STAR HOUSING FINANCE
Star hai toh bharosa hai

Date: 25.04.2023

ISIN: INE526R01028
SCRIP CODE: 539017
SCRIP ID: STARHFL
PAN NO. AAGCA1988C

To,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai -400001

Sub: Transcript of Earnings Conference Call
Ref: Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

In continuation to our letter dated 22nd April, 2023 regarding the Company's Earnings Call, please find attached the transcript of the said call and the same is uploaded on the website of the Company at www.starhfl.com.

This is for your information and record.

Thanking You,

For M/s. Star Housing Finance Limited
SHREYAS RASHMIN MEHTA
Digitally signed by SHREYAS RASHMIN MEHTA
Date: 2023.04.25 12:00:58 +05'30'

Shreyas Mehta
Company Secretary & Compliance officer
M.No. A38639

Encl: As above

“Star Housing Finance Limited

Full Year FY’2022-23 Update Call”

April 22, 2023

MANAGEMENT: MR. ASHISH JAIN – MANAGING DIRECTOR – STAR HOUSING FINANCE LIMITED
MR. NATESH NARAYANAN – CHIEF FINANCIAL OFFICER – STAR HOUSING FINANCE LIMITED
MR. KALPESH DAVE – CHIEF STRATEGY OFFICER – STAR HOUSING FINANCE LIMITED
MR. ANOOP SAXENA – HEADS, CREDIT AND OPERATIONS – STAR HOUSING FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the company update call for the full year FY 2022-23 of Star Housing Finance Limited. Today, on the call we have Mr. Anoop Saxena, who heads the credit and operation functions, and Mr. Natesh Narayanan, CFO of Star HFL, Mr. Kalpesh Dave, Chief Strategy Officer at the company, and Mr. Ashish Jain, Managing Director of Star HFL.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kalpesh Dave.

Kalpesh Dave: Thank you so much. So a very good day to all of you and warm welcome to the FY ’22, ‘23 Earnings Call of Star Housing Finance Limited. My name is Kalpesh Dave and I Head Corporate Planning and Strategy at Star HFL. First of all, I wish all of our participants and stakeholders a very happy Akshaya Tritiya and Eid Mubarak.

It's a pleasure to present to you the full year earnings update, a year that has been special in many aspects, particularly that it has set a tone for growth as the Star HFL team steps ahead in its journey. So on the call, we have our CFO, Mr. Natesh Narayanan. We have Mr. Anoop Saxena, who Heads Credit and Operations, and MD, Mr. Ashish Jain. We would be sharing updates and also would be interacting with the participants. We shall be sharing business and financial highlights of the year gone by for your perusal and shall be happy to take questions and interact with participants for sharing these updates.

So before sharing this update, let me introduce Star Housing Finance to you. We are a rural-focused home finance company and we are operational in semi-urban and rural geographies. Star HFL operates with an objective to enable home ownership among the first-time and new-to-credit home buyers from economically weaker sections and low-income group segments. Star HFL has been operational since 2009 and has transitioned to a professionally managed company since October 2019. And since then, we have focused our operations in retail space in affordable housing segments.

More than 98% of the overall AUM as of date comprises of 2,500-plus retail customers with an average loan size of around INR10 lakhs to INR11 lakhs in the semi-urban geography and in rural geographies it is INR6 lakhs to INR8 lakhs. Star HFL caters to the segments through customized home loan products offered to them under the nomenclature Star Grameen Griha Loan. And these products are devised and designed akin to the financing requirements of the semi-urban and rural borrowers.

We have a strong focus on digitization, which acts as an enabler to engage and serve the customer throughout the loan life cycle. We are listed on the main board of the Bombay Stock Exchange since July 2017. And we have registered and a corporate office in Mumbai. So, dear participants, FY ’22, ‘23 has been a 100% plus year-on-year growth for Star HFL. We have taken great strides in building quality AUM through the year. And this growth, this scale-up has been ably supported by the liability machinery and capital rates under the leadership of Mr. Natesh Narayan.

Geographical expansion and domain-based team build-up has enabled us to achieve the business targets that we had set at the beginning of the previous financial year. So, I am summarizing the updates for you now. So, for FY ’22, ‘23, these are the updates. The gross loan book stands at INR250 crores plus, which is 140% plus year-on-year growth over FY ’21, ‘22. This scale-up comes on the back of record disbursement across the branches, across the regions during the financial year.

Courtesy, best-in-class underwriting processes and the risk management framework, the book continues to get built back by quality. Focused in-house receivable management team on-boarded locally, bringing strong customer connect throughout the engagement cycle has resulted in portfolio at risk. And when I'm speaking about portfolio at risk, I'm talking about zero plus DPD. It has come down from 27 odd percent as of March 31, 2022 to now 5% as of March 31, 2023. This is a substantial improvement that has happened in FY ’22, ‘23, courtesy the focused approach of the overall receivable management team and robust review mechanism that we have put up at the head office.

Incremental book generated since October 2019 is 98% plus retail and has portfolio at risk. Now again, when I'm talking about PAR, it is zero plus DPD. So, zero plus DPD of this incremental book generated stands at 0.68% and has zero NPA. As of March 31, 2023, GNPA stands at 1.68% and NNPA stands at 1.25%. The loan book is spread across the geographies of Maharashtra, Madhya Pradesh, Gujarat, Rajasthan and Tamil Nadu. So, over here, Maharashtra leads with 62% followed by Rajasthan at 18% to 20%, Madhya Pradesh is at 10% to 12% and Gujarat at 6% and Tamil Nadu at 5%.

Now again, within Maharashtra, when we speak about Maharashtra too, the book is evenly spread across the three identified regions of our operations, which is extended Mumbai region, extended Pune region and the Vidarbha region. So that's how the segregation has happened even within the Maharashtra. So within the state also, the book is fairly diversified.

Star HFL has doubled its presence during the year and now has 14 physical branches. The overall network consists of presence at 30 plus locations, which includes digital points of presence as well across our operational geography. Staff count stands at 150 employees and out of the 150 employees, 40% of the staff consists of credit underwriters, processing team in operations and receivable management staff spread across branches and at the head office.

Star HFL had two successful rounds of capital raise in FY ’22, ‘23, courtesy which the net worth as of 31st March 2023 has crossed INR100 crores. And this is a significant milestone that we have achieved during the financial year. So these rounds saw participation from reputed professionals within the capital markets and BFSI space and the shareholding profile accordingly has been augmented with individual investors, institutional entities, family office and an FBI.

Star HFL now has an ecosystem of more than 6,500 shareholders, which is an increase from 530 odd shareholders back in 2019. Star HFL has now qualified the quantum criteria and now awaits to qualify the tenor criteria post which it shall become eligible to list and trade on the National

Stock Exchange post receiving all necessary approval and all compliances being met. Also during the financial year, we have affected bonus and split of the company's shares, resulting in increasing number of shares outstanding and more shares in the hands of our shareholders.

This corporate action is in line with our philosophy to reward our shareholders for the trust that they have reposed in us during our journey. Star HFL has a strong liability franchise with relationship with public sector banks, FIs and the National Housing Bank. So in FY '22 '23, we also saw first term loan received from a social impact fund. So that activity has also started as an addition to the overall liability franchise. Through the year, Star HFL has developed robust pipeline and shall continue to expand the engagement with other institutions in banking space. Natesh will throw more light on that.

FY '22, '23 saw exercise of first tranche of ESOP-1 scheme, ensuring participation of eligible employees now becoming owners of the company. And subject to all approvals and compliances in place, Star HFL looks forward to expand the ambit of employee ownership through further ESOP scheme through the growth journey, post receiving all approvals and compliances. Star HFL is governed by strong and independent board comprising of reputed professionals from BFSI and Allied States. So the board comprises of Mr. AP Saxena, Ex-GM of the National Housing Bank, Mr. Ajit Lakshmanan, SED of LIC of India, Mr. Pradeep Kumar Das, SED of IDBI Bank and Ms. Neelam Tater, who is a professional chartered accountant and qualified company secretary.

So these are the updates, dear friends, I wish to share with you. Now I call upon Mr. Natesh Narayanan to speak on the financial performance for the year. Thank you and over to you, Natesh.

Natesh Narayanan: Thank you, Kalpesh. Good evening, all of you. Thank you for taking your time, valuable time and joining us here. It's a pleasure to connect with you again and share the financial performance for the 12-month ending March 2023. This has been a record year for us at Star and the same is reflected in the financial performance. The highlights of which I hereby share with you.

The gross loan book stood at INR251.39 crores as of March 31st, 2023, as against INR104.94 crores in March 2022, a growth of 140% year-on-year. The total revenue for FY'23 is at INR37.24 crores as against INR19.26 in FY'22, again a near 100% year-on-year growth. The interest income and the net interest income in FY'23 stood at INR32.35 crores and INR21.06 crores as against INR17.97 crores and INR11.8 crores respectively last year.

Incremental lending happened at 15.5% while the incremental borrowing cost stood at 10.5% per annum. GNPA as of March 23 is at 1.68% as against 2.99% in March '22. And the NNPA as of March '23 is at 1.25% as against 2.41% in March 2022. Investment in quality, manpower to augment our growth plan and related expansion in operational geographies has resulted in employee expenses increasing by 28% year-on-year. Total operating expense has increased by 51%, primarily attributable to capacity creation for future AEM buildup and the scale up that is expected to, and the scale up that has happened in the FY'23. For the last 12 months period ending March '23, the PBT increased by five times year-on-year. Adjusting for the exceptional non-cash expense related to ESOP, PBT has increased by 220% year-on-year.

For the 12 month period ending March '23, PAT increased by 10 times year-on-year. Adjusting for the exceptional non-cash expense, PAT has increased by 270% year-on-year. In FY'23, the company has onboarded ICICI Bank, LIC Housing, Sundaram Housing, Cholamandalam Finance, Mass Rural Housing, and also a social impact fund in the form of Manvya Development as our new lenders. During the year, the company has raised fresh token loans from 11 banks and financial institutions with a current outstanding of INR111.6 crores. The total outstanding borrowing as of 31st March, 2023 is INR162.5 crores. The pre-tax ROE stands at 9.4% and the pre-tax ROA at 4.54%.

Taking a note of the company's growth, quality of loan book, established processes and risk framework, and the management team, the overall corporate governance, CAGR ratings have upgraded our outlook of the company to positive from stable in the fourth quarter of FY23. I conclude with the following points. Network as of March 23 stands at INR106.41 crores and the leverage at 1.53 times. The company is very well capitalized and shall subject to all approvals in place, should look to strengthen the capital levels further to enable a INR500 crores scale up in the next four to six quarters, thereby becoming a systemically important housing finance company.

The investment in infrastructure, manpower, and technology has created a capacity for a monthly disbursement of INR25 crores to INR30 crores and it shall be used for scale up in FY24. Through the year, Star HFL has developed a robust funding pipeline and shall continue to expand the engagement with other institutions in banking space and in the capital market space to support the AUM growth and resurgence in FY24. With this, I hand over the call to our MD, Mr. Ashish Jain. Thank you and over to you, Ashish.

Ashish Jain: Thank you, Natesh. Thank you, Kalpesh. Dear participants, warm welcome and best wishes from Star HFL leadership team. It is always a pleasure to address and interact with you. The object of arranging these earnings calls regularly is to share updates on the company's progress. We are pleased to say Star HFL leadership team has resolved that from FY22-23, we shall grow and this year has been 100% plus Y-o-Y growth registered across key business and financial parameters. In fact, the growth of gross loan bulk past INR250 crores given record disbursement last year is equivalent to the growth that had been achieved in the previous 12 years in the company's operational history.

We are happy to have pared down par, that is zero plus DPD, to now low single digits. Star HFL team is now 150 plus members strong with all of them having requisite domain and vintage for their respective functions. The role and responsibility of each and every member is clearly defined as a part of their KPI, courtesy of which FY22-23 was the first year of synchronized and record growth. We have expanded and shall continue to expand to new geographies in north and south in FY23-24. While digging deeper in existing states where we are present. We are happy to have raised capital regularly through our growth phase courtesy with the network crossing INR100 crores, bodes well from the perspective of capitalization levels and as Natesh mentioned, we shall continue to strengthen these levels subject to all approvals to enable scale up becoming systematically important home finance company by end of FY23-24.

Our liability machinery of course has scaled up and is expected to build through further FY23-24 building reasonably acceptable leverage levels to the general. We keep our ears and eyes open listening to what the borrower needs and we continue to incorporate those wishes in our product planning and rolling out rural focused customer centric home loan products. I believe that Star HFL is a symbol of growth and reflects the tremendous opportunity that lies ahead in rural India residential mortgage space. Aspirations of rural India are changing as this segment across states and regions is now starting to get included in the financial mainstream. One feels the driver of rising income levels, nuclearization and infrastructure development in rural India should see next wave of demand for housing in rural and associated semi-urban geographies.

At policy level 2, the focus of the government of India in rural housing is evident from the outlay of INR54,487 crores under the PMAY Grameen Yojana for the current financial year which is almost the double the outlay for urban version of the scheme as it targets to build incremental 8.3 million houses in rural India by March '24. These tailwinds should work not only for Star HFL but even for our peers who wish to operate and grow in this space. The sheer size of the opportunity not only gives every player an even platform but also to innovate and bring out products akin to requirements of home loan borrowers in these geographies. One feels that at policy level 2, rural focused HFCs should be supported as given their monoline and focused business model enabling credit access to these first time homeowners.

For Star HFL, we are happy to have walked the talk achieving the targets that we had set for ourselves in the beginning of FY20 to 23. These 100% Y-o-Y growth has been systematic process driven and backed by quality led by strong leadership team of Kalpesh, Natesh, Anoop, regional directors and location heads across our geographies. We look ahead from here on and would remain focused in affordable housing space providing housing finance assistance to target EWS, LIG families in semi-urban and rural geographies of our operations as they aspire to purchase, construct their own home.

From the favorable drivers and the potential addressable market segment, Star HFL through its domain reach team across the functions and geographies is well poised to continue this growth momentum in FY23-24. I thank all our stakeholders including our regulator, the RBI, the National Housing Bank, bankers, rating agencies, business associates, customers, employees and of course their families who have supported us in this journey. We look forward to create value for all our stakeholders. Thank you. Have a lovely day. Happy Akshaya Tritiya. Happy Eid. Operator, over to you.

Moderator: Thank you very much. The first question is from the line of Ramjit Jaiswal, an individual investor. Please go ahead.

Ramjit Jaiswal: Hi there. It was great to hear about the country's growing strength in terms of... So I have basically two simple questions. The first is, what is the current price portfolio at risk and second, how do we resource our business? Thank you.

Kalpesh Dave: So I guess the question is on the portfolio at risk and second one, if I heard correctly because you were a bit baffled, was how do we source our business, right?

Ramjit Jaiswal: Yes, correct.

Kalpesh Dave: So Anoop, you want to answer this question, please?

Anoop Saxena: I would like to answer that question. So to answer question number one, which was related to portfolio at risk. So that was clearly mentioned by Kalpesh during the conversation that our portfolio at risk, which is a zero plus DPD, stands at sub 5% as of now. And as far as second question is concerned, how do we source our businesses, our 90% business is sourcing through direct sales team, which is in-house sales team and deployed in our physical branches. These in-house sales team are supported by inbuilt LOS system, tap based application. So they go door to door of the customers and source applications from there. So 90% business are coming from a direct sales team and 10% business are coming through referral business.

Kalpesh Dave: Hope that answers your question.

Ramjit Jaiswal: Yes. Thank you.

Moderator: Thank you. The next question is from the line of Vipin Kumar, an individual investor. Please go ahead.

Vipin Kumar: Yes. Hi. Good to hear about the growth of the company. So my question is, what effort are you taking on a digital front? As you see, the world is moving towards digitization of processes.

Kalpesh Dave: Okay. Thank you so much. Anoop, again you would want to answer the deployment of lending suite that we're doing?

Ashish Jain: Yes, sure. I would like to answer that Vipin. So as correctly mentioned that the world is moving towards digitization in a rapid manner. So, posing the same thing, earlier we were deploying systems through one of the old LMS suite. Now that has been, we are translating that LMS suite to new technology software. We have already tied up with one of the renowned vendor based out of Bangalore. And the technology implementation is under process, wherein the one part of the technology has already been made live to the branches. So this is in-house built in LMS application, which is obviously integrated by different APIs.

With the help of these APIs, we are currently we are able to serve our customers within four to five working days time period. And I would be happy to announce that the most perfect thing into the lending business, title search, we are able to fetch title search within 15 minutes time period after putting the records in place. So that is how we are. We are working on digitization and happy to share that perhaps by the end of May, we will be completely end to end digital. We will be based on completely end to end digital platform. I hope that answers your question.

Vipin Kumar: Thank you. Yes, that was fine. Thank you. Thank you so much for the answer.

Moderator: Thank you. The next question is from the line of Kalpesh Parekh from JSN advisory. Please go ahead.

Kalpesh Parekh: Yes. First of all, congratulations to the management team for reporting a very, very strong set of numbers. I have a few questions on the business model and probably on the growth trajectory, what we should anticipate for the next few years. See, I mean, the last year was very good. And I think we did a phenomenal job. But would it be fair to assume on a lower base that we can continue with such type of growth for next few years, particularly on the disbursement front, particularly on your EU front and all that thing?

Kalpesh Dave: Sure. So I'll take that question, Kalpesh, see, obviously, you have hit it very right that, the base of the company has been low. And on that, all the numbers that basically would come would be 100% plus. But you will understand and appreciate that, it is this journey of, INR0 crores to INR500 crores, which is the most difficult for any HFC to get transition from a small HFC to a mid-sized HFC and become an entity to reckon with across the stake-holding spectrum.

So obviously, that small stride that, we had resolved that we will take, that we have already taken. And just to answer to your question, yes, FY23-24, we are resolving to become a systemically important home finance company by 31st of March, 23-24, which means that, this one more year, if we are able to achieve it, I'm not giving any guidance over here, but if we are able to achieve it, that would be again 100% year-on-year growth on the back of FY22-23, numbers.

What gives us confidence from the fact of the matter, as Ashish clearly mentioned that there is tailwind, which is associated and more importantly, we have seen, on the ground, how the rural India is kind of emerging, is getting connected with the, urban counterparts through the infrastructure development that we are seeing across the region. So, as they get, embedded into the overall mainstream, their income levels, their activities will continue to get, increased. And with that, the drivers that Ashish had mentioned, nuclearization, the family getting split into two, homeowning aspiration increase, that thing, you must be checking this sector very closely.

So, the same wave resulted in creation of, multiple satellite cities across Mumbai, across Delhi and other places, and that gave birth of, top four to five, players in the HFC space, namely HDFCs of the world. So, I see similar kind of thing happening in the rural area. And more importantly, even the post-COVID scenario that the reverse migration has resulted in demand for incremental housing over there.

You know, people basically going back to the native, their abandoned, villas requiring refurbishment or even a rundown and, creation of a bigger one to accommodate a bigger family. And even within that, someone wants a bigger house for that matter, they would basically look out for a bigger piece of unit. So, those, ground level changes are happening. And we are constantly hearing from our regional directors and our location heads there is a demand. It is now up to us, up to Star Housing, how we can, fulfil that particular demand, how we can organize ourselves well to cater to that demand.

But I do feel that Star HFL as an entity is poised very well to register another 100% year-on-year growth. If you talk to me about a long-term plan from strategy perspective, I would say 2027, we should have a CAGR of 50% plus, which should basically give us a loan book of around INR2,000, INR2,500 odd crores. I'm not giving, again, not giving any guidance, but this is what the opportunity size is there. And what gives us confidence is that, we have the trusted domain. We have those other regional directors who have 20-25 years of experience in those local geographies. They are able to differentiate between whatever is well-quoted and well-poised.

So, our underwriting processes are also local in nature. It is in line with, whatever is there on ground. So, we do feel that, we should be able to sustain this particular momentum. Obviously, a lot depends on macroeconomic environment, how the COVID pans out, how other things happen. But if you talk to me, my calculation would be that, the capacity is already created for one more year of 100% year-on-year growth. And we would take one step at a time to, go past becoming a systemically important home finance company in 2024.

Our current rendering, just, to mention to you is around INR15 crores to INR18 crores of monthly disburses, which should go past around INR25 crores to INR30 crores on a steady state basis during this financial year.

Kalpesh Parekh: So, my second question will be on your spreads, basically. I understood it is somewhere around 4.5% to 5%, 15 and 10. So, going forward, are you facing any headwinds in the form of borrowing cost or anything? Now, since you have started moving more towards the other NBFCs and banks as such, so what is the scenario over there on the borrowing cost front?

Kalpesh Dave: Natesh, you want to answer on that, borrowing cost?

Natesh Narayanan: Yes, I'll take that. See, on the spread front, we are enjoying about 500 basis point to 525 basis point of spread. The average cost of borrowing being around the 10.5 and lending it around 15, 15.5. While the bulk of the interest rate cycle, increase in interest rate cycle has been seen in this financial year. However, if you see today, the borrowing profile, we have about 35%, 30% to 35% being coming, our funds coming from NHB, another 30 to 35% coming from PSU banks, and then the remaining rest, 30% coming from the NBFC side, which is typically the financial institution side with a small portion from the social impact fund.

So, if we maintain this colour, given the broad interest rate scenario that involves, I think for this financial year, maintaining the spread will not be, while it will be challenging, but I don't think there will be a huge pressure as far as the spread is concerned. It will still be around the same number for, we foresee the same number to be maintained at least for the forthcoming financial year of FY’24.

Kalpesh Dave: And Kalpesh, just to add to what Natesh is saying, yes, obviously there has been a margin contraction in the balance sheet level, given that there has been an increasing repo rate cycle. Obviously, the lenders will pass on their cost hike to us and our cost of borrowing on that particular account has increased from around 9.5, 9.25 to around 10.5, 10.25 for that matter. But we do feel that this margin contraction should be kind of more or less offset by the volume that we are going to generate over FY’23-FY‘24 and obviously, one view that internally within the strategy team also holds that repo cycle kind of will at some point in time peak out in the foreseeable future.

So, that should bode well. But again, we are not counting on the things that are not under our control. What we are focusing on is that the margin contraction should be offset by the scale of the business that we should do, that we generate. And that's how we are looking at it. Just to answer to your questions that new lenders getting onboarded, obviously FIs are there, but there are other engagements with public sector banks, there are engagements with private sector banks which are right now underway. And our pipeline in terms of liabilities is anywhere between INR100 crores or right now in different stages of discussion with these banks and FIs.

So, that should not be an issue. And as I said that during the call that we look forward to further capitalize also subject to all approvals in place. So, with that thing coming into the balance sheet, the overall borrowing costs per se inclusive of entire money should be under control and that should get translated into the PBT if we do our operations and manage our costs very well.

Kalpesh Parekh: Okay, so going by this logic and in your earlier remarks also you had mentioned that you got some good manpower and we have already added on the opex front as well. So, it would be safe to presume that the cost to income ratio probably in all possibilities should decline from here on?

Kalpesh Dave: I would say on an incremental level yes, but if you talk about an overall level we still think that we should be building up capacity in FY'23-FY'24 as well. And as we said that we are aiming to again double our capacity subject to our growth plans being approved. So, one more year of increasing our capacity and from there on incremental volume that we generated, these branches getting profitable over a period of next five to six months, then the cost to income ratio rationalization would happen. As per our plan we do feel that we should hit that sweet spot of 20% plus mark in around 10 to 12 quarters from here on.

Kalpesh Parekh: Okay, so what would be I mean if I can ask a couple of questions more. And what would be the ROE presumptions with which we are going for the next few years? Are we looking at something like 15-17% type of ROE? Is it sustainable that type of ROE would be sustainable?

Kalpesh Dave: So, that's right, so that's right. So, again to answer to your question ROE I would again see right now my pre-tax ROE is at around 9.4% odd, just short of getting double digits. So, that build up we have seen from 4%-5% ROE to now because that investment is now getting fructified. So, answer to your question my steady state ROE as we are planning for getting all the growth capital and everything. And I am talking about company being in the next level of, at that point of time we are obviously targeting of ROE in the range of 18 to 22%.

But this is a long shot for us right now at this point of time we want to build book, we want to ensure that the return ratios should get associated with it only after the capacity is in place. And the book gets kicked starts kicking in the income for the entire financial year. If you ask me about the target for as per the business plan 18% to 22% ROE should hit again somewhere in around 25-26 so on and so forth. So, three years from now again 10 to 12 quarters from now I should see this ROE of 18% to 22%.

Obviously, a lot depends on how good we are leveraging on the initial on the capital that we are generating that we are raising. Right now our leverage level is at around 1.5-1.6 times. We look forward to increase this leverage level to 2.5-3 times and concomitantly bring in capital at the same time so that again there is one set of increase in the leverage opportunity that we want to cash in. So, yes just to answer to your question 4.5% ROE and 3-3.5 times leverage should see us through that number. And from there on the growth should be linear in nature in line with the whatever industry is doing.

Kalpesh Parekh: Okay, so the fund requirement or money requirement will like anything we would be looking at it in next couple of years as such?

Kalpesh Dave: Yes, that's right. So, just to answer to your question current year also as per the plan we need to further strengthen the capital. And this year we are looking to engage with institutions for getting that institutional capital at least get the talk ready and engage with them because that's the process you also know that concept it takes time. But yes, we would look forward to raise capital subject to again subject to all approvals in place and no guidance being given by me but we are looking forward to strengthen the capital level further.

Kalpesh Parekh: Okay, fair enough and wish you all the best to the team. Thank you.

Moderator: Thank you. We have the next question from the line of Priya Jadav from Deewar Broker. Please go ahead.

Kalpesh Dave: I just want to announce to the participants that very happy to share that this earnings call is right now being attended by 125 plus participants across banking, rating, capital market space. And more than happy to interact with this group that we are having and look forward to have you in future calls as well. Yes, Priya.

Priya Jadav: What is your guidance on business building in the next financial year?

Kalpesh Dave: Business building as I said Priya, we are planning to achieve INR500 crores AUM by 31st March ’23-’24, which means that incrementally for the year we should be planning around INR250 crores to INR300 crores of disbursement.

Priya Jadav: Yes, and second is that what are your fundraising plans in the next financial year?

Kalpesh Dave: Natesh, you want to answer that, fundraising plans?

Priya Jadav: Fundraising plans in the next financial year?

Natesh Narayanan: Yes. So, hello Priya, as Kalpesh actually pointed out, if you are looking at a 100% growth of the AUM that’s our target for this year, that’s our aim for this year. We are looking at we will be having a minimum disbursement of around INR350 crores to INR375 crores. After, even if we adjust for the capital raise that we are planning which will be close to half a million to a million dollars, I think we will raise about INR300 crores of debt. And about half a million to a million dollars of equity.

Priya Jadav: Yes, thank you.

Moderator: Thank you. Yes. Participants, your question?

Natesh Narayanan: $5 million to $10 million of -- not $0.5 million -- $0.5 million to $10 million of equity.

Moderator: Thank you. The next question is from the line of Anand Rajaram from Azalea Capital. Please go ahead.

Anand Rajaram: I would like to congratulate the Star team for an excellent set of numbers. A couple of questions from my side. You had mentioned that NIM currently is about 4.5% to 5%. How has the NIM moved in the last couple of years? That is point number one. Point number two is since the company is going to double its AUM in the next one year, and since the company is also sourcing business from internal resources and the credit team is big, would that mean that there will be a pressure on the cost to income ratio?

Kalpesh Dave: Yes. So, Anand, just to answer your question, the NIM, I'm talking about the spread because, for a company like us, wherein we have raised regular equity, NIM probably would not do justice to the numbers because it would be in double digits. But if you talk about the spread, the spread has always been, our endeavour is to be maintaining the spread at 450 to 500 business points. Now, when I talk about the erstwhile avatar of the company, even the incremental spread was it around, at 10%, 11%, because it was in a different segment. We basically have rationalized our interest rate offering. So, our incremental lending rate has come down to around 15% whereas borrowing rate has basically, come down from 14% odd previously.

I'm talking about, FY’19-FY’20 to now at around, you know, 10.75%. So, this is something which we are maintaining. Obviously, there has been a contraction previously, before the increase in repo rate, we used to have a higher spread of around 550 odd business points. That has now come down to 475 odd business points. But as I said, that margin contraction should get offset by the scale up that we should do in FY’23, FY’24. And, as we are focusing even on the equity and we are focusing on social impact funds, also there is a regular, credit line being given from the NHB. We do feel that the borrowing cost should remain steady at this particular level.

It should not go beyond this. And we should be able to maintain this particular spread of 450 to 550. So, I'm talking of giving a broad range irrespective of repo rate increase, decrease 450 to 550 is something which we should maintain as a spread going ahead through our growth journey. I'm talking about over the next eight to 10 operational quarters. So, that is on that side of it.

To answer to your question on the plans that we want to execute in the next financial year in terms of doubling our loan book. See, you have to understand that we have doubled our branches. So, from seven to it is -- seven, it is now 14. So, now these 14-odd branches would be now operating in full throttle, full capacity with an average run rate of around INR20 crores to INR25-odd crores. Obviously, that does not happen in Q1, it basically gradually builds up. But as we increase Q1 to Q2 to Q3 to Q4, the buildup should ensure that the current network should give us around more than 80% of whatever we are envisaging at this point in time. The increase in branches, again, in '23-'24, as I said, we wish to again double our presence, subject to all things in this space. That will again put pressure on the cost-to-income ratio. Obviously, I agree on that part of it.

But we do feel that from FY '24-FY '25 onward, the cost-to-income ratio should start to get stabilized. And end of '25 should be reaching up to that envisaged level of 20%, 25% of cost-to-income ratio as envisaging. And also wanted to share that Anoop said that the current digital platform that we are deploying, internally in our next strategy meet when the team is meeting, we would be having serious discussion on ensuring that at least 10% to 15% of my incremental lending should be hassle-free, should be without any assistance from external connectors. So that digital lending, if we are able to crack that well, we should be able to pre-pone that cost-to-income ratio target that you have set for ourselves.

Anand Rajaram: Thank you, Kalpesh. And wishing the Star team all the best for the growth plan for the next year.

Moderator: Thank you. The next question is from the line of Ashok Mehta from Juniper Advisors. Please go ahead.

Ashok Mehta: So I would like to congratulate the entire Star HFL team for reporting very strong numbers. And I have two questions from my side. So what was the provision coverage ratio as of March '23, and how does the ALM stand as of March '23, given we have borrowing from NBFC as well, where the tenure might not be as long as what NHB offers?

Kalpesh Dave: Sure. Ashok, I will answer on the PCR part of it, and I will ask Natesh to answer on the ALM side. See, on the provision coverage ratio, if you consider the provisions that we have made, the overall provision as mandated by the NHB, the PCR currently stands at around 48%, as we speak, as of March 31, 2023.

However, a couple of things I want to mention on the PCR part of it is that we have done excess over and above provisions as mandated by the RBI and the NHB, taking that excess provisions into account and including some of the write-offs which we have done on a cumulative basis. This PCR adjusting for all these things is in excess of 100%. So when I say that my GNP is INR3.82 crores, it is totally provided on the balance sheet and in the P&L.

Ashok Mehta: Okay, thank you.

Kalpesh Dave: And on the ALM side, Natesh, you want to answer?

Natesh Narayanan: Yes, so on the ALM side, while we have had this discipline, even if we are borrowing from a financial -- irrespective of whom we are borrowing from, a financial institution or a bank, while NHB is a different volume altogether, who give us more than 10-year money or near close to 10-year money, even from the banks we have managed to get money for more than seven years.

In terms of financial institutions, our average tenor that we have borrowed from most of the financial institutions is close to five years or more. Because our ALM is fairly robust, we have had no mispatches in any of our buckets at least up to five years. All of them are positive and on the balance sheet, still we are sitting on close to INR29 crores, INR30 crores of cash, covering up for two months of disbursement.

Ashok Mehta: Okay, thank you, sir.

Moderator: Thank you. The next question is from the line of Bhavik Bhuchar, an individual investor. Please go ahead.

Bhavik Bhuchar: Hi team. Firstly, congratulations on a great set of numbers, just like the name of the company. My question is, I am not sure whether it has already been covered, but any view on the spectrum of the credit quality of the borrowers and if you could quantify it in terms of percentage of money lent to different credit quality of borrowers, please?

Kalpesh Dave: So, to answer to that question, our current occupation split we offer home loans to salaried and self-employed customers. Currently, incremental split between salaried and self-employed is 35% to 65%. So, one third of my borrowers are having salaried profile, two third are from self-employed profile. In terms of their repayment behavior, as we mentioned that the portfolio at risk currently is at 5%, which is zero-plus DPD.

And within that, the new book that we are generating is at around 0.68%. So, the risk that emanates from a self-employed customer is, I would say around 40 to 50 basis points more than what would be from a salaried customer, typical salaried customer and that is what is getting encapsulated onto my portfolio at risk when I split it between salaried and self-employed. Obviously, the delinquency is part of it, the INR3.82 crores that we are talking about. Again, if you are talking about debt NPA, 80% of the customers within that segment is self-employed customers and 20% are salaried customers.

So, obviously, as the profile and occupation type suggests also, self-employed customers are more prone to income fluctuations given the nature of their business. But, as we say, we are deploying very strong review mechanism and whatever learning that we are doing in the incremental lending that we are incorporating in our credit policy. Because of which, the newer centers that are coming, the newer centers of seven-odd locations that we have opened up and the loans that we are doing over there, obviously, very early times, again the book has to get seasoned, but that book, even in that, there are no early warning signals as such. There are the bounce ratios which is basically the main indication is equivalent for salaried and self-employed for these new ventures.

And if I am extrapolating on that, I should be able to control those kind of delinquencies that emanate from a self-employed customer. But, yes, as I said, this is the breakup on the delinquency level of salaried and self-employed. And we are constantly monitoring the health of the portfolio within the occupation type, within the ticket size type, within the region, so on and so forth. Just to answer your question.

Bhavik Bhuchar: Thank you. Thank you so much.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Kalpesh Dave for closing comments. Over to you, sir.

Kalpesh Dave: Thank you, Dorwin. So, participants, thank you so much for coming, for taking time out on a Saturday, on a holiday to attend to this call and hearing us. It is always a pleasure. Our endeavor is to be extremely transparent with you and share not only our hits but even our misses. We are a growing housing finance company. There is a long way ahead, and we intend to become a meaningful player in the affordable housing field within the geography that we operate in. We are not looking for gaining market share, becoming a number one, number two. In that race, we are not there. We want to ensure the buildup of book is backed by quality, buildup by solid processes and guidelines, and that is what we have been doing in FY 2023.

There will be a lot of euphoria in 100%-plus growth, even if the base is low, but our heads are firmly on our shoulders, and we look forward to continue this growth momentum as we move on. So, just encapsulating the overall business performance, the loan book is crossing, gross loan book is crossing INR250 crores. Our AUM is in, lower single digit, which is 5% -- our PAR, I'm so sorry, our PAR is at lower single digit, which is zero-plus DPD is at 5%. Our GNPA is 1.65%. Our provision coverage ratio, inclusive of all the provisions and excess provisions that are there, is

100%, covering the entire book, the GNPA that is being given. So, that is there.

Our buildup is diversified. We are present across the state of Maharashtra, Madhya Pradesh, Gujarat, Rajasthan, and Tamil Nadu. We look forward to expand north and south as we move ahead in FY '23-FY '24. Our net worth has crossed INR100 crores. We are now well poised to capitalize on qualifying the tenor criteria so that it gets listed on the NSE subject to all approvals in place. I do feel that, we are now one step away from that much needed upgrade that we are envisaging, and even, some of you people have been asking us as to, when is that due. So, we do feel that, '23-'24, Q1 or Q2, I would feel Q1 should be the quarter wherein we should get that much needed upgrade based on the merit that we are deserving, based on the business performance that we are showing.

Liability under the leadership of Natesh is doing well. Capital raised and the debt that we have raised should be able to continue that particular momentum and support the AUM scale up as we grow. Top line, bottom line growth is 2x adjusting for the non-cash items, adjusting for the ease of expenses. We do feel, and now again I am not giving any guidance, but we do feel that if we are able to register similar 100% year-on-year growth, the PAT, the bottom line should also increase in that particular way and fashion. All we need to do is we need to continue what we are doing and ensure that the book is built-up back by quality.

So, this is the encapsulation of the overall performance that we have done during the year. Once again, thank you all the stakeholders and we look forward to engage with you as we grow from here on. If you have any queries, any suggestions, anything to ask, even post call, please reach out to our investor relations. You can reach out to me or either Natesh, Anoop or Ashish individually and we will be more than happy to interact and answer any of your questions. So, that's it from my side. Thank you so much. Once again, very happy Akshaya Tritiya and Eid Mubarak to all of you. Thank you so much. Over to you, Dorwin. Thank you.

Moderator: Thank you, sir. On behalf of Star Housing Finance Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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