

## Research Team

## Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	19,600
Fresh Issue (No. of Shares in Lakhs)	-
Offer for Sale (No. of Shares in Lakhs)	413.5
Bid/Issue opens on	9-Nov-22
Bid/Issue closes on	11-Nov-22
Face Value	₹ 1
Price Band	450-474
Minimum Lot	31

## Objects of the Issue

- The company will not receive any proceeds from the Offer and all the proceeds will go to the selling shareholders.

Book Running Lead Managers
ICICI Securities Limited
Edelweiss Financial Services limited
Kotak Mahindra Capital Company limited
Nomura Financial Advisory and Securities(India) Private Limited
Registrar to the Offer
Kfin Technologies limited

Capital Structure (₹ Million)	Aggregate Value
Authorized share capital	550.00
Subscribed paid up capital (Pre-Offer)	291.37
Paid up capital (Post - Offer)	291.37

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	40.0	33.6
Public	60.0	66.4
Total	100.0	100.0

## Financials

Particulars (₹ In million)	1QFY23	FY22	FY21	FY20
Interest earned	3,380	12,540	10,497	7,867
Interest expended	845	3,391	2,382	2,110
<b>NII</b>	<b>2,535</b>	<b>91,49</b>	<b>8,115</b>	<b>5,757</b>
Other Income	11	21	15	6
<b>Total Income</b>	<b>2,546</b>	<b>9,170</b>	<b>8,130</b>	<b>5,763</b>
Depreciation	36	122	114	101
<b>EBIT</b>	<b>2,510</b>	<b>9,048</b>	<b>8,016</b>	<b>5,662</b>
Interest	648	3,006	3,252	2,169
<b>PBT</b>	<b>1,862</b>	<b>6,042</b>	<b>4,764</b>	<b>3,493</b>
Tax	467	1,507	1,174	874
<b>Consolidated PAT</b>	<b>1,395</b>	<b>4,535</b>	<b>3,590</b>	<b>2,619</b>
EPS	4.79	16.09	14.01	10.32

## Company Description

Five star business finance limited is an NBFC-ND-SI providing secured business loans to micro-entrepreneurs and self-employed individuals, each of whom are largely excluded by traditional financing institutions. They are headquartered in Chennai, Tamil Nadu with a strong presence in south India. Over 95% of its loan portfolio comprises loans from between ₹0.1 million to ₹1.0 million in principal amount, with an average ticket size of ₹0.29 million, ₹0.27 million, ₹0.28 million, ₹0.26 million and ₹0.31 million in the three months ended June 30, 2022 and June 30, 2021, and the Financial Years 2022, 2021 and 2020, respectively. They have developed a business model that is predicated on arriving at an appropriate risk framework, with the optimal instalment to income ratio to ensure that their customers have the necessary means to repay the loan after meeting their regular obligations and other event-based capital requirements. They target customer:

- in urban and semi-urban locations, as well as in the rural markets of India;
- who typically derive income from “everyday” cash and carry businesses with a focus on services;
- with household net cash-flows of approximately ₹25,000 to ₹40,000 per month;
- who can provide collateral (typically land and building of approximately ₹1 million in value);
- whose family will act as co-applicants on the loan.

Their growth is primarily volume led through increasing their customer base while keeping the ATS (Average ticket size) stable, and they expect this to continue. The interest rates on their loans depend on the underlying tenor (which ranges from two to seven years), with approximately 95% of the loans sanctioned being between the interest rate range of 24% to 26% and between the tenure range of five to seven years. 100% of their leads for customers are sourced in-house without any use of direct selling agents to source leads for them; further, all of their loans are fully secured with more than 95% of the collateral being SORP at the time the loan application is approved. They had an active loan base of 230,175 and 217,745 as of June 30, 2022 and March 31, 2022, respectively. Gross Term Loans has grown to ₹52,965.35 million as of June 30, 2022 (₹50,670.78 million as of March 31, 2022), from ₹10,082.58 million as of March 31, 2018, at a CAGR of 49.73% between March 31, 2018 and March 31, 2022. Profit for the period / year for the three months ended June 30, 2022 and June 30, 2021, and for the Financial Years 2022, 2021 and 2020 was ₹1,394.33 million, ₹1,015.71 million, ₹4,535.45 million, ₹3,589.94 million and ₹2,619.51 million, respectively, and their Total Equity as of the end of the same period/years was ₹38,569.75 million, ₹29,444.13 million, ₹37,103.51 million, ₹23,181.72 million and ₹19,445.80 million, respectively.

## Valuation

Five star business finance limited has a fastest gross term loan among peers with a strong on-ground collections infrastructure leading to their ability to maintain a robust asset quality and access to diversified and cost effective long term financing with an experienced, cycle tested leadership supported by marquee investors.

Five star business finance limited is available at the upper price of the band at 3.7x P/BV with market cap of ₹1,38,107.34 million post issue of shares and return on net worth of 13.86% and ROA is 7.5%.

Five star business finance limited is fairly priced and we recommend a “Subscribe- Long term” rating to the IPO.

Company also have a two layered underwriting architecture comprising a field credit team that is “on the ground” and closer to the customer (the “Field Credit Team”); and a file credit team that remotely reviews loan applications and undertakes credit decisions (the “File Credit Team”). They have implemented a comprehensive and robust credit assessment, risk management and collections framework to identify, monitor and manage risks inherent in their line of business. To assist them with these functions, they have created a four layered process for customer credit evaluation – two layers within the business and collections team (one by the Business Officer who sourced the proposal and another with the Branch Manager for verifications) and two layers within the credit team (the Field Credit Team and File Credit Team verifications). They also conduct an in-depth analysis of the potential customer by considering “the three Cs”, being their Character, their existing Cash-flow to assess their repayment abilities, and their Collateral to ensure that there is adequate ability and a high motivation on the part of the customer to repay them. Such organizational structure, credit assessment and risk management and collections framework has allowed them to maintain robust asset quality during macro down-cycles.

The following table sets forth certain key operational and financial metrics as of and for the periods/years indicated:

## OPERATIONAL METRICS

Particulars	As of and for the three months ended June 30		As of and for the financial year ended March 31				
	2022	2021	2022	2021	2020	2019	2018
Live Accounts	2,30,175	1,84,479	2,17,745	1,76,467	1,43,079	72,890	33,157
Branches	311	263	300	262	252	173	130
Number of Loans Disbursed	19,793	12,236	63,633	48,111	76,634	43,988	19,257
Disbursements (₹ in millions)	5684.33	3331.60	17562.40	12450.54	24086.69	14814.62	6837.99
Gross Term Loans (₹ in millions)	52,965.35	45,775.11	50,670.78	44,453.81	38,922.28	21,128.06	10,082.58
Gross Term Loans Growth (%)	4.53	2.97	13.99	14.21	84.22	109.55	104.27
Stage 3 Gross Term Loans to Gross Term Loans (%)	1.12	1.64	1.05	1.02	1.37	0.88	1.45
Stage 3 Gross Term Loans (net) to Gross Term Loans (%)	0.68	1.03	0.68	0.83	1.13	0.68	0.96
Total number of employees	6077	3986	5675	3938	3734	1971	1290
Number of Business and Collections Officers	2550	2046	2467	2008	1834	1009	690
Gross Term Loans per Business Officer (₹ in millions)	20.77	22.37	20.54	22.14	21.22	20.94	14.61
Disbursement per Business Officer (₹ in millions)	2.27	1.65	7.92	6.52	16.79	17.41	12.85
Average number of Business Officers per branch	8.20	7.78	8.22	7.66	7.28	5.83	5.31
Average Ticket Size (₹ in millions)	0.29	0.27	0.28	0.26	0.31	0.34	0.36

## FINANCIAL METRICS

Particulars	As of and for the three months ended June 30		As of and for the financial year ended March 31		
	2022	2021	2022	2021	2020
Average Yield on Gross Term Loans	24.15	24.20	24.05	24.17	24.18
Average Cost of Borrowing (%)	10.53	10.68	10.51	11.48	12.07
Net Interest Margin (%)	19.17	16.63	17.68	16.00	16.69
Operating Expenses to Average Total Assets (%)	5.51	4.07	4.86	4.16	4.85
Impairment loss allowance to Average Total Assets (%)	-0.03	1.07	0.72	0.69	1.38
Cost to Income Ratio (%)	32.25	36.99	36.91	34.30	38.97
Profit for the period / year after tax (₹ in millions)	1,394.33	1,015.71	4,535.45	3,589.94	2,619.51
Net Profit Margin	41.12	33.77	36.11	34.15	33.27
Profit per employee (₹ in millions)	0.24	0.26	1.00	0.94	0.90
Net Worth (₹ in millions)	38569.75	29444.13	37103.51	23181.72	19445.80
Total Borrowings (₹ in millions)	25203.19	31212.18	25588.31	34251.97	23636.93
Return on Average Net Worth (%)	3.69^	3.67^	13.86	16.85	15.35
PCR (on Stage 2 & 3 assets) (%)	10.05	7.92	10.40	13.44	9.74
Gross Term Loans on Restructured Accounts (₹ in millions)	710.62	850.20	738.02	N/A	N/A

**BRANCH NETWORK**

Company have an extensive network of 311 branches, as of June 30, 2022, spread across eight states and one union territory and approximately 150 districts across India, with Tamil Nadu, Andhra Pradesh, Telangana and Karnataka being key states. Such key states collectively account for approximately 85% of their branch network, as of June 30, 2022. As of June 30, 2022 approximately 95% of their branches are located in cities and towns with populations up to one million. The following table sets forth certain details of their branch network on a state/territory basis, as of June 30, 2022:

State	Year of Entry	District	Number of Branches	% of Total branches	% of Super branches	% of Normal branches	Gross term loans (₹ in millions)	% of Total Gross Term Loans
Tamil Nadu	1985	39	100	32.15%	65.00%	35.00%	20172.11	38.09%
Andhra Pradesh	2014	20	84	27.01%	60.71%	39.29%	15770.01	29.77%
Telangana	2016	31	48	15.43%	62.50%	37.50%	10325.80	19.50%
Karnataka	2014	20	33	10.61%	18.18%	81.82%	3793.47	7.16%
Madhya Pradesh	2018	33	37	11.90%	37.84%	62.16%	2455.70	4.64%
Maharashtra	2018	3	5	1.61%	20.00%	80.00%	330.45	0.62%
Chhattisgarh	2019	3	3	0.96%	0.00%	100.00%	71.33	0.13%
Uttar Pradesh	2019	1	1	0.32%	0.00%	100.00%	46.49	0.09%

**Strengths:**

- **Fastest Gross Term Loans growth among their compared peers with more than ₹30,000 million in Gross Term Loans, with strong return and growth metrics and a significant potential addressable market**

The potential market for residential property-backed secured MSME lending in India is approximately ₹22 trillion, with Uttar Pradesh, West Bengal, Maharashtra, Rajasthan and Tamil Nadu collectively accounting for over half of such potential market. Business currently operates within this market and has an underwriting model that caters to such customers, and as such they are well positioned for further growth within this market. They have the fastest Gross Term Loans growth among compared peers (being NBFCs in India) with more than ₹30,000 million in Gross Term Loans, with a CAGR of 65.0% (Financial Year 2017 to six months ended September 30, 2021), catering to the small business finance needs of unserved and underserved customers. While Gross Term Loans has grown to ₹50,670.78 million as of March 31, 2022 from ₹10,082.58 million as of March 31, 2018, at a CAGR of 49.73% (between March 31, 2018 and March 31, 2022), growth has primarily been volume led with consistent ATS and steady yields. The ATS of their loans in the three months ended June 30, 2022 and June 30, 2021, and the Financial Years 2022, 2021 and 2020, was ₹0.29 million, ₹0.27 million, ₹0.28 million, ₹0.26 million and ₹0.31 million, respectively.

- **Among the select institutions to develop an underwriting model that evaluates the cash-flows of small business owners and self-employed individuals in the absence of traditional documentary proofs of income**

Company have an underwriting model to provide secured financial solutions to small business owners and self-employed individuals and over the last two decades of operation in this particular product, are among the select institutions to have developed such model in India. The model is customer centric and is underpinned by underwriting practices that triangulate the character, cash-flow, and collateral of potential customers. This methodology of underwriting ensures they are able to evaluate both the willingness and the ability of the customer to repay the loan, despite the absence of traditional documentary proofs of income. This has enabled them to mitigate credit risk and successfully underwrite new loans while maintaining asset quality. Company's underwriting practices are characterized by a multi-level evaluation process for each loan, where the sourcing team is responsible for conducting the preliminary assessment of each potential borrower, which is then independently evaluated by their Field Credit Team, before their File Credit Team reviews and approves the loan proposal. They have evolved this underwriting model over time and through economic cycles to ensure that it remains relevant and captures all key elements that view as critical to maintain a robust asset quality. Fundamental elements of their underwriting model, include:

- loans are given to the household where all household members whose cash-flows are factored in to evaluate the proposal or those who have a current or potential claim on the property being mortgaged, shall be included as co-applicants to the loan proposal;
- deliberately focusing on services oriented businesses with majority of the target market comprising individuals that are typically impacted by macro down-cycles last, while being first to emerge from such cycles;
- multiple physical verification touch points by their Business and Collection teams and their Field Credit Teams to assess applicants and collateral;
- SORP collateral focus;
- all activities carried out as part of their underwriting process are undertaken by their employees, which they believe ensures staff accountability;
- independent field credit verification is undertaken on all proposals;
- limit loan approval powers to the File Credit Team only, with loan amount limits based on approver experience; and
- Conservative loan-to-value ratios and installment to income ratios on their outstanding loan accounts.

➤ **Strong “on-ground” collections infrastructure leading to ability to maintain a robust asset quality**

While their underwriting model contributes to suitable customers being on-boarded, they have also created a strong “on-ground” collections infrastructure to ensure that they maintain a high asset quality. Many of their customers have previously borrowed from moneylenders or other such unorganized lenders, and although they have observed minor delays in the servicing of regular monthly instalments, which they view as a typical part of the repayment culture, such delays don't necessarily translate into loan defaults. A key mechanism they use to prevent defaults in such circumstances is maintaining a strong collections infrastructure designed to keep the credit and repayment discipline of the borrower intact. Their collections infrastructure is underpinned by the following:

- branches adequately staffed with Business Officers, with the number of loans per Relationship Officer on average not exceeding 120, which is expected to provide each officer with the capacity to undertake both business and collections activities effectively;
- older branches with a collections vertical to which the collections responsibility of accounts is transferred once the accounts cross a certain vintage, which effectively frees up the time for Business Officers to focus on new business;
- branches staffed with persons sourced from the local area, with each branch servicing an area with a limited radius, resulting in branch staff being able to quickly attend a customer's location as issues arise;
- keeping the responsibility of sourcing and collections with the same Relationship Officer so that he/she is incentivized to source suitable files and undertake follow-up activities with the customers until closure of the loan; and
- branch staff incentives aligned with each of business and collections targets so that meeting such targets in both areas are required to qualify for incentives.

➤ **Ability to successfully expand to new underpenetrated geographies through a calibrated expansion strategy**

As of March 31, 2022, less than 15% of approximately 70 million MSMEs in India have access to formal credit in any form, and historically, there is a perception of high risk and prohibitive costs of delivering services physically that have constrained traditional institutions' ability to provide credit to underserved or unserved MSMEs and self-employed individuals. As a result, such borrowers resort to credit from informal sources and as such, this relatively untapped market offers huge growth potential for financial institutions. Since starting as a Chennai based NBFC, they have demonstrated their ability to grow beyond their local market. Company's first growth phase was between Financial Year 2010 and Financial Year 2015 where they increased from six branches in Chennai to 39 branches across Tamil Nadu. Between Financial Year 2015 and Financial Year 2018, they started to expand in the states of Andhra Pradesh, Telangana and Karnataka, growing from three branches to 72 branches during this period. Since then, they have further expanded to 165 branches across Andhra Pradesh, Telangana and Karnataka, as of June 30, 2022. They adopt a calibrated strategy of contiguous expansion across geographies where there is substantial demand for their offering and which has allowed for the maintenance of robust asset quality. Such contiguous expansion requires low operational expenditure and is underpinned by utilizing neighboring branches to evaluate local credit environment combined with focus on hiring local staff with an understanding of the catchment area, strong local personal and professional networks and the market. Where they start operations in a new geography or where contiguous expansion is not possible, typically begin by establishing pilot branches to gain a deeper understanding of the catchment area and customer characteristics. Senior management closely supervises expansion efforts to ensure branch and staff performance meet expectations which is typically based on past experience, as well as periodic review for potential deeper expansion.

➤ **100% in-house sourcing, comprehensive credit assessment and robust risk management and collections framework, leading to good asset quality**

Company's 100% in-house sourcing, comprehensive credit assessment and robust risk management and collections framework allows them to identify, monitor and manage risks inherent in their operations. Catering primarily to small business owners and self-employed customers while maintaining asset quality requires a special skillset in absence of traditional income evidence, such that lending to these borrowers is based on an assessment of their income and cash-flows through various methods. First, they ensure all of their loans are sourced in-house, either through their branch-led local marketing efforts (i.e., door-to-door or specific referral marketing), repeat customers or through walk-ins. In-house sourcing allows for complete control over the quality of customer and processes involved to disbursement, which leads to better asset quality, compared to other methods of customer acquisition. Further, as their customers are on boarded by their own officers and not by third party selling agents who may or may not be working with multiple financial institutions, they experience a lower churn rate of customers throughout their portfolio. Their credit team is independent of business and collections teams and only the File Credit Team has the authority to approve and sanction loans, while the Field Credit Team has recommendation powers only. There is complete independence between the credit team and their business and collection team and all incentives for their credit team are linked to file processing, not file approval.

➤ **Access to diversified and cost-effective long-term financing with a conservative approach to asset liability and liquidity management**

Company have secured financing from diversified sources of capital, including term loans; proceeds from loans securitized; proceeds from the issuance of NCDs; issuances of principal protected market linked debentures; and proceeds from loans assigned; from banks, financial institutions, mutual funds and other domestic and foreign financial and development finance institutions to meet their capital requirements. Their Average Cost of Borrowings on their Average Total Borrowings was 10.53% as of June 30, 2022, 10.68% as of June 30, 2021, 10.51% as of March 31, 2022, 11.48% as of March 31, 2021 and 12.07% as of March 31, 2020. Company's cost of incremental borrowings decreased from 11.37% in the Financial Year 2020 to 9.68% in the Financial Year 2021 and to 8.51% in the Financial Year 2022, and was nil and 8.42% in the three months ended June 30, 2021 and 2022. Company believe that they are able to access borrowings at a competitive costs due to their stable credit history, strong credit ratings, equity capital position and low leverage, and their risk management policies.

**Key Strategies:**

- **Increase penetration in existing markets through increasing branch staff numbers, increasing their branch network in the existing geographies and diversifying to contiguous markets**

While they have grown their operations in relatively newer markets, their operations have historically focused in the south Indian states of Tamil Nadu, Andhra Pradesh, Karnataka and Telangana. Such states contribute significantly to Gross Term Loans and they intend to continue to expand in these states in a contiguous manner, to drive greater and deeper penetration. Business model is scalable and by drawing on the experience of their team, they expect to be able to expand their operations efficiently, with low incremental costs. Their strategies include deepening presence in existing geographies through a combination of increasing the number of Field Officers and setting up new branches. For states where they have no or very low existing presence, they will continue to review a number of factors including demographics and competitive landscape before establishing a branch. Company strategy remains to grow contiguously into such areas by gauging the business potential of a particular state and drill down into specific locations suitable for branch opening. When they enter a new state through contiguous expansion, they have opened new branches in district headquarters and then expand deeper by deploying personnel to adjacent areas to source new customers. They are constantly evaluating additional locations using their criteria and expect to continue to add branches to grow out network in the near term. As of June 30, 2022, they had reached an approximate district level penetration of 93%, 77% and 94% in the states of Tamil Nadu, Andhra Pradesh, Telangana, respectively, and 65%, 63%, 8%, 11% and 1% in the states of Karnataka, Madhya Pradesh, Maharashtra, Chhattisgarh and Uttar Pradesh, respectively.

- **Continue to focus on small business owners and self-employed individuals**

They plan to continue to focus on small business owners and self-employed individuals and increase their market share. For instance in terms of credit availability generally, there is a wide variation across states and within various districts in the same state, which indicates latent opportunity for providing banking services to unserved or underserved customers. In many locations, they have customers who are first time borrowers from the formal secured lending ecosystem. As of June 30, 2022, 30.42% of their customers were new to credit, while the remaining customers were sanctioned higher ticket loans with higher tenors than they had availed earlier. They believe their underwriting model, which is based on their understanding of income assessment and collateral assessment for this customer segment, with limited reliance on documented income, is a key strength which would make customers prefer them over their competitors and which they intend to reinforce to achieve Gross Term Loans growth.

- **Optimize borrowing costs, reduce operating expenses further and continue to expand and diversify lender base**

Company's average Cost of Borrowings was 10.53% as of June 30, 2022, 10.51% as of March 31, 2022, 11.48% as of March 31, 2021 and 12.07% as of March 31, 2020. This steady decline over the last three financial years is due to several factors, primarily their financial performance and improving credit ratings. A lower Average Cost of Borrowing enables them to competitively price their loan products and helps them grow their business and operations and increase their NIMs. They have also diversified funding sources by using instruments such securitization transactions, non-convertible debentures, and principal protected market linked debentures to ensure that debt capital requirements are met at optimal costs. They intend to continue to diversify their funding sources, enhance limits from existing sources, identify new sources and pools of capital and implement robust asset liability management policies with the aim of further optimizing their borrowing costs and help increase NIM. Further, they intend to expand and diversify their lender base, and seek to obtain funding from insurance, pension and provident funds, overseas lenders, external commercial borrowings and through the issue of commercial paper. They are focused on improving asset and liability management to ensure that they continue to have a positive asset-liability position. They believe that this will help them improve their credit ratings further and reduce the average cost of their borrowings.

- **Continue to invest in Technology and Data Analytics to build a scalable and efficient operating model / to improve customer experience, increase productivity and decrease costs**

Company have made strategic investments in information technology systems and implemented automated, digitized technology enabled platforms and proprietary tools, to strengthen their offerings and derive greater operational, cost and management efficiencies. From April 1, 2019 through to June 30, 2022, they have invested ₹246.02 million in information technology systems, and as of June 30, 2022, IT and data science teams comprised of 25 personnel. They plan to ensure that information technology systems continue to help them with several functions, including loan origination, credit underwriting, collections and customer service and retention. In particular, over the short to medium term, they aim to focus information technology and data capabilities towards the following areas:

- developing an Application Programming Interface ("API") infrastructure to leverage the strength of various third party service providers / fintech companies and aim to partner with them to augment / create more efficient processes;
- improving accuracy and breadth of customer data capture across portfolio for purposes of analytics and insight generation;
- use data, analytics and machine learning to complement current underwriting processes to ensure they onboard the most suitable borrowers and maintain a robust asset quality;
- developing a robust customer credit scoring model; automation of existing manual activities within their underwriting process to reduce turnaround times for loan sanctions and reduce transaction costs; and
- Supplementing their collections infrastructure by leveraging existing payment architecture towards collecting EMI repayments from their borrowers.

- **Focus on Enhancing Risk Management Framework**

As they increase the scale of their operations and expand into new geographies, they intend to continue focusing on enhancing risk management framework to maintain the credit quality of their loan portfolio. Their risk management initiatives will include obtaining a better understanding of the geographies in which they are present and the ones where they intend to expand to, 186 improving the credit scoring models and algorithms that they have currently deployed, improving their collection techniques and property underwriting

procedures, as well as initiate portfolio analytics activities. In connection with analytics activities, they intend to carry out a comprehensive analysis of their portfolio, determining behavioral and other trends of their customers and use those to strengthen credit assessment framework. They have an existing and comprehensive data lake (being their repository of data stored in its natural/raw format) which contains data from all the sub systems being used by them to which they plan to add data from external and third party sources with a view to creating an internal single data source to aid in their data analytics and insight generation. Credit assessment is crucial to their operations since many of their customers are new to credit or belong to underserved segments of society with medium to low income levels. Their strength in credit assessment is derived from their well-trained front-end teams who spend time with their prospective customers and provide a detailed assessment of their income sources, employment stability, savings and repayment capacity. They will continue to invest in hiring and training people to ensure that they maintain their proficiency in credit assessment.

➤ **Enhance Brand Recall to Attract New Customers**

Company believe that having a strong recognizable brand is a key attribute in their business, which will help them attract and retain customers, increases customer confidence and influences purchase decisions. Having a strong and recognizable brand will also assist them in recruiting and retaining employees. They intend to continue to undertake initiatives to increase the strength and recall of their 'Five-Star' brand to attract new customers. They seek to build their brand by engaging with existing and potential customers' through customer literacy programs, sponsor popular events in the regions they operate and advertise in newspapers, hoardings and in other advertising media.

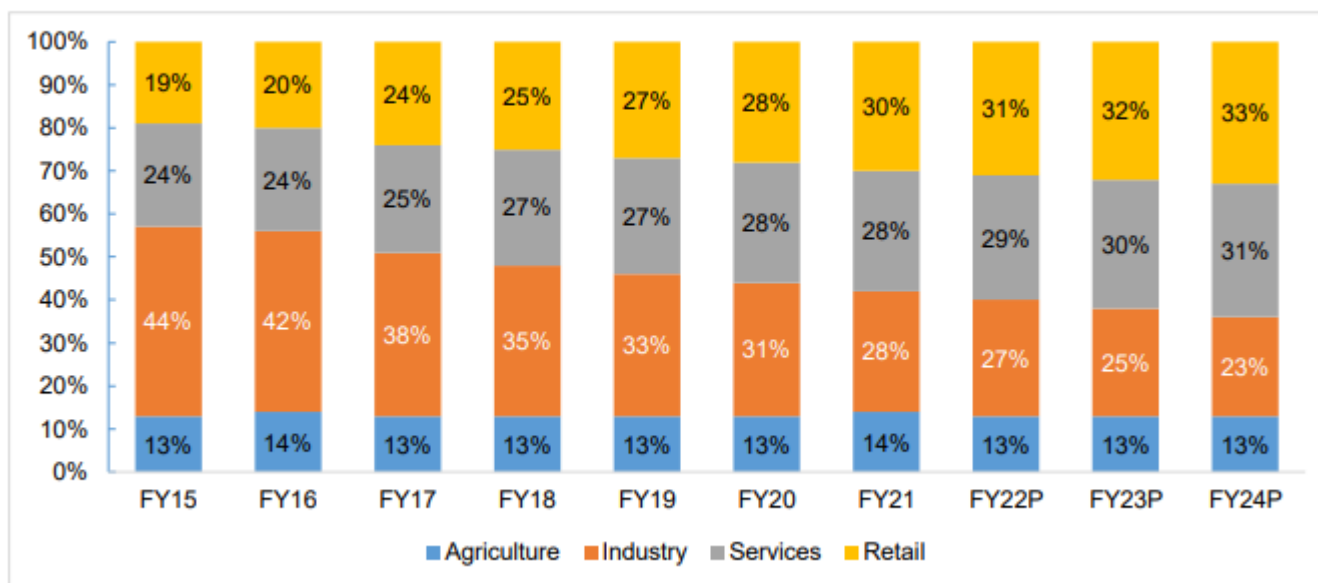
**Industry Snapshot:**

**Credit penetration in India**

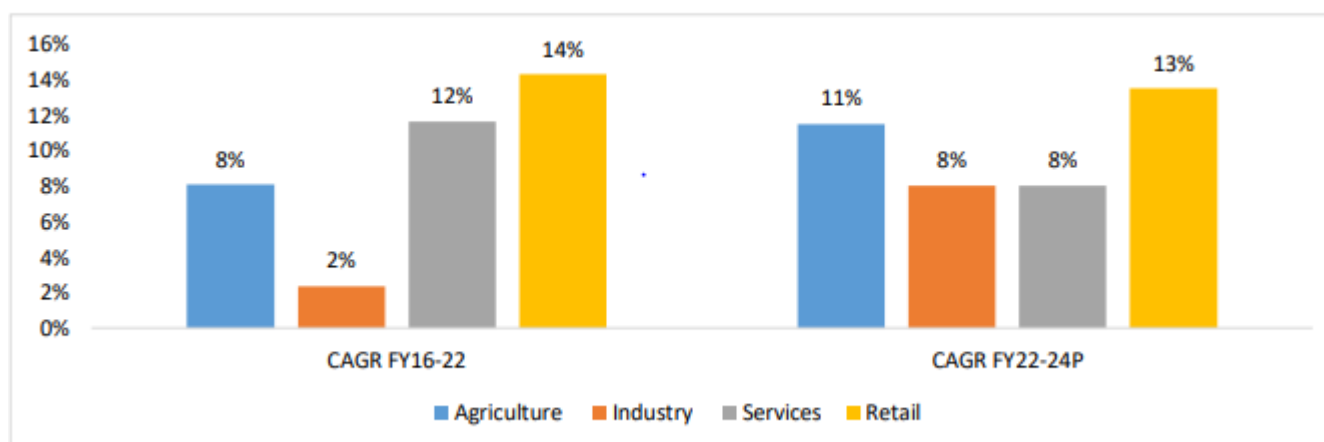
**Retail and agricultural sector to drive credit growth in fiscal 2023**

In the first half of fiscal 2022, the second wave of pandemic forced borrowers and lenders to drive business cautiously which ultimately led to muted bank growth. Growth picked up in the third quarter of fiscal 2022 which continued in the fourth quarter as well due to a much less potent third wave and pent-up demand. ECLGS scheme aided MSMEs to obtain credit from banking sector. Credit to agricultural sector was driven due to high commodity prices and high production in fiscal 2022. Credit to Industrial sector grew by 8% in in fiscal 2022 and expects it to maintain the growth momentum in fiscal 2023 and grow at 8-10%. Services segment credit is expected to grow at 8-10% on-year in fiscal 2023, led by increased lending towards NBFCs (which mainly lend to trade sector) and schemes such as ECLGS. Retail sector grew at 13% on-year due to low interest rates for housing loans.

**Retail loan has the largest share in banking credit; will continue to form largest share at 32% in FY24**



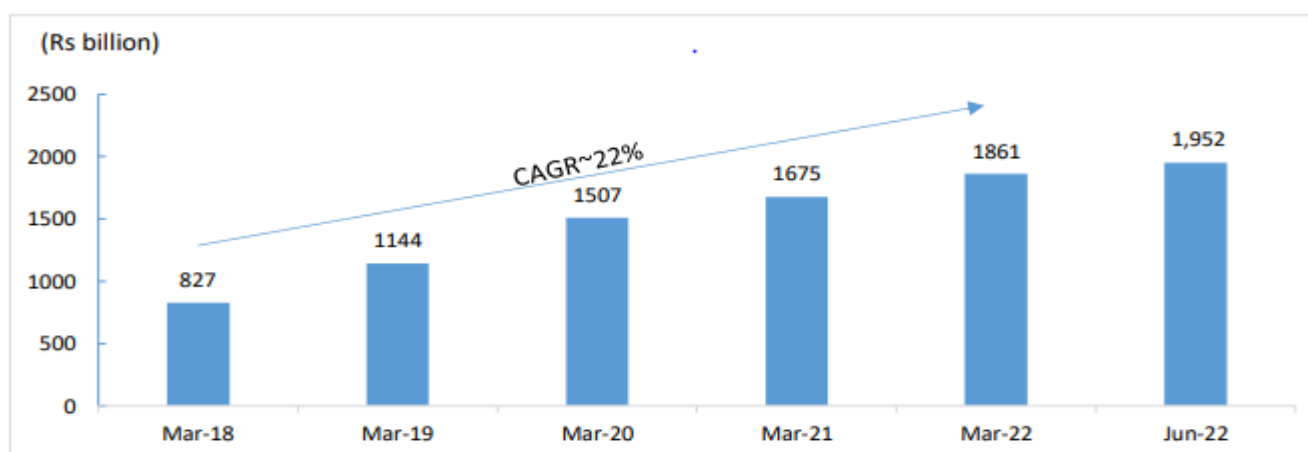
**Trend in growth of bank credit of various segments**



### ➤ Small Business Loans of less than ₹ 10 lakhs ticket size

In this, they have classified all loans with ticket size lower than or equal to ₹ 10 lakhs extended in the name of the individual to MSMEs, micro-entrepreneurs, and self-employed individuals irrespective of the turnover of the entity, as small business loans. Therefore, loans given out to enterprises or companies in the name of the entity and loans reported in the commercial bureau of credit information companies (CICs), even if they are below ₹ 10 lakhs ticket size, are excluded from their market size. The overall portfolio outstanding of small business loans (ticket size less than ₹10 lakhs) given out by banks and NBFCs was estimated to be around ₹ 1.86 trillion as of March 2022 and ₹1.95 trillion as of June 2022. Small business loans grew at a fast pace with portfolio registering a CAGR of 22% over fiscal 2018 and 2022. Over the last few years, expansion in branch network, more data availability and government initiatives like GST, UDYAM, and increasing thrust to adoption of digital payments has led to increasing focus of lenders, especially the NBFCs, on the underserved segment of MSME customers including individuals and micro-entrepreneurs. Loan portfolio of Five Star Business Finance grew at a 50% CAGR over the same period (fiscal 2018 and 2022) to reach ₹51 billion in fiscal 2022.

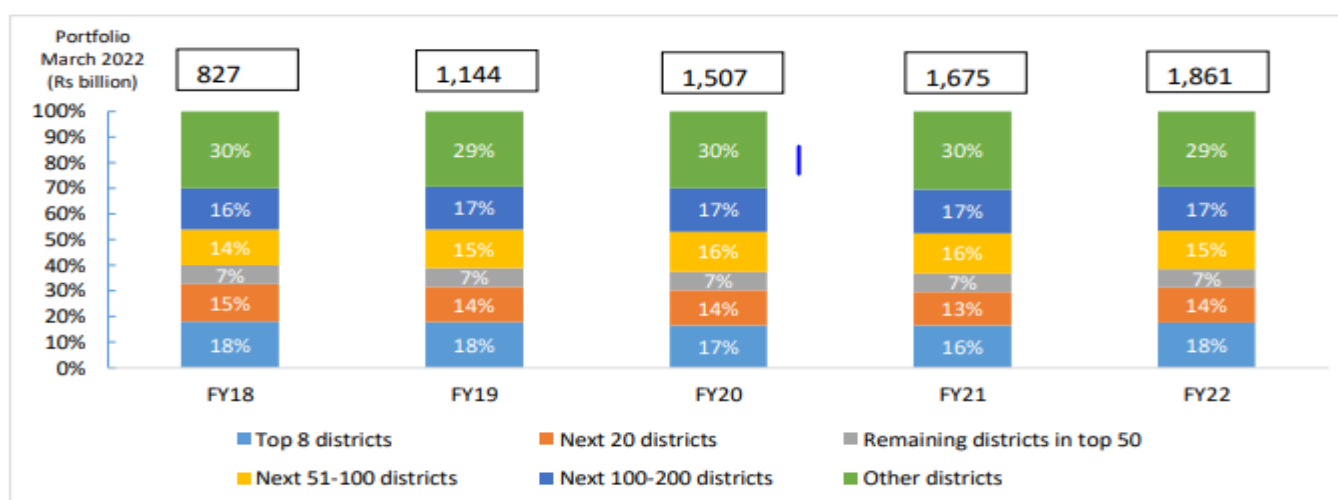
Small Business Loans (ticket size < ₹10 lakhs) grew at 22% CAGR between fiscal 2018 and 2022



### ➤ Penetration on small business loans is increasing in smaller cities

Over the years, share of smaller cities have increased in the small business loans segment owing to increasing penetration of financial services and players focusing on the underserved customer segment. Share of loans outside top 50 cities has increased from 60% in fiscal 2018 to 61% in fiscal 2022. Small business loans portfolio in smaller cities has grown at relative higher CAGR compared to that in top 50 cities.

Share of small business loans (ticket size < ₹10 lakhs) portfolio in smaller cities increasing over past four years



### Comparison of Accounting Ratios with Listed Industry Peers

Name of the company	Face Value (₹)	Total Income, for Financial Year 2022 (in ₹ million)	Earnings per share (Basic) (₹)	Earnings per share (Diluted) (₹)	Net asset value per equity share (₹)	P/E	P/B	RoNW (%)
Five-Star Business Finance Limited	1	12,561.69	17*	17*	127.35	27.88**	3.7***	13.86
<b>Peers</b>								
Aavas Financiers Limited	10	13,056.48	45.10	44.81	355.53	46.02	5.8	12.66
Aptus Value Housing Finance Limited	2	8,402.17	7.58	7.53	58.68	43.29	5.6	12.69
Au Small Finance Bank Limited	10	69,154.25	18.03	17.85	119.31	33.19	4.9	15.04

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on October 20, 2022

2) \*/\*\*/\*\* EPS, P/E and P/B of Five star business finance limited is calculated on basis of TTM and post issue no. of equity shares.

**Key Risk:**

- They require substantial capital for their business and any disruption in their sources of capital could have an adverse effect on their business, results of operations and financial condition.
- The risk of non-payment or default by their borrowers may adversely affect their business, results of operations and financial condition.
- Any deterioration in the performance of any pool of receivables securitized to banks and other institutions may adversely impact their results of operations.
- Some of their corporate records, including those relating to allotments of their Equity Shares in the past, are not traceable.
- A substantial portion of their customers are first time borrowers which increases risks of non-payment or default for them.
- They are affected by volatility in interest rates for both their lending and treasury operations, which could cause their net interest income ("NII") and net interest margin ("NIM") to vary and consequently affect their profitability, result of operations and cash flows.
- Their operations are primarily focused in the states of Tamil Nadu, Andhra Pradesh, Telangana and Karnataka and any adverse developments in these regions could have an adverse effect on their business, cash flows and results of operations.
- Their inability to recover the full value of collateral, or amounts outstanding under defaulted loans in a timely manner, or at all, could adversely affect their business, cash flows, results of operations and financial condition.
- Company had negative net cash flows in the past and may continue to have negative cash flows in the future
- The Indian small business finance industry is highly competitive and their inability to compete effectively could adversely affect their business and results of operations.

**Valuation:**

Five star business finance limited has a fastest gross term loan among peers with a strong on-ground collections infrastructure leading to their ability to maintain a robust asset quality and access to diversified and cost effective long term financing with an experienced, cycle tested leadership supported by marquee investors.

Five star business finance limited is available at the upper price of the band at 3.7x P/BV with market cap of ₹1,38,107.34 million post issue of shares and return on net worth of 13.86% and ROA is 7.5%.

Five star business finance limited is fairly priced and we recommend a **"Subscribe- Long term"** rating to the IPO.



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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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