Star Housing Finance Limited

February 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	167.00	CARE BBB-; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the rating assigned to the bank facilities of Star Housing Finance Limited (SHFL) continues to factor in the steady transformation in corporate governance structures since the onboarding of its strategic investor, Arkfin Investments Private Limited (Arkfin) in 2019 with increased focus on the retail housing loan portfolio with a simultaneous run-down of the project loan segment. Furthermore, decision making in the company is now fairly distributed across a well-defined management structure as compared to its earlier promoter-driven business model. The rating also derives strength from comfortable capital adequacy and gearing levels of the company aided by regular equity infusion from investors and the same has resulted in increase in networth base lending support towards growth in the near term. The rating also takes note of the improvement in profitability supported by increase in scale of operations with healthy disbursements. Asset quality metrics have also witnessed improvement during 9MFY23 with decline in overall GNPA and gross stressed assets aided by loans coming out of restructuring with satisfactory repayment track record.

The rating strengths are partially offset by the company's relatively small scale of operations albeit AUM growth witnessed during 9MFY23 and portfolio continues to remain geographically concentrated. Seasoning of loan book remains moderate given the high loan book growth witnessed during 9MFY23 and the same is expected to remain moderate over the medium term given the high loan book growth targets. Given, the borrower profile of company with exposure to the weaker, low income self-employed borrower segment, the asset quality remains susceptible to any economic downturn as witnessed during COVID-19, however this risk is partly offset by the secured nature of lending. The company's resource profile continues to remain modest; however, the same has witnessed improvement with access to funding from refinance lines from National Housing Bank (NHB) and expansion of lender network aiding in improvement in cost of funds.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustenance of growth in loan portfolio along with achieving geographical diversification while maintaining the asset quality with maintenance of ROTA above 3%.
- Maintenance of adequate capitalization levels.
- Diversification in the resource profile with demonstrated ability to garner resources at favourable rates.

Negative factors

- Deterioration in asset quality with Gross NPA ratio above 5%.
- Deterioration in profitability on as sustained basis.
- Overall gearing exceeding 4 times.

Analytical approach: Standalone

Outlook: Positive

With sharp increase in disbursements, the AUM of the company has witnessed significant growth during 9MFY23 from ₹104.1 crore as on March 31, 2022, to ₹187.5 crore as on December 31, 2022, However, the AUM size continues to remain relatively moderate. Disbursements during 9MFY23 stood at around ₹112.9 crore as against ₹36.6 crore in FY22. With continuation of momentum in disbursements over the medium term, AUM is expected to grow significantly while maintaining adequate capitalization and comfortable gearing levels. 'Positive' outlook continues to reflect the expectation that the company will continue to maintain higher disbursements, which will improve its scale of operations significantly over the medium term and result in sustenance of improvement in profitability as witnessed during 9MFY23. Furthermore, SHFL has witnessed improvement in profitability and asset quality and with reduction in project loan portfolio the asset quality is expected to be stable. It is to be

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

noted that company is expected to mobilise fresh equity to support growth in its operations. The outlook may be revised to 'Stable' if there is significant moderation in the asset quality and leverage levels exceed 4x on a sustained basis.

Key strengths

Steady transformation in business and corporate governance structure with experienced management team

SHFL has been traditionally operating as a promoter driven company with operations mainly in Rajasthan since its inception till Sep 2019. Post equity infusion of Rs. 15.50 crore in October 2019 from Arkfin Investments Private Limited (Arkfin), SHFL has undergone a steady alteration in line with its strategy to become a professionally run company. As of September 30, 2022 Arkfin holds equity stake of 17.21% in SHFL. The company has been able to attract additional equity of ₹8.1 crore during FY22 and additional equity of ₹32.8 crore during 9MFY23 from investors leading to increase in networth base to ₹100.8 crore as on December 31, 2022. SHFL has expanded its geographic presence to Maharashtra, Madhya Pradesh, Gujarat, Rajasthan and Tamil Nadu with 10 branches including moving its registered/corporate office to Mumbai. The company now exclusively focuses on retail home loans, targeting first time home buyers from the Economically Weaker Section / Low Income Group (EWS / LIG) borrower segment looking to purchase/construct own homes that qualify under PMAY (Pradhan Mantri Awas Yojana) in tier II, III towns and semi-urban geographies. The company has consequently, reduced its exposure to project loans, which has reduced from 48% of its Assets Under Management (AUM) in September 30, 2019 to less than 3% as on December 31, 2022. The erstwhile franchise-based business model has been replaced with in-house sourcing, underwriting, processing and collection.

Furthermore, the overall corporate governance framework is being strengthened through reconstitution of the promoter-driven board with a professional management in a steady phased manner over the past two years. SHFL now operates as an independent entity managed by a set of housing finance professionals across domains and geographies. Anil Sachidanand, the MD of Arkfin and a three-decade veteran in the residential mortgage space provides the necessary guidance for implementation of the structural changes as and when required.

Comfortable capital adequacy and gearing levels with regular infusion from investors

Total capital increased to Rs.100.8 crore as on December 31, 2022 aided by the equity infusion from investors. Consequently, the company's capital adequacy levels remain comfortable with CAR and Tier 1 CAR of 82.69% and 81.91% respectively as on December 31, 2022. As at December 31, 2022, gearing remained comfortable at 1.22 times (Total borrowings/ Tangible net worth). Going forward, CARE Ratings Limited (CARE Ratings) understands that additional capital infusions by the investors which will further augment the capital base, thus enhancing its ability to fund growth. CARE Ratings understands that the management will maintain gearing at less than 4 times at all times.

Evolving risk management practices and processes

SHFL's has taken concentrated efforts to improve its credit risk appraisal processes with continuous investment and efforts undertaken to improve the credit appraisal mechanism. SHFL has also deployed digital collection platform for receivable management enabling the company to monitor end-to-end processing from log-in, sanction, disbursement and receivable management. Active portfolio risk management mechanism includes monitoring of the credit portfolio on a regular basis and enabling of a maker checker policy adopted for all the processes in loan underwriting to avoid frauds. The ability of the company to evolve and continuously improve its risk control systems will remain a key rating sensitivity.

Improvement in profitability during 9MFY23

Profitability has been impacted during FY21 and FY22 on account of the company being on the growth phase with the opening of new branches, strengthening employee team and investment in technology for aiding in loan management systems and improving underwriting practices. Benefits of lower cost of funds from NHB is negated with the company focusing on better profile retail housing loan customers which is expected to keep credit cost in check going forward. ROTA stood at 1.72% during FY22. However, the profitability has witnessed improvement during 9MFY23 with increase in disbursements aiding in increase in other income and with benefits of increased scale the opex has also witnessed moderation during 9MFY23 leading to improvement in PPOP. Furthermore, credit cost has also remained lower with improvement in asset quality leading to the company reporting ROTA of 3.93% during 9MFY23. Profitability of the company would be driven by benefits derived from growth in scale of operations while keeping credit cost at check.

Moderately diversified resource profile

The company's borrowing profile is moderately diversified for its size and constitutes NHB refinance lines (25.5%), term loans from banks (38.6%) and NBFCs/HFCs (35.9%) as on December 31, 2022. The company has an established lender relationship with 14 lenders as on December 31, 2022 with the top five lenders constituting 65.7% of total borrowings outstanding as on December 31, 2022. The ability of the company to continue to source funds at competitive rates with diversification of resource profile will remain a key monitorable.

Key weaknesses

Small size and geographically concentrated operations

As on December 31, 2022, SHFL is operating out of the five states of Rajasthan, Maharashtra, Madhya Pradesh, Gujarat, and Tamil Nadu, with 10 branches and currently employing more than 130 people. Loan portfolio stood at ₹187.5 crore as on December 31, 2022. The portfolio remains geographically concentrated with top state exposure in Maharashtra which forms 54.6% of the portfolio as on December 31, 2022. CARE Ratings expects geographic diversification to improve gradually as the company increases its scale in the medium term.

Moderate asset quality and moderate seasoning of portfolio

Albeit improvement the company's GNPA% and NNPA% stood moderate at 2.15% and 1.65% respectively as on December 31, 2022, as against 2.99% and 2.40% as on March 31, 2022 (March 31, 2021: 3.05% and 2.59%). SHFL has an operational track record of over a decade in the sector. Nevertheless, CARE Ratings notes that the loan book has almost doubled post Q3FY22 and given the long tenure nature of HF loans the seasoning of loan book remains moderate. Going forward, the ability of the company to limit delinquencies will remain a key monitorable.

Inherent risk associated with the borrower segment partly offset by the secured nature of lending

SHFL primarily focuses on the self-employed and informal income borrower segment, especially the economically weaker section (EWS) of the society, majority of whom have undocumented incomes. Furthermore, the customer segment is exposed to volatility in cash-flows and economic disruptions as witnessed during COVID-19. The risk is partly offset by the secured nature of the loan book to some extent, with company maintaining adequate buffer against the Loan to Value (LTV).

Liquidity: Adequate

As per the ALM statement of September 30, 2022, the company's liquidity profile is adequate 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. The company's liquidity is supported by regular fund infusion from its investors. The company had free cash and bank balance of ₹34.4 crore and liquid investments of ₹8.78 crore as on December 31, 2022 which cover principal repayments for next nine months.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Housing Finance Companies
Policy on Withdrawal of Ratings

About the company

Star Housing Finance Ltd. (SHFL; erstwhile Akme Star Housing Finance Limited (ASHFL)) commenced operations from September 2009 after getting registered with National Housing Bank. Initially, the company was incorporated as Akme Buildhome Pvt. Ltd. on March 17, 2005, built by two promoter families namely Late Mohan Lal Nagda and Nirmal Jain. The company is primarily engaged in providing housing loans to individuals for construction, purchase, repair, and upgradation of houses to the under-served segments in the lower- and middle-income categories. The name of the company 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. Company got listed in BSE in March 2015. Ashish Jain is the Chairman and Managing Director of the company from 2018. Arkfin Investments Private Limited (Arkfin) invested equity capital of ₹15.5 crore in October 2019 for a stake of 21.5%. As of December 31, 2022 Arkfin holds equity stake of 17.21% in SHFL. Post receipt of equity capital from Arkfin, the company has expanded its branch network to 5 states with 10 branches with AUM of ₹187.5 crore as on December 31, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov)
Total operating income	15.60	19.37	24.75
PAT	1.56	2.38	5.83
Total Assets	123.86	152.52	242.56
Net NPA (%)	2.60	2.42	1.65
ROTA (%)	1.45	1.72	3.93

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	6.00	CARE BBB-; Positive
Fund-based-Long term	-	-	-	-	161.00	CARE BBB-; 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long term	LT	161.00	CARE BBB-; Positive	-	1)CARE BBB-; Stable (28-Feb-22)	-	-
2	Fund-based - LT-Cash credit	LT	6.00	CARE BBB-; Positive	-	1)CARE BBB-; Stable (28-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	• CAR to be maintained 2% above regulatory requirement. • Debt/Tangible Net worth not to exceed 7.5x.
B. Non-financial covenants	Not Applicable

Annexure-4: Complexity level of the various 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 the lender-wise details of bank facilities please click here

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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