Star Housing Finance Limited

January 29, 2026

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has downgraded the rating assigned to bank facilities of Star Housing Finance Limited (SHFL) due to challenges in scaling operations and funding constraints despite adequate capital levels.

While the assets under management (AUM) grew by 22% y-o-y, the company's operations continue to remain at a modest scale, led by disbursement slowdown in FY25 and H1FY26. Asset quality remains moderate, with a slight weakening in early-stage delinquencies. The rating also factors in the moderate profitability parameters supported by direct assignment transaction in FY25, which further moderated in H1FY26 due to growth slowdown. The company's funding sources continue to remain moderately diversified.

The rating constraints include small operational scale, geographically concentrated portfolio, moderate loan book seasoning, and risks from the self-employed borrower base.

SHFL withdrew its rights issue due to insufficient subscription. The company is currently pursuing plans to raise additional equity in the near term to support business growth and timely and successful completion of this capital raise will remain a key monitorable for the rating.

CareEdge Ratings also takes note of the resignations of two independent directors in FY26 and that of the Chief Financial Officer (CFO) in June 2025 and Executive Director in August 2025.

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:

- Decline in scale of operations and inability to raise adequate resources.
- Inability to maintain adequate liquidity buffers.
- Deterioration in profitability on a sustained basis and weakening of asset quality with the gross non-performing assets (GNPA) rising above 3%.
- Overall gearing exceeding 3.5x.

Analytical approach: Standalone

Outlook: Negative

The negative outlook reflects the company's inability to raise capital, resulting in growth constraints reflected by slowdown in the disbursements momentum in H1FY26. The outlook may be revised to Stable if the company successfully mobilises substantial capital (debt and equity) to support operational scale-up while maintaining adequate profitability and stable asset quality.

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

Detailed description of key rating drivers:

Key strengths

Moderate profitability metrics
The company's profitability moderated as the net interest margin (NIM) declined to 6.32% in FY25 from 6.75% in FY24, primarily considering higher cost of borrowings. The profitability in FY25 was also supported by direct assignment income which formed 62% of the total income. Operating expense to total assets stood at 5.55% in FY25 (FY24: 5.30%), reflecting a marginal increase in operating costs relative to the asset base. Credit costs increased to 1.02% in FY25 from 0.47% in FY24, led by higher write-offs. Consequently, ROTA moderated to 2.13% in FY25 from 2.29% in FY24.

In H1FY26, the company reported profit after tax (PAT) of ₹3 crore on total income of ₹47 crore with annualised ROTA at 1.15% compared to PAT of ₹6 crore on total income of ₹44 crore in H1FY25 with annualised ROTA of 2.36% in H1FY24. Going forward, the company's ability to maintain profitability with stable credit costs would remain a key monitorable.

Moderately diversified resource profile
The company has established relationships with over 20 lenders, comprising public sector banks, private banks, non-banking finance corporations (NBFCs) and Nationale Housing Bank (NHB) and access to capital markets through non-convertible debentures (NCDs). As on March 31, 2025, the resource profile remains moderately diversified, with borrowings distributed across NBFCs (54%), banks (26%), NHB (14%) and NCDs (5%). In FY25, the company raised ₹162 crore compared to ₹247 crore in FY24. In H1FY26, the company has raised ₹20 crore with weighted average cost of funds at 10.16% from private banks and NBFCs. The company had raised fresh funding to the tune of ₹40 crore from NHB in FY25, which was utilised in H1FY26. The incremental cost of borrowings in H1FY26 stood at 10.16% from 11.53% in FY24, reflecting benefit of interest rate reduction. Going forward, the company's ability to further diversify its resource profile while raising funds at competitive rates would be a key monitorable.

Key weaknesses

Inability to raise equity capital as envisaged
SHFL's tangible net worth (TNW) stood at ₹142 crore as on March 31, 2025, compared to ₹133 crore as on March 31, 2024, aided by internal accruals. In FY24, the company converted 25% of the warrants and remaining 75% were expected to be converted by FY25. However, the balance remained unexercised and subsequently lapsed upon expiry of the 18-month window.

Additionally, the envisaged preferential capital infusion of ₹40 crore in FY25 did not materialise. The company also attempted to raise ₹100 crore through a rights issue, which was subsequently withdrawn due to insufficient subscription. As on September 30, 2025, the TNW remained at ₹145 crore aided by internal accruals. The constrained equity mobilisation has also restricted the company's ability to significantly scale up operations, with disbursements remaining modest. However, the company's capitalisation metrics remain adequate, with a capital adequacy ratio (CAR) and Tier-I CAR of 50.55% and 50.11%, respectively, as on March 31, 2025, well above regulatory requirements. Gearing remained moderate at 2.84x as on March 31, 2024 (PY: 2.41x). CareEdge Ratings expects that the company will maintain gearing under 4x over the medium term. Going forward, the company's ability to raise growth capital will be a key monitorable.

Moderation in disbursement growth and geographical concentration
The company's AUM grew by 22% in FY25 from ₹427 crore as on March 31, 2024, to ₹521 crore as on March 31, 2025. However, disbursement momentum moderated, with retail housing loan disbursements declining sharply to ₹139 crore in FY25 from ₹241 crore in FY24. This slowdown persisted in H1FY26, with disbursements at ₹77 crore, indicating sustained moderation in incremental growth. As on September 30, 2025, the AUM stood at ₹569 crore with home loans comprising 81% of the AUM and loan against property comprising 19%. While the loan book remains predominantly retail with negligible unsecured exposure, the contraction in disbursements highlights funding constraints and limited ability to scale operations. Despite this growth, the portfolio remains geographically concentrated, with Maharashtra accounting for 69% of the AUM and the top three states, Maharashtra, Madhya Pradesh, and Rajasthan, together contribute 86% as on September 30, 2025.

Moderate asset quality and low seasoning of portfolio
The company's asset quality has moderated, with GNPA and net NPA (NNPA) increasing to 1.85% and 1.40%, respectively, as on March 31, 2025, compared to 1.50% and 1.02% as on March 31, 2024. GNPA including write offs stood at 2.49% as on March 31, 2025. As on September 30, 2025, GNPA and NNPA improved marginally to 1.65% and 1.16%. While the company has an operational track record of over a decade, most disbursements have been made in the past three years. Given the long-tenure

nature of housing finance loans, seasoning of the portfolio remains limited, constraining visibility on performance across economic cycles. The company's ability to contain delinquencies and maintain asset quality will remain a key monitorable going forward.

Inherent risk associated with the borrower segment

As on September 30, 2025, the company's portfolio is concentrated in the mid-income segment (55% of AUM) and low-income group (34% of AUM), with additional exposure to economically weaker sections (16% of AUM). The non-salaried borrower category accounts for 72% of AUM as on September 30, 2025, making asset quality vulnerable to economic downturns. Comfort is derived from the relatively low loan-to-value profile, with 51% of the portfolio under 50% LTV.

Changes in the Board of Directors and management team

SHFL is promoted by two professional families, Late Dr. Mohan Lal Nagda and Nirmal Jain, and is professionally managed. The leadership team is headed by Kalpesh Dave, Chief Executive Officer, and Anoop Saxena, Chief Operating Officer, who bring over 15 years of experience in credit and operations management, business management, product development, portfolio management, underwriting, and internal audit in the housing finance space.

CareEdge Ratings also takes note of the resignation of two independent directors in FY26 and the Chief Financial Officer (CFO) with the CFO position remaining vacant till date. The promoter family had representation on the Board through Kavish Jain as on March 31,2025, who also stepped down from the Board in H1FY26. Currently, there is no promoter family representation on the Board.

Liquidity: Adequate

Per the asset liability management (ALM) statement of September 30, 2025, the company's liquidity profile is adequate with no negative cumulative mismatches across time buckets. As on September 30, 2025, the company has repayment obligation of ₹99 crore for next one year against which the company expects inflows from advances of ₹81 crore for the next one year. As on September 30, 2025, the company maintained unencumbered liquidity to the tune of ₹25 crore. SHFL has undrawn sanction lines aggregating to ₹23 crore providing additional liquidity.

As on December 31, 2025, SHFL maintained unencumbered liquidity of ₹20 crore which comprises cash, bank balance, and liquid investments, which is sufficient for debt repayment obligations for next one month.

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

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 is a small-sized housing finance company operating primarily in the affordable housing segment, with a focus on retail home loans to low and middle-income borrowers. The company has gradually expanded its presence and currently operates across six states through over 38 branches, with an AUM of ₹568 crore as on September 30, 2025.

The shareholding structure includes the promoter family and Arkfin Investments Private Limited, a professional investment platform founded by experienced financial services professionals with backgrounds in housing finance, banking, and NBFCs. Arkfin first invested in SHFL in 2019 and held 15.94% equity as on September 30, 2025.

Brief Financials- Standalone (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)	H1FY26 (UA)
Total income	62	95	47
Profit after tax (PAT)	9	11	3
Assets under management (AUM)	427	521	568
On-book gearing (x)	2.41	2.84	2.70
AUM / tangible net worth (TNW) (x)	3.22	3.67	3.92
Gross non-performing assets (NPA) / gross stage 3 (%)	1.50	1.84	1.65
Return on managed assets (ROMA) (%)	2.12	1.86	0.98
Capital adequacy ratio (CAR) (%)	54.65	50.55	43.36

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

Detailed explanation of covenants of rated instrument / facility: 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-; Negative
Fund-based-Long Term	-	-	-	March 2033	294.00	CARE BBB-; Negative

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 2025-2026	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
1	Fund-based-Long Term	LT	294.00	CARE BBB-; Negative	-	1)CARE BBB; Stable (30-Oct-24)	1)CARE BBB; Stable (30-Oct-23) 2)CARE BBB; Stable (28-Aug-23)	1)CARE BBB-; Positive (03-Feb-23)
2	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB-; Negative	-	1)CARE BBB; Stable (30-Oct-24)	1)CARE BBB; Stable (30-Oct-23) 2)CARE BBB; Stable (28-Aug-23)	1)CARE BBB-; Positive (03-Feb-23)

LT: Long 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: CareEdge 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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