STAR HOUSING FINANCE
Star hai toh bharosa hai

Date: 09.05.2024

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

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

Sub: Intimation of Credit Rating from India Ratings & Research Private Limited

Dear Sir,

Pursuant to Regulation 30 (schedule III, part A) of the Securities Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015, we hereby inform you that India Ratings & Research Private Limited has affirmed rating on Company's Instruments viz. Bank loan and Non-Convertible Debentures as follows:

Sr. No.	Instrument Type	Size of Issue (million)	Rating	Rating Action
1	Bank Loan	INR 4,500	IND BBB/Stable	Affirmed
2	Non-Convertible Debentures (NCDs)	INR 500	IND BBB/Stable	Affirmed

This is for your information & records.

Thanking You,

For, Star Housing Finance Limited

SHREYAS RASHMIN MEHTA
Digitally signed by SHREYAS RASHMIN MEHTA
Date: 2024.05.09 19:48:49 +05'30'

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

India Ratings Affirms Star Housing Finance's NCDs and Bank Loans at 'IND BBB'/Stable

May 09, 2024 | Housing Finance Company

India Ratings and Research (Ind-Ra) has affirmed Star Housing Finance Limited's (Star HFL) instruments as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
Bank loan	-	-	-	INR4,500	IND BBB/Stable	Affirmed
Non-convertible debentures#	-	-	-	INR500	IND BBB/Stable	Affirmed

#details in annexure

Analytical Approach

Ind-Ra continues to take a standalone view of Star HFL to arrive at the ratings.

Detailed Rationale of the Rating Action

The affirmation reflects Star HFL's franchise expansion and improving granularity in the book. Alongside this, the entity has increased the number of lending relationships and continuously improved its liquidity buffers. It also reflects Star HFL's demonstrated ability to raise capital to support its robust growth plans while keeping the leverage ratio under check. While seasoning in the book remains low, as a significant portion of the assets under management (AUM) has been generated in the past 12 months, the asset quality metrics have fared well.

The rating also factors in the company's modest-but-growing scale of operations, significant geographic concentration, and low book seasoning.

List of Key Rating Drivers

Strengths

Franchise in expansion mode; focus on granular growth
Improvement in profitability
Capital raise should cushion build-up in leverage as loan book growth continues
Adequate diversification in funding for its Size of business

Weaknesses
High portfolio concentration; asset quality seasoning needs to be established
Lending to vulnerable self-employed borrower profile

Detailed Description of Key Rating Drivers

Franchise in Expansion Mode; Focus on Granular Growth: Star HFL operates in the affordable housing finance segment and had asset under management (AUM) of INR3,686.7 million at end-December 2023. Retail home loans constituted 86.4%, retail mortgage loans constituted 12.2%, and unsecured loans accounted for 1.2% of the AUM at end-December 2023. Project loans have been nearly run-down and stood at 0.2% in 9MFY24 (9MFY23: 1.9%). Star HFL operates through 24 branches across six states, with 12 digital branches acting as spokes. In FY24, the company entered into a new state with the opening of a branch in the National Capital Region. As the company continues to expand, it will deepen its presence in its existing geographies and will not enter any newer state in FY25.

Along with the geographic expansion, Star HFL has been focusing on making the loan book more granular, with the incremental generation beyond October 2019 largely being with a maximum ticket size of INR2.5 million. Additionally, loan sourcing, underwriting and collections are now being handled by an internal team against being done by direct selling agents earlier. The company expects AUM to cross INR6 billion in FY25, led by the maturing of existing branches and the opening-up of branches. Star HFL also has a co-lending arrangement with Singularity Creditworld Pvt Ltd, Family Home Finance Pvt Ltd and Tata Capital Housing Finance Ltd (debt rated at 'IND AAA'/Stable) which, while being at a nascent stage, will help the company in growing through a capital-light model.

Improvement in Profitability: Star HFL's financial performance remained strong during 9MFY24 with 27.6% yoy growth in PAT. The profitability was largely aided by strong net interest income growth, improving operating leverage and lower credit cost. Star HFL's net interest income grew 39.7% yoy at end-December 2023. However, this did not translate into a higher margin on AUM, which was 8.5% compared to 12.6% a year ago. The margin was impacted by increased borrowing cost of 11.4% as of end-3QFY24 (FY23: 9.4%; FY22: 8.6%), while the yield on AUM decreased to 17.5% (18.5%; 18.1%) as the share of below 16% yield segment increased. The company reported a return on assets of 3.2% in FY23 (FY22: 0.4%; FY21: 1.4%). However, a continuing improvement in profitability and control of loan loss provision will be critical and monitorable since a significant portion of the portfolio has low seasoning, and any negative surprises can derail the momentum. Furthermore, as the company is operating at a low leverage, the impact of the cost of borrowing on absolute profitability is low.

Capital Raise should Cushion Build-up in Leverage as Loan Book Growth Continues: At end-

December 2023, Star HFL had an equity base of INR1,302.1 million (9MFY23: Tier I capital of 59.3% and CAR of 59.8%) with leverage of 2.05x. During 9MFY24, the company issued a warrant amounting to INR600 million, of which 25% has already been subscribed, and the remaining to get subscribed in 18 months from the date of issuance. Consequently, the equity base increased by INR150 million during 9MFY24. The management expects the company to continue to clock over 50% loan growth in the medium term; however, it is unlikely to drive the leverage above 3.5x, given the visibility of capital raise. The agency believes that a continuous capital infusion will be imperative to scale up its AUM to INR10 billion and maintain its growth momentum.

Adequate Diversification in Funding for its Size of Business: Star HFL has a relationship with 16 lenders, which include a mix of public sector banks, non-banking finance companies, housing finance companies and National Housing Bank (NHB; debt rated at 'IND AAA'/Stable). The company has been diversifying its funding avenues since FY20 and reduced the reliance on bank loans to 35.7% in 9MFY24 (FY20: 59.4%). The dependence on non-banks increased marginally to 44.5% in 9MFY24 (FY20: 40.6%), with Star HFL tapping into NHB funding (12.7% of funding mix in 9MFY24). Star HFL has also raised NCDs from a financial institute partner which accounts for 7.1% of its overall funding. Furthermore, the company maintains around 10% NCDs in its liability mix on a steady-state basis.

High Portfolio Concentration; Asset Quality Seasoning Needs to be Established: Since 2019, the company has increasingly been focusing on reducing its portfolio concentration in Rajasthan (FY19: 73.7% of overall AUM). Subsequently, it has enhanced its presence across different geographies, and in 9MFY24, it operated in six states. This has been accompanied by a commensurate increase in the team, including on-the-field executives. The overall team size increased to 214 employees in December 2023 from 16 in March 2019. Over the past 24 months, Star HFL has strengthened its presence in Gujarat, Maharashtra and Tamil Nadu; consequently, the portfolio concentration in Rajasthan reduced sharply to 12.3% in 9MFY24. However, the concentration in Maharashtra increased significantly to 64.5% in 9MFY24 (FY19: 3.5%), indicating that the majority of the growth is coming from this state. The company intends to add more branches outside Maharashtra to reduce the concentration risk. Furthermore, the seasoning in the portfolio is low as the amount disbursed in 9MFY24 accounts for nearly 45% of the total AUM. Given the limited seasoning of its book, Ind-Ra believes control over softer bucket migration needs to be actively monitored with the rising scale.

Lending to Vulnerable Self-Employed Borrower Profile: Star HFL mainly lends to borrowers in the self-employed category (64.8% of the portfolio as of 9MFY24) and the balance to those belonging to the salaried segment. The average ticket size of housing loans is around INR 0.98 million while the incremental ticket size is INR1.2 million-1.3 million in geographies closer to cities and INR0.3 million-0.8 million in rural areas. The agency believes lending to the under-banked rural and semi-urban customers with limited documented income proof carries a higher risk, and thus, assessment of the credit worthiness along with strong monitoring and collection focus is essential to avoid asset quality shocks. The company's gross stage 3 assets came in at 1.64% and net stage 3 assets at 1.24% at end-December 2023 (FY23: 1.68%, 1.25%; FY22: 2.99%, 2.40%). However, its stage 3 provisioning is on a lower side at around 24.4%, lower than most of its peers. With the low seasoning of book, the risk of delinquency remains high and could lead a ramp-up in the provisioning thereby hampering the profitability.

Liquidity

Adequate: Star HFL had cumulative surplus in all time frames up to one-year of structural liquidity at end-December 2023. Even on stressing the inflows at end-December 2023, the surplus remains sufficient in the up to one-year of structural liquidity. As a practice, Star HFL plans to keep one months of disbursements and debt repayment in form of on-balance sheet liquidity along with undrawn bank lines. At end-December 2023, Star HFL had an unutilised line of INR600 million in addition to on-balance sheet liquidity (unencumbered cash and fixed deposits) of INR475.3 million, which is adequate to cover debt repayments due in over the next three months.

Rating Sensitivities

Positive: Factors that could collectively lead to a positive rating action are:
- significant growth in the franchise and loan portfolio coupled with significant reduction in the geographical concentration
- the continued ability to maintain asset quality even on a lagged basis through low delinquency and modest credit costs as the portfolio demonstrates a steady-state performance in Ind-Ra's opinion
- diversification and improvement of the funding profile and maintaining of adequate liquidity

Negative: Inability to materially expand the franchise, deterioration in the liquidity buffers, leverage exceeding 3.5x on a sustained basis, deteriorating asset quality on an ongoing basis and losses leading to erosion of capital buffers could lead to a negative rating action.

ESG Issues

Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on StarHFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Star HFL (erstwhile Akme Star Housing Finance Limited) is a housing finance company registered with NHB and was incorporated in 2005. It commenced business operation in September 2009. The company is focused on providing retails loans and mortgage loans to the affordable segment catering to both salaried and self-employed customers. Self-employed customers contribute a lion share of 65% to the total AUM. The company operations are spread across 24 branches and 12 digital points of presence mainly in the states of Madhya Pradesh, Gujarat, Maharashtra, Rajasthan, Uttar Pradesh and Tamil Nadu. As on December 2023, the company had an AUM of INR3,687 million.

KEY FINANCIAL INDICATORS

Particulars	9MFY24	FY23	FY22
Total assets (INR million)	4,205	2,885	1,533
Total equity (INR million)	1,302	1,064	641
Net profit (INR million)	61	70	6.2

Return on average assets (%)	2.5	3.2	1.7
Debt/Equity (x)	2.05	1.5	1.2
Tier 1 capital (%)	59.3	77.1	83.8
Source: Star HFL, Ind-Ra's analysis			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	**Rated Limits (million)**	**Rating**	**10 May 2023**	**27 April 2023**	**3 February 2022**
Bank loans	Long-term	INR4,500	IND BBB/Stable	IND BBB/Stable	IND BBB/Stable	IND BBB-/Stable
Non-convertible debentures	Long-term	INR500	IND BBB/Stable	IND BBB/Stable	-	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Complexity Indicator	Complexity Indicator
Bank loans	Low
Non-convertible debentures	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Annexure

NCDs

ISIN	Date of Issue	Coupon (%)	Maturity Date	Rated Amount (million)
INE526R07017	19 October 2023	13.10	19 April 2027	INR200.0
INE526R07025	12 March 2024	13.35	25 November 2027	INR110.0
			Limit utilised	INR310.0
			Limit unutilised	INR190
Source: Ind-Ra; Star HFL				

APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

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