Star Housing Finance Limited

August 28, 2023

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating and outlook of the long-term the bank facilities of Star Housing Finance Limited (SHFL) takes into account an increase in its scale of operations marked by growth in assets under management (AUM) to ₹271.6 crore as on June 30, 2023, and increase in the capital base led by equity infusion of ₹32.8 crore during FY23. This has resulted in an increase in the net worth from ₹63.35 crore as on March 31, 2022, to ₹104.1 crore as on March 31, 2023, which has led to the company maintaining low leverage levels and comfortable capital adequacy ratio (CAR) levels. The rating also takes note of improvement in profit after tax (PAT) during FY23 and Q1FY24, although operational costs continue to remain high on account of branch expansions and management hirings. The rating continues to factor in steady transformation in corporate governance structures with decision making distributed across a well-defined management structure as compared to its earlier family-owned business model. Furthermore, the asset quality parameters have shown slight improvement in FY23 and Q1FY24 vis-à-vis FY22. Gross non-performing asset (GNPA) (%) and net non-performing asset (NNPA) (%) has improved from 2.99% and 2.40% in FY22 to 1.68% and 1.25% in FY23, which has further improved to 1.56% and 1.13% in Q1FY24, respectively.

The rating is, however, constricted by the company's relatively small scale of operations, low seasoning of the portfolio, geographic concentration of the portfolio and relatively moderate experience of the management team. Given the borrower profile of company with exposure to the mid-income (50% of AUM as on June 30, 2023) and low-income group (33% of AUM as on June 30, 2023) and non-salaried borrower segment (74% of AUM as on June 30, 2023), the asset quality remains susceptible to any economic downturn. The ability of the company to manage the asset quality during such times would be a key rating monitorable. As on June 30, 2023, the company's resource profile continues to remain modest with 48% borrowings from non-banking finance companies (NBFCs), 30% from banks and 22% from National Housing Banks (NHBs). However, the cost of borrowings has witnessed increase during FY23 vis-à-vis FY22 mainly due to rising interest rates scenario.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Deterioration in asset quality with GNPA ratio above 4%.
- Deterioration in profitability on a sustained basis.
- Overall gearing exceeding 3.5x.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook factors in comfortable capital adequacy and gearing levels, improvement in profitability, moderate asset quality, and low seasoning of portfolio.

Detailed description of the key rating drivers:

Key strengths

Steady transformation in business and corporate governance structure

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

SHFL has been traditionally operating as a promoter-driven company with operations mainly in Rajasthan since its inception till September 2019. Post equity infusion of ₹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 on March 31, 2023, Arkfin holds equity stake of 16.87% in SHFL. The company has been able to attract additional equity from investors leading to increase in the net worth base to ₹104.1 crore as on March 31, 2023. SHFL has expanded its geographic presence to Maharashtra, Madhya Pradesh, Gujarat, Rajasthan and Tamil Nadu with 14 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 mid-income group / low-income group (MIG / LIG) borrower segment looking to purchase/construct own homes that qualify under Pradhan Mantri Awas Yojana (PMAY) in rural and semi-urban geographies. The company has consequently, reduced its exposure to project loans, which has reduced from 48% of its AUM on September 30, 2019, to less than 1% as on June 30, 2023. 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

SHFL's tangible net worth (TNW) increased to ₹104.1 crore as on March 31, 2023, aided by the equity infusion of ₹32.8 crore during FY23. Consequently, the company's capital adequacy levels remain comfortable with CAR and Tier-1 CAR of 77.88% and 77.10%, respectively, as on March 31, 2023. As on March 31, 2023, gearing remained comfortable at 1.56x (P.Y.: 1.24). CARE Ratings understands that the company will always maintain gearing at less than 3.5x. As articulated by the management team, CARE ratings also notes that the company has plans to raise additional equity capital in FY24 which will further augment the capital base, thus enhancing its ability to fund growth.

Evolving risk management practices and processes

The Risk Management Committee at SHFL supervises the Loan Review Mechanism (LRM) by evaluating the quality of loan book and bringing about qualitative improvements in Credit Administration. The Credit Administrative Department at SHFL is responsible of providing credit ratings to assess the credit quality, identify problematic loans and assignment of risk ratings. 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. CARE Ratings will continue to monitor the ability of the company to evolve and continuously improve its risk control systems, which remains a key rating sensitivity.

Improvement in profitability during FY23 and Q1FY24

The net interest income (NII) of the company increased by 78.4% y-o-y from ₹11.80 crore in FY22 to ₹21.05 crore in FY23 (₹5.75 crore in Q1FY24), supported by 80% growth in interest income to ₹32.34 crore in FY23 (₹11.20 crore in Q1FY24) as compared with ₹17.97 crore in FY22. Due to the growth phase of the company, the operating expenses have increased from ₹11.36 crore in FY22 to ₹17.31 crore in FY23 (₹4.44 crore in Q1FY24), owing to the opening of new branches (14 in FY23 vis-à-vis 7 in FY22), strengthening employee team (FY22:83, FY23:148, Q1FY24:157), investment in technology for aiding in loan management systems and improving underwriting practices. However, due to economies of scale, the operating expense (% of total assets) has improved from 9.20% in FY22 to 7.95% in FY23. Due to the benefits of lower cost of funds from NHB, company's focus on better profile retail housing loan customers is expected to keep credit cost in check, going forward. The PAT increased from ₹0.62 crore in FY22 to ₹6.98 crore in FY23 and ₹1.55 crore in Q1FY24. Furthermore, credit cost has also remained lower with improvement in the asset quality leading to the company reporting ROTA of 3.20% during FY23 (P.Y.: 0.45%). CARE ratings observes that profitability of the company would be driven by the benefits derived from growth in scale of operations while keeping credit cost at check.

Key weaknesses

Limited track record with small size of operations and geographical concentration

As on June 30, 2023, SHFL is operating out of the five states of Rajasthan, Maharashtra, Madhya Pradesh, Gujarat, and Tamil Nadu, with 14 branches and more than 157 employees. AUM stood at ₹271.6 crore as on June 30, 2023, vis-à-vis ₹104.1 crore as on March 31, 2022. The portfolio remains geographically concentrated with top state exposure in Maharashtra which forms 64% of the AUM as on June 30, 2023, which is significantly higher compared with 39% as on March 31, 2022. The exposure to top three states (Maharashtra, Rajasthan, Madhya Pradesh) increased from 88% as on March 31, 2022, to 90% as on June 30, 2023. As per the discussion with the management team, CARE Ratings expects the geographical diversification to improve gradually as the company increases its scale in the medium term.

Inherent risk associated with the borrower segment

SHFL primarily focuses on the non-salaried category borrowers' segment (74% of AUM as on June 30, 2023). On the basis of income category, majority of borrowers lie in MIG (50% of AUM as on June 30, 2023) and LIG (33% of AUM as on June 30, 2023), majority of whom are first-time home buyers. Furthermore, these customer segments are 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 the company maintaining adequate buffer against the loan to value (LTV).

Moderate asset quality and low seasoning of portfolio

Albeit improvement, the company's GNPA(%) and NNPA(%) stood moderate at 1.56% and 1.13%, respectively, as on June 30, 2023, as against 1.68% and 1.25% as on March 31, 2023 (March 31, 2022: 2.99% and 2.40%). SHFL has an operational track record of over a decade in the sector. Nevertheless, CARE Ratings notes that as per the static pool, around 71% of AUM is originated in FY23 (around 62%) and Q1FY24 (around 9%). Thus, given the long tenure nature of HF loans, the seasoning of loan book remains low. Going forward, the ability of the company to limit delinquencies will remain a key monitorable.

Relatively moderately experienced management team

The operations of SHFL are headed by Kalpesh Dave (Chief Executive Officer), having around 16 years of experience in housing finance space, and Natesh Narayanan (Chief Financial Officer), having more than 21 years of overall work experience. Anoop Saxena is the Chief Operating Officer of SHFL, having more than 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 more than 7 years of experience, holds the role of Company Secretary and Compliance Officer.

Liquidity: Adequate

As per the asset liability maturity (ALM) statement of June 30, 2023, 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. The company had cash and cash equivalents of ₹21.5 crore as on June 30, 2023. The company's liquidity is supported by regular fund infusion from its investors. The company has plans to raise additional equity capital in FY24.

Assumptions/Covenants: Not Applicable

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

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 and industry

Industry classification

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

Star Housing Finance Limited (SHFL; erstwhile Akme Star Housing Finance Limited [ASHFL]) is a small-sized housing finance company primarily engaged in the financing of housing loans. 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 Dr Mohan Lal Nagda and Nirmal Jain. Subsequently, the name of the company was changed to Akme Star Housing Finance Pvt. Ltd. in October 2009, its constitution was changed to public limited, and the name was further 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 the fields of housing finance, banking and non-banking, and currently holds 16.87% equity stake as on March 31, 2023. The company has expanded its branch network to 5 states with 14 branches with AUM of ₹271.62 crore as on June 30, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	19.37	37.24	12.29
PAT	0.62	6.98	1.55
Total Assets	152.52	283.18	295.04
Net NPA (%)	2.40	1.25	1.13
ROTA (%)	0.45	3.20	2.15

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long term	-	-	-	Apr 2033	161.00	CARE BBB; Stable
Fund-based – LT-Cash credit				-	6.00	CARE BBB; Stable

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 2023-2024	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
1	Fund-based-Long term	LT	161.00	CARE BBB; Stable	-	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-; Positive (03-Feb-23)	1)CARE BBB-; Stable (28-Feb-22)	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sudhakar P Director **CARE Ratings Limited** Phone: 044-28490876/0811/7812 E-mail: p.sudhakar@careedge.in
Relationship Contact Aakash Jain Director **CARE Ratings Limited** Phone: +91-20-4000 9090 E-mail: aakash.jain@careedge.in	Nikhil Hardikar Associate Director **CARE Ratings Limited** Phone: 022- 6754 3456 E-mail: Nikhil.Hardikar@careedge.in Shubham Deokar Rating Analyst **CARE Ratings Limited** Phone: +91-22-6754 3609 E-mail: Shubham.Deokar@careedge.in

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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