.00	12-02-2024	1.76	ACUITE BBB- Stable Assigned
Vivrit Capital Private Ltd.	Not Applicable	Term Loan	05-03-2021	15.00	04-03-2024	1.82	ACUITE BBB- Stable Assigned
UC Inclusive Private Ltd.	Not Applicable	Term Loan	21-07-2021	15.75	19-01-2024	2.92	ACUITE BBB- Stable Assigned

Eclear Leasing & Finance Private	Not Applicable	Term Loan	17-08-2021	15.25	17-08-2023	2.00	ACUITE BBB- Stable Assigned
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	23-08-2021	15.00	22-08-2024	1.96	ACUITE BBB- Stable Assigned
Northern Arc Capital (formerly IFMR Capital)	Not Applicable	Term Loan	28-09-2021	14.60	29-03-2023	2.00	ACUITE BBB- Stable Assigned
Western Capital Advisors Pvt. Ltd.	Not Applicable	Term Loan	15-09-2020	15.00	15-09-2022	1.08	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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