STAR HOUSING FINANCE
Star hai toh bharosa hai

Date: 30.10.2024

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

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

Sub: Intimation under Regulation 30 and 51(2) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'Listing Regulations') – Credit Rating

Dear Sir/Ma'am,

Pursuant to Regulation 30 and 51(2) read with Schedule III of the Listing Regulations, we hereby inform you that CARE Ratings Limited has reaffirmed the credit rating to the Company's Long term Bank Facilities as below:

Instrument Type	**Amount (Rs in Crores)**	**Rating**	**Rating Action**
Long Term Bank Facilities	300	CARE BBB; Stable	Reaffirmed

The Press Release by CARE Ratings Limited has been enclosed herewith.

This is for your information & records.

Thanking You,

For, Star Housing Finance Limited

SHREYAS RASHMIN MEHTA
Digitally signed by SHREYAS RASHMIN MEHTA
Date: 2024.10.30 22:29:13 +05'30'

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

Encl: As above

Star Housing Finance Limited

October 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	300.00	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the long-term bank facilities of Star Housing Finance Limited (SHFL) continues to derive strength from the substantial growth in the asset under management (AUM) of the company in last few years and professionally managed business operations in the housing finance segment. The rating considers SHFL's evolving risk management policies and practices as underlined by its low loan-to-value ratio (LTV), which has helped SHFL in maintaining moderate asset quality. The rating also considers the moderate profitability and comfortable capital adequacy levels maintained by the company.

These rating strengths are partially offset by its relatively smaller size of operation, geographical concentration of the portfolio, and moderate seasoning of the book considering the loan portfolio growth in last few years. The rating remains constrained due to the inherent risks associated with the borrower profile, mainly the self-employed segment which comprises a large proportion of the loan book.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively lead to positive rating action/upgrade:

- Significant growth in loan portfolio and achieving geographical diversification while maintaining the asset quality.
- Sustenance of return on total assets (ROTA) above 3% while maintaining comfortable capitalisation level.
- Diversification in the resource profile with demonstrated ability to garner resources at favourable rates.

Negative factors: **Factors that could, individually or collectively lead to negative rating action/downgrade:**

- Deterioration in asset quality with gross non-performing assets (GNPA) ratio above 4%.
- Deterioration in profitability on a sustained basis.
- Overall gearing exceeding 4x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will sustain its business and financial risk profiles, with credit costs under control over the medium term.

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

Detailed description of key rating drivers

Key strengths

Adequate capitalisation and gearing levels

SHFL's tangible net worth stood at ₹137.5 crore as on March 31, 2024, aided by the immediate conversion of 25% of share warrants of ₹60 crore worth of warrants issued to the investors in December 2023. The remaining 75% of the warrants are expected to be subscribed in H2FY25 and plans of preferential capital infusion worth ₹40 crore in FY25 as envisaged by the company. SHFL's capital adequacy levels remain comfortable with capital adequacy ratio (CAR) and Tier-1 CAR of 54.65% and 54.31%, respectively, as on March 31, 2024, which is over and above the regulatory requirement. As on March 31, 2024, gearing remained comfortable at 2.41x (PY.: 1.54x).

CARE Ratings understands that the company will always maintain gearing not over 4x.

Moderate profitability levels

The moderate profitability of the company has been supported by better operating efficiencies and stable credit costs. In FY24, the net interest margin (NIM) of the company declined to 6.76% compared to 9.67% in FY23 considering increase in the cost of borrowings due to rising interest rate scenario. The NIM was also affected by decline in the yield to advances as the company strategically moved towards lower yielding assets supported by decline in the high yielding project loans portfolio. The operating expense to total asset stood at 5.30% in FY24 (FY23: 7.92%) witnessing better operating efficiencies due to economies of scale. The credit costs reported marginal inch up at 0.47% in FY24 (FY23: 0.29%) led by higher write-offs. Resultantly, the ROTA stood at 2.29% in FY24 compared to 3.20% in FY23 and return on tangible networth (RONW) stood at 7.50% in FY24 compared to 8.34% in FY23.

In Q1FY25, the company reported profit after tax (PAT) of ₹3.02 crore on total income of ₹21 crore compared to PAT of ₹ 1.55 crore on total income of ₹12 crore. The ROTA on an annualised basis stood at 2.46% in Q1FY25.

Going forward, profitability of the company would be driven by benefits derived from growth in scale of operations while keeping credit cost at check.

Improvement in scale of operations

The company's AUM witnessed a growth of 74% y-o-y from ₹246 crore as on March 31, 2023, to ₹427 crore as on March 31,2024, while the disbursements grew 16% y-o-y from ₹208 crore in FY23 to ₹241 crore in FY24. The company has changed its strategy towards retail housing loans since 2020, witnessing run down in the legacy project loans. Of the total AUM, the retail housing loans stood at 98.5%, unsecured loans at 1.4%, and project loans at 0.1% as on June 30, 2024. The high yielding project loans have witnessed reduction from 48% as on September 30, 2019, to 0.1% as on June 30, 2024, led by shift in growth strategy for the company. The average ticket size of the retail housing loans is ~₹10 lakh bearing interest in the range of 16%-19%.

Moderately diversified resource profile

As on June 30, 2024, company's resource profile continues to remain moderately diversified with 41% borrowings from non-banking financial companies (NBFCs), 30% from banks and 21% from National Housing Banks (NHBs), and 8% from non-convertible debentures (NCDs). However, the cost of borrowings has witnessed increase in FY24 against FY23 mainly due to rising interest rates scenario. The average cost of funds in FY24 has increased to 11.53% in FY24 from 9.37% in FY23.

Experienced management team

SHFL is promoted by two professional families, Late Dr Mohan Lal Nagda and Nirmal Jain. However, the company is professionally managed by Kalpesh Dave (Executive Director and Chief Executive Officer), Natesh Narayanan (Chief Financial Officer) having over 22 years of overall work experience, Anoop Saxena (Chief Operating Officer) having over 15 years of experience in Credit & Operations Management, Business Management, Product Development, Portfolio Management, Underwriting, and internal Audit in housing finance space. Shreyas Mehta with over seven years of experience, holds the role of Company Secretary and Compliance Officer. B.S. Kachchawaha is the Chief Compliance Officer and over three decades of experience in the financial services industry.

Key weaknesses

Moderate asset quality and low seasoning of portfolio

Asset quality parameters have shown slight improvement in FY24 against FY23. Gross non-performing assets (GNPA (%) and Net non-performing assets (NNPA) has improved to 1.50% and 1.02% as on March 31, 2024 from 1.68% and 1.25% as on March 31, 2023. However, slight moderation was observed in Q1FY25 as the GNPA and NNPA stood at 1.57% and 1.12%, respectively, as on June 30, 2024. SHFL has an operational track record of over a decade in the sector. However, the company has seen a growth in the AUM by 74% in FY24 and 136% in FY23. Thus, given the long tenure nature of housing finance loans the seasoning of loan book remains low. Going forward, the company's ability to limit delinquencies will remain a key monitorable.

Moderate track record of operations and geographical concentration

AUM of the company stood at ₹471 Cr as on June 30, 2024, compared to ₹246 crore, as on March 31, 2023. As on June 30, 2024, SHFL is operating out of six states, Rajasthan, Maharashtra, Madhya Pradesh, Gujarat, Tamil Nadu, and Uttar Pradesh with 34 branches and employing over 271 people. The portfolio remains geographically concentrated with top state exposure in Maharashtra, which forms 65% of the AUM as on June 30, 2024, which is significantly higher compared to 39% as on March 31, 2022. The share of top three states stood at 87% of the total AUM as on June 30,2024 compared to 88% as on March 31,2024, with growth in Tamil Nadu. CARE Ratings expects geographic diversification to improve gradually as the company increases its scale in the medium term.

Inherent risk associated with the borrower segment

As the company has exposure to the mid-income (54% of AUM as on June 30, 2024), low-income group (30% of AUM as on June 30, 2024), and economically weaker sections (16% of AUM as on June 30, 2024) and the non-salaried borrower segment consisting of 67% of AUM as on June 30, 2024, the asset quality remains susceptible to economic downturn. However, the GNPA and NNPA continues to remain moderate at 1.57% and 1.12% as on June 30, 2024, respectively, compared to 1.49% and 1.02% as on March 31, 2024. Due to the moderate track record and high growth rate, the asset quality performance over the economic cycles is yet to be established.

Liquidity: Adequate

As per the asset liability management (ALM) statement of June 30, 2024, the company's liquidity profile is comfortable with no negative cumulative mismatch in its less-than-1-year tenor bucket aided by high cash and bank balance and liquid investments maintained by the company. As on June 30, 2024, the company has repayment obligation of ₹79 crore up to one year against which the inflow from advances is expected to be ~₹100 upto one year, which demonstrates the buffer. The company had unencumbered cash and cash equivalents of ₹21.86 crore as on June 30, 2024. The company's liquidity is supported by regular fund infusion from its investors. The month-wise collection efficiency has been in the range of 97-99% demonstrating high liquidity levels.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Housing Finance Companies](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Housing finance company

SHFL (erstwhile Akme Star Housing Finance Limited [ASHFL]) is a small-sized housing finance company primarily engaged in financing housing loans. ASHFL commenced operations from September 2009 after getting registered with NHB. Initially, the company was incorporated as Akme Buildhome Pvt. Ltd. on March 17, 2005, built by two promoter families, Late Dr. Mohan Lal Nagda and Nirmal Jain. Subsequently, the company's name was changed to Akme Star Housing Finance Pvt. Ltd. in October 2009 and its constitution was changed to public limited and name was changed to ASHFL in November 2009. The company was listed on BSE in March 2015. Ashish Jain took over as the Chairman and Managing Director post death of his father in 2018. Arkfin Investments Private Limited (Arkfin) invested equity capital of ₹15.5 crore in October 2019 for a stake of 21.5%. Arkfin is a group founded by a group of professionals from housing finance, banking, and non-banking fields and currently holds 16.33% equity stake as on March 31, 2024. The company has expanded its branch network to six states with 34 branches with AUM of ₹471 crore as on June 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	37.24	61.64	20.96
PAT	6.98	8.88	3.02
Interest coverage (times)	1.71	1.41	1.38
Total assets	283.18	490.06	493.54
Net NPA (%)	1.24	1.02	1.12
ROTA (%)	3.20	2.29	2.46

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	6.00	CARE BBB; Stable
Fund-based-Long term		-	-	-	294.00	CARE BBB; Stable

Annexure-2: Rating history for 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-Long term	LT	294.00	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Oct-23) 2)CARE BBB; Stable (28-Aug-23)	1)CARE BBB-; Positive (03-Feb-23)	1)CARE BBB-; Stable (28-Feb-22)
2	Fund-based - LT-Cash credit	LT	6.00	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Oct-23) 2)CARE BBB; Stable (28-Aug-23)	1)CARE BBB-; Positive (03-Feb-23)	1)CARE BBB-; Stable (28-Feb-22)

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

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based-Long term	Simple

Annexure-5: Lender details

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

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

Contact us

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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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