

# FIVE-STAR BUSINESS FINANCE LIMITED

## Issue highlights

- Five-Star Business Finance Ltd (“Five Star”) was incorporated on May 7, 1984. Five Star 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.
- Over 95% of their loan portfolio comprises loans from between ₹0.1 million to ₹1 million in principal amount, with an average ticket size (“ATS” calculated as the average disbursed sum per customer during the period/year) of ₹0.29 million, ₹0.27 million, ₹0.28 million and ₹0.26 million and ₹0.31 million in the 3 months ended June 30, 2022, and June 30, 2021, and the Financial Years 2022, 2021 and 2020, respectively.
- They had an active loan base of 230,175 and 217,745 as of June 30, 2022, and March 31, 2021, respectively.
- Company’s growth is primarily volume led through increasing their customer base while keeping the ATS stable, and they expect this to continue. The interest rates on their loans depend on the underlying tenor (which ranges from 2 to 7 years), with approximately 95% of the loans sanctioned being between the interest rate range of 24% to 26% and between the tenure range of 5 to 7 years.
- Five Star had an extensive network of 311 branches as of June 30, 2022, spread across approximately 150 districts, 8 states and 1 union territory, with Tamil Nadu, Andhra Pradesh, Telangana, and Karnataka being their key states.
- They are backed by marquee institutional investors such as **TPG Capital, Sequoia Capital, Matrix Partners, Norwest Venture Partners, KKR and TVS Capital Funds Ltd.**

## Brief Financial Details\*

(₹ In Cr)

	As at Jun’ 30,		As at Mar’ 31,		
	2022(03)	2021(03)	2022(12)	2021(12)	2020(12)
Equity Share Capital	29.14	27.12	29.13	25.65	25.58
Reserves	3,827.84	2,917.30	3,681.22	2,292.53	1,919.00
Net worth as stated	3,856.98	2,944.41	3,710.35	2,318.17	1,944.58
Revenue from Operations	337.97	300.52	1,254.62	1,049.74	786.72
Revenue Growth (%)	12.46%	-	19.52%	33.43%	-
EBITDA as stated	254.58	224.38	917.05	813.02	576.30
EBITDA (%) as stated	75.33%	74.66%	73.13%	77.45%	73.25%
Profit/Loss Before Tax	186.16	135.35	604.21	476.44	349.30
Net Profit for the period	139.43	101.57	453.55	358.99	261.95
Net Profit (%) as stated#	41.12%	33.77%	36.11%	34.15%	33.27%
EPS-Basic (₹)	4.79 <sup>^</sup>	3.80 <sup>^</sup>	16.09	14.01	10.32
EPS-Diluted (₹)	4.74 <sup>^</sup>	3.66 <sup>^</sup>	15.92	13.61	10.07
RONW (%)	3.62% <sup>^</sup>	3.45% <sup>^</sup>	12.22%	15.49%	13.47%
NAV (₹)	132.38	102.73	127.35	85.26	71.68

Source: RHP \*Restated Statement; ^ not annualised, Net profit % on Total Income

## Issue Details

Offer for sale of Equity Shares aggregating upto ₹ 1,960 Cr

**Issue size: ₹ 1,960 Cr**
**No of shares: 43,555,666- 41,350,317 Shares**
**Face value: ₹ 1/-**
**Price band: ₹ 450 - 474**
**Bid Lot: 31 Shares and in multiple thereof**
**Post Issue Implied Market Cap =**
**₹ 13,111 – 13,811 Cr**
**BRLMs:** ICICI Securities, Edelweiss Financial, Kotak Mahindra Capital, Nomura Financial

**Registrar:** KFin Technologies Ltd.

**Issue opens on:** Wednesday, 9<sup>th</sup> Nov’2022

**Issue closes on:** Friday, 11<sup>th</sup> Nov’2022

## Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	16-11-2022
Refunds/Unblocking ASBA Fund	17-11-2022
Credit of equity shares to DP A/c	18-11-2022
Trading commences	21-11-2022

## Issue break-up

	No. of Shares		₹ In Cr	% of Issue
	@Lower	@upper		
QIB	21,777,832	20,675,158	980.00	50%
NIB	6,533,350	6,202,548	294.00	15%
-NIB1	2,177,783	2,067,516	98.00	-
-NIB2	4,355,567	4,135,032	196.00	-
RET	15,244,484	14,472,611	686.0	35%
<b>Total</b>	<b>43,555,666</b>	<b>41,350,317</b>	<b>1,960.01</b>	<b>100%</b>

NIB-1=NII Bid between ₹ 2 to 10 Lakhs

NIB-2 =NII Bid Above ₹ 10 Lakhs

**Listing: BSE & NSE**

## Shareholding (No. of Shares)

No of shares	Pre-Offer and Post-Offer Equity Shares

## Shareholding (%)

	Pre-Issue	Post-Issue
Promoters	39.10%	32.68%
Promoters Group	0.97%	0.97%
Public – Investor Selling S/h	31.95%	24.17%
Public - Others	27.98%	42.17%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## BACKGROUND

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### Company and Directors

The company was incorporated as “Five-Star Business Credits Private Limited” at Chennai on May 7, 1984. Lakshmipathy Deenadayalan, Hema Lakshmipathy, Shritha Lakshmipathy, Matrix Partners India Investment Holdings II, LLC, and SCI Investments V are the promoters of the company. Currently, promoters hold 113,925,243 Equity Shares, representing 38.95% of the pre-Offer paid up share capital considered on a fully diluted basis, considering the vested stock options.

### Brief Biographies of Directors

**Lakshmipathy Deenadayalan** is the Promoter, Chairman and Managing Director of the company. He was first appointed as a director on the Board of the Company on June 21, 2002.

**Anand Raghavan** is the Independent Director on the Board of the company. He was associated as a Partner with Ernst and Young LLP for 10 years. He has previously served as Vice President – Corporate Affairs of Sundaram Finance Ltd. He has been serving as a director on the Board of the company from July 28, 2016.

**Srinivasaraghavan Thiruvallur Thattai** is the Independent Director on the Board of the company. He has wide range of experience in the financial services industry and has served close to 2 decades as director of Sundaram Home Finance Ltd and is currently the chairman and director of Sundaram Finance Holdings Ltd. He has been serving on the Board of the company from August 25, 2021.

**Bhama Krishnamurthy** is the Independent Director on the Board of the company. She is on the board of directors of several companies such as Muthoot Microfin Ltd, Cholamandalam Investment and Finance Co Ltd and Reliance Industrial Infrastructure Ltd. She has experience of over 36 years in the field of financial services. She has been serving on the Board of the company from April 12, 2016.

**Ramkumar Ramamoorthy** is an Independent Director on the Board of the company. He has been serving as an independent director on the Board of the company from June 8, 2022. He has over 22 years of experience in the technology industry. Previously, he was associated with Tata Consultancy Services and as Chairman and Managing Director of Cognizant Technology Solutions India Pvt Ltd. Presently, he is associated with Catalinco Partners LLP as a partner.

**Ravishankar Ganapathyagraharam Venkataraman** is the Non-Executive Director on the Board of the company. He has over 16 years of experience in private equity funds. Previously, he was associated with McKinsey & Company, Inc. Presently, he is associated with Sequoia Capital India LLP and Sequoia Capital India Advisors Pvt Ltd. He has been serving on the Board of the company from August 18, 2017.

**Vikram Vaidyanathan** is the Non-Executive Director on the Board of the company. He has been serving as a director on the Board of the company from August 21, 2015.

**Thirulokchand Vasan** is the Non-Executive Director on the Board of the company. He has been serving as a director on the Board of the company from December 15, 2016.

### Key Managerial Personnel

**Rangarajan Krishnan** is the Chief Executive Officer of the company. He joined the company in August 2015.

**Srikanth Gopalakrishnan** is the Chief of Strategy and Finance of the company. He was previously associated with Citibank India in various roles and was the chief financial officer of Asirvad Microfinance Pvt Ltd.

**Shalini Baskaran** is the Company Secretary and Compliance Officer of the company. She joined the company on May 23, 2017.

## OFFER DETAILS

Offer for Sale	₹1,960.005 Cr	No. of Shares	Average cost of acquisition per Equity Share (₹)
<b>The Promoter Selling Shareholder:</b>			
SCI Investments V	₹ 166.742	Upto 3,705,378~ - 3,517,765^ Equity Shares#	81.72
Matrix Partners India Investment Holdings II LLC	₹ 719.414	Upto 15,986,978~ - 15,177,511^ Equity Shares#	14.18
<b>The Investor Selling Shareholders:</b>			
Matrix Partners India Investments II Extension LLC	₹ 12.087	Upto 268,600~ - 255,000^ Equity Shares#	32.68
Norwest Venture Partners X Mauritius	₹ 361.447	Upto 8,032,155~ - 7,625,464^ Equity Shares#	115.83
TPG Asia VII Pte Ltd	₹ 700.315	Upto 15,562,555~ - 14,774,578^ Equity Shares#	186.04

(~ at lower price band and ^ upper price band); # shares are rounded/adjusted to the nearest.

## SHAREHOLDING PATTERN

Shareholders	Pre-offer		No. of Shares offered*	Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital
Promoters	113,925,243	39.10%	18,695,275	95,229,968	32.68%
Promoters Group	2,827,250	0.97%	0	2,827,250	0.97%
<b>Total for Promoter &amp; Promoter Gr</b>	<b>116,752,493</b>	<b>40.07%</b>	<b>18,695,275</b>	<b>98,057,218</b>	<b>33.65%</b>
Public – Investor Selling Shareholders	93,087,343	31.95%	22,655,042	70,432,301	24.17%
Public - Other	81,526,284	27.98%	0	122,876,601	42.17%
<b>Total for Public Shareholder</b>	<b>174,613,627</b>	<b>59.93%</b>	<b>22,655,042</b>	<b>193,308,902</b>	<b>66.35%</b>
<b>Total Equity Share Capital</b>	<b>291,366,120</b>	<b>100.00%</b>	<b>41,350,317</b>	<b>291,366,120</b>	<b>100.00%</b>

\* at ^ upper price band and rounded/adjusted to the nearest

## BUSINESS OVERVIEW

Five-Star Business Finance Limited (“Five Star”) 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 and all of their loans are secured by their borrowers’ property, predominantly being SORP.

Among their compared peers (being NBFCs in India):

- Within a subset of large peers (with more than ₹ 3,000 crore in Gross Term Loans), they have the fastest Gross Term Loans growth, with a compound annual growth rate (“CAGR”) of 65.0% (Financial Year 2017 to 2021);
- Within a subset of large peers (with more than ₹ 3,000 crore in Gross Term Loans), they had the highest average return on Gross Term Loans of 7.5%, across the period covering Financial Years 2022, 2021 and 2020;
- They are among the 3 best for gross non-performing assets (being Stage 3 Gross Term Loans which are 90+ Days- Past-Due (“DPD”)) as a percentage of Gross Term Loans (they had Stage 3 Gross Term Loans as a percentage of Gross Term Loans of 1.05%) as of March 31, 2022, while they have the best asset quality among lenders identified by CRISIL as engaged in extending MSME business loans, with other lenders reporting 90+ DPD more than 2%.

Over 95% of their loan portfolio comprises loans from between ₹0.1 million to ₹1 million in principal amount, with an average ticket size (“ATS” and calculated as the average disbursed sum per customer during the period/year) of ₹0.29 million, ₹0.27 million, ₹0.28 million and ₹0.26 million and ₹0.31 million in the 3 months ended June 30, 2022 and June 30, 2021, and the Financial Years 2022, 2021 and 2020, respectively.

During the 3 months ended June 30, 2022 and June 30, 2021 and the Financial Years 2022, 2021, 2020, they have provided loans to more than 205,000 customers in total.

They had an active loan base of 230,175 and 217,745 as of June 30, 2022 and March 31, 2021, respectively.

The Gross Term Loans has grown to ₹5,296.54 crore as of June 30, 2022 (₹5,067.08 crore as of March 31, 2022), from ₹1,008.26 crore as of March 31, 2018, at a CAGR of 49.73% between March 31, 2018 and March 31, 2022.

The profit for the period / year for the 3 months ended June 30, 2022 and June 30, 2021, and for the Financial Years 2022, 2021 and 2020 was ₹139.43 crore, ₹101.57 crore, ₹453.55 crore, ₹358.99 crore and ₹261.95 crore, respectively,

The Total Equity as of the end of the same period/years was ₹3,856.98 crore, ₹2,944.41 crore, ₹3,710.35 crore, ₹2,318.17 crore and ₹1,944.58 crore, respectively.

The company has 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.

Five Star primarily offers their customers small loans such as:

	As of June 30,				As of / for the Financial Year					
	2022		2021		2022		2020		2019	
	Amount (₹ Cr)	% of GTL	Amount (₹ Cr)	% of GTL	Amount (₹ Cr)	% of GTL	Amount (₹ Cr)	% of GTL	Amount (₹ Cr)	% of GTL
small loans for business purposes	3,290.31	62.12%	2,876.93	62.85%	3163.47	62.43%	2,793.45	62.84%	2,447.77	62.89%
loans for asset creation*	2,006.23	37.88%	1,700.58	37.15%	1903.59	37.57%	1,651.93	37.16%	1,444.46	37.11%
<b>Total</b>	<b>5,296.54</b>	<b>100.00%</b>	<b>4,577.51</b>	<b>100.00%</b>	<b>5067.06</b>	<b>100.00</b>	<b>4,445.38</b>	<b>100.00%</b>	<b>3,892.23</b>	<b>100.00%</b>

GTL= Gross Term Loans

\* Loan for home renovation or improvement, or for meeting expenses for significant economic events such as marriage, healthcare and education.

Company's growth is primarily volume led through increasing their customer base while keeping the ATS stable, and they expect this to continue. The interest rates on their loans depend on the underlying tenor (which ranges from 2 to 7 years), with approximately 95% of the loans sanctioned being between the interest rate range of 24% to 26% and between the tenure range of 5 to 7 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.

Five Star target customers:

- In urban and semi-urban locations, as well as in the rural markets of India, where the faster growth in bank credit activity as financial awareness increases;
- 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; and
- Whose family will act as co-applicants on the loan.

These customers have unencumbered title to the collateral, are reasonably resistant to business cycles and macro events, and are typically more motivated to service the loan without defaults primarily as a result of high customer equity in the collateral property.

Five Star had an extensive network of 311 branches as of June 30, 2022, spread across approximately 150 districts, 8 states and 1 union territory, with Tamil Nadu, Andhra Pradesh, Telangana and Karnataka being their key states. Such key states collectively accounted for approximately 85% of their branch network by number, as of June 30, 2022. They started their operations in Chennai, Tamil Nadu and have increased the scale of their operations through growth in number of branches by adopting a calibrated strategy of contiguous expansion across geographies where there is substantial demand for their offering. Such contiguous expansion is underpinned by utilizing neighbouring branches to evaluate local credit environments combined with their focus on hiring local staff with an understanding of the catchment area, strong local personal and professional networks and the market. As of June 30, 2022, approximately 95% of their branches were located in cities and towns with populations up to 1 million.

The company has leveraged established processes and technology in many of their business processes and reduced the turnaround time from login to loan sanction from an average of 20 days for loans sanctioned in Financial Year 2018 to 17 days, and 15 days in Financial Year 2019, and 2020 respectively.

The company secure 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 international development financial institutions, as applicable to meet their capital requirements.

As of June 30, 2022 and March 31, 2022, their Total Borrowings were ₹2,520.32 crore and ₹2,558.83 crore, respectively. The Average Cost of Borrowings was 12.07% as of March 31, 2020, 11.48% as of March 31, 2021, 10.51% as of March 31, 2022, 10.68% as of June 30, 2021 and 10.53% as of June 30, 2022.

As of June 30, 2022, June 30, 2021, March 31, 2022, March 31, 2021 and March 31, 2020, the weighted average residual tenure of the outstanding borrowings, was 29.78 months, 30.16 months, 29.15 months, 34.23 months and 37.44 months, respectively. Further, their long-term ratings from ICRA and CARE is A+. Their short-term borrowings are rated A1+ by CARE.

As of June 30, 2021, they had a total of 6,077 employees. They have a strong, experienced and dedicated management team, including KMP. Further, their board of directors is comprised of a balanced team of qualified and experienced independent directors, who have extensive knowledge and understanding of the financial services and banking industries. They are backed by marquee institutional investors such as **TPG Capital, Sequoia Capital, Matrix Partners, Norwest Venture Partners, KKR and TVS Capital Funds Ltd.** In addition to providing them with capital, their institutional shareholders have assisted them in strengthening their corporate governance framework, which has been critical to their growth. In addition, given their focus on providing credit facilities to customers who are largely ignored by the formal credit ecosystem in India, **KKR has invested through Sirius II Pte. Ltd.**, their Global Impact Fund, which is dedicated to investment opportunities in companies whose core business models provide commercial solutions to an environmental or social challenge.

## KEY FINANCIAL AND OPERATIONAL METRICS

### Return on Equity and Assets

(₹ in Crore, except percentages)

	As of / for the 3 months ended June 30,		As of / for the Financial Year		
	2022	2021	2022	2021	2020
Total Assets	6,471.55	6,129.10	6,343.07	5,793.61	4,353.15
Average Total Assets	6,483.57	6,193.35	6,333.02	5,132.60	3,583.58
Gross Term Loans	5,296.54	4,577.51	5,067.08	4,445.38	3,892.23
Average Gross Term Loans	5,174.98	4,550.30	4,687.51	3,994.04	2,870.86
Average Net Worth	3,782.12	2,764.58	3,273.22	2,130.19	1,706.07
Total Borrowings	2,520.32	3,121.22	2,558.83	3,425.20	2,363.69
Average Total Borrowings	2,448.73	3,226.71	2,837.96	2,840.92	1,781.43
Return on Total Assets	8.63%	6.58%	7.16%	6.99%	7.31%
Return on Equity	14.79%	14.74%	13.86%	16.85%	15.35%

### Financial Ratios

(₹ in Crore, except percentages)

	For the 3 months ended June 30,		For the Financial Year		
	2022	2021	2022	2021	2020
Gross Term Loans	5,296.54	4,577.51	5,067.08	4,445.38	3,892.23
Gross Term Loans Growth	4.53%	2.97%	13.99%	14.21%	84.22%
Average Gross Term Loans	5,174.98	4,550.30	4,687.51	3,994.04	2,870.86
Securitized asset	391.09	746.11	484.01	818.16	333.96
Total Assets	6,471.55	6,129.10	6,343.07	5,793.61	4,353.15
Disbursements	568.43	333.16	1,756.24	1,245.05	2,408.67
Live Accounts (including securitized loans)	230,175	184,479	217,745	176,467	143,079
Total Revenue from Operations	337.97	300.52	1,254.06	1,049.74	786.72
Other Income	1.09	024	2.11	1.51	0.63

	For the 3 months ended June 30,		For the Financial Year		
	2022	2021	2022	2021	2020
Total Income	339.06	300.76	1,256.17	1,051.26	787.35
Finance Costs	64.80	86.41	300.60	325.19	216.94
Fee expenses	-	-	-	2.67	0.43
Interest on lease liability	0.53	0.47	2.20	1.80	1.68
Interest on current tax liability	-	-	-	-	0.72
Adjusted Finance Costs	64.27	85.94	298.40	326.06	214.97
Operating Expenses	89.04	62.92	308.04	213.57	173.74
Operating Expenses to Average Total Assets	5.51%	4.07%	4.86%	4.16%	4.85%
Impairment on Financial Instruments	(0.41)	16.54	45.52	35.18	49.34
Impairment Loss Allowance to Average Total Assets	(0.03)%	1.07%	0.72%	0.69%	1.38%
Total Expenses	152.90	165.40	651.96	574.82	438.05
Operating Expenses to Net Income	32.40%	29.29%	32.16%	29.45%	30.35%
Cost to income ratio	32.25%	36.99%	36.91%	34.30%	38.97%
Stage 3 Assets	59.14	74.86	53.05	45.19	53.23
Stage 3 Assets to Gross Term Loans	1.12%	1.64%	1.05%	1.02%	1.37%
Impairment Loss Allowance on Stage 3 Assets	23.19	27.81	18.51	8.12	9.42
Stage 3 Assets (net)	35.94	47.04	34.54	37.07	43.81
Stage 3 Assets (net) to Gross Term Loans	0.68%	1.03%	0.68%	0.83%	1.13%
Provision Coverage Ratio – Stage 3 Assets	39.22%	37.15%	34.89%	17.97%	17.70%
Gross Term Loans / Net Worth	1.37	1.55	1.37	1.92	2.00
Average Gross Term Loans / Average Net Worth	1.37	1.65	1.43	1.87	1.68
Net Loan Assets	5,273.34	4,549.70	5,048.57	4,437.26	3,882.81

### Return Ratios

(₹ in Crore, except percentages)

	For the 3 months ended June 30,		For the Financial Year		
	2022	2021	2022	2021	2020
Revenue from Operations to Average Gross Term Loans	26.20%	26.49%	26.75%	26.28%	27.40%
Other Income to Average Gross Term Loans	0.08%	0.02%	0.04%	0.04%	0.02%
Total Revenue to Average Gross Term Loans	26.28%	26.51%	26.80%	26.32%	27.43%
Finance cost to Average Gross Term Loans	4.98%	7.58%	6.37%	8.16%	7.49%
Interest Margin to Average Gross Term Loans	19.17%	16.63%	17.68%	16.00%	16.69%
Operating Expenses to Average Gross Term Loans	6.90%	5.55%	6.57%	5.35%	6.05%
Impairment Loss Allowance to Average Gross Term Loans	(0.03)%	1.46%	0.97%	0.88%	1.72%
PBT to Average Gross Term Loans	14.43%	11.93%	12.89%	11.93%	12.17%
PAT to Average Gross Term Loans	10.81%	8.95%	9.68%	8.99%	9.12%
PAT to Average Net Worth	14.79%	14.74%	13.86%	16.85%	15.35%

### Yields, Spreads and Margins

(₹ in Crore, except percentages)

	For the 3 months ended June 30,		For the Financial Year		
	2022	2021	2022	2021	2020
Interest Income	335.22	290.23	1,203.77	1,014.88	746.83
Adjusted Interest Income	311.57	274.58	1,127.36	965.16	694.14
Finance Costs	64.80	86.41	300.60	325.19	216.94



	For the 3 months ended June 30,		For the Financial Year		
	2022	2021	2022	2021	2020
Fee expenses	-	-	-	2.67	0.43
Interest on lease liability	0.53	0.47	2.20	1.80	1.68
Interest on current tax liability	-	-	-	-	0.72
Adjusted Finance Costs	64.27	85.94	298.40	326.06	214.97
Total Interest-earning Assets	6,408.73	6,061.92	6,266.74	5,477.44	4,212.22
Average Interest-earning Assets	6,321.39	5,967.62	6,149.01	4,841.85	3,412.53
Average Total Assets	6,483.57	6,193.35	6,333.02	5,132.60	3,583.58
Average Interest-bearing liabilities	2,448.73	3,226.71	2,837.96	2,840.92	1,781.43
Total Income	339.06	300.76	1,256.17	1,051.26	787.35
Net Interest Income	247.30	188.63	828.96	639.10	479.17
Average yield on Gross Term Loans	24.15%	24.20%	24.05%	24.17%	24.18%
Average Cost of Borrowings	10.53%	10.68%	10.51%	11.48%	12.07%
Spread	13.62%	13.52%	13.54%	12.69%	12.11%
Net Interest Margin	19.17%	16.63%	17.68%	16.00%	16.69%
Average Yield on Disbursements	24.76%	24.77%	24.77%	24.75%	24.82%
Incremental Cost of Borrowings	8.42%	0.00%	8.51%	9.68%	11.37%
Fresh Borrowings during the year	215.00	-	315.41	2,361.79	15781.66

#### Disbursement Metrics

	For the 3 months ended June 30,		For the Financial Year					
	2022	2021	2022	2021	2020	2019	2018	2017
Number of Loans Disbursed	19,793	12,236	63,633	48,111	76,634	43,988	19,257	9,611
Amount Disbursed (₹ in Cr)	568.43	333.16	1,756.24	1,245.05	2408.67	1,481.46	683.80	373.05
Average Ticket Size (₹ in Million)	0.29	0.27	0.28	0.26	0.31	0.34	0.36	0.39

#### Productivity Ratios

	As of June 30,		As of March 31,		
	2022	2021	2022	2021	2020
Number of branches	311	263	300	262	252
Number of Business Officers	2,550	2,046	2,467	2,008	1,834
Number of Collections Officers	874	-	709	-	-
Number of on-roll employees	6,077	3,986	5,675	3,938	3,734
Average number of Business Officers per branch	8.20	7.78	8.22	7.66	7.28
Live Accounts (including securitized accounts)	230,175	184,479	217,745	176,467	143,079
Gross Term Loans per branch (₹ in Cr)	17.03	17.41	16.89	16.97	15.45
Gross Term Loans per Business Officer (₹ in Cr)	2.08	2.24	2.05	2.21	2.12
Gross Term Loans per employee (₹ in Cr)	0.87	1.15	0.89	1.13	1.04
Disbursement per branch (₹ in Cr)	1.87	1.27	6.43	4.81	11.20
Disbursement per Business Officer (₹ in Cr)	0.23	0.17	0.79	0.65	1.68
Disbursement per employee (₹ in Cr)	0.10	0.08	0.39	0.33	0.85
Live Accounts per branch	740	701	726	674	568
Live Accounts per Business Officer	90	90	88	88	78
Live Accounts per employee	38	46	38	45	38

#### Capital Adequacy

(₹ in Crore, except percentages)

Particulars	As of June 30,		As of March 31,		
	2022	2021	2022	2021	2020

Tier I Capital	3,479.59	2,558.02	3,358.15	1,966.90	1,847.77
Tier II Capital	-	-	-	-	-
<b>Total Capital</b>	<b>3,479.59</b>	<b>2,558.02</b>	<b>3,358.15</b>	<b>1,966.90</b>	<b>1,847.77</b>
<b>Risk Weighted Assets</b>	<b>4,975.57</b>	<b>3,754.63</b>	<b>4,465.86</b>	<b>3,341.64</b>	<b>3,490.15</b>
<b>Capital Adequacy Ratio (CRAR)</b>	<b>69.93%</b>	<b>68.13%</b>	<b>75.20%</b>	<b>58.86%</b>	<b>52.94%</b>
CRAR- Tier I Capital	69.93%	68.13%	75.20%	58.86%	52.94%
CRAR -Tier II Capital	-	-	-	-	-
<b>Total Borrowings to Total Equity Ratio (multiple)</b>	<b>0.65</b>	<b>1.06</b>	<b>0.69</b>	<b>1.48</b>	<b>1.22</b>

## REVENUE FROM OPERATIONS

Particulars	(₹ in Crore)				
	For the 3 months ended June 30,		For the year ended March 31,		
	2022	2021	2022	2021	2020
<b>Revenue from Operations</b>					
- Interest Income	335.22	290.23	1,203.77	1,014.88	746.83
- Fee Income	1.23	4.28	29.40	21.68	29.71
- Net gain on fair value Changes	1.52	6.01	20.90	13.19	10.18
<b>Total Revenue from operations</b>	<b>337.97</b>	<b>300.52</b>	<b>1,254.06</b>	<b>1,049.74</b>	<b>786.72</b>

## COMPETITIVE STRENGTHS

- ***Fastest Gross Term Loans growth among the compared peers with more than ₹3,000 crore in Gross Term loans, with strong return and growth metrics and a significant potential addressable market***

Five Star has the fastest Gross Term Loans growth among their compared peers (being NBFCs in India) with more than ₹3,000 crore in Gross Term Loans, with a CAGR of 65% (Financial Year 2017 to 6 months ended September 30, 2021), catering to the small business finance needs of unserved and underserved customers. While their Gross Term Loans has grown to ₹5,067.08 crore as of March 31, 2022, from ₹1,008.26 crore as of March 31, 2018, at a CAGR of 49.73% (between March 31, 2018, and March 31, 2022), their growth has primarily been volume led with consistent ATS and steady yields. The ATS of their loans in the 3 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.

Over the last 2 decades of operations in this particular product their success and growth are an outcome of their customer centric business model, where through their practices and policies, they can address specific issues faced by small business owners and self-employed individuals and leverage their local presence to develop detailed and relevant local level knowledge. They are able to identify local level opportunities, ensure careful customer selection, timely loan approval disbursements and efficient real time monitoring of collections.

- ***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***

Five Star has an underwriting model to provide secured financial solutions to small business owners and self-employed individuals and over the last 2 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 the 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.

- ***Strong "on-ground" collections infrastructure leading to the ability to maintain a robust asset quality***



While company's underwriting model contributes to suitable customers being onboarded, they have also created a strong "on-ground" collections infrastructure to ensure that they maintain a high asset quality. 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 incentivised 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.

They also have a strong monitoring mechanism that ensures involvement and intervention from various individuals across their business, all of which also ensures a robust asset quality.

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

Since starting as a Chennai based NBFC, the company has demonstrated their ability to grow beyond their local market. Between Financial Year 2015 and Financial Year 2018, they started to expand in the states of Andhra Pradesh, Telangana and Karnataka, growing from 3 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.

The company has expanded into Madhya Pradesh, Chhattisgarh, Maharashtra and Uttar Pradesh. Collectively, these 4 states accounted for 5.48% of their total Gross Term Loans with 46 branches as of June 30, 2022.

Andhra Pradesh, Karnataka and Uttar Pradesh, have significant potential for growth given relatively low credit penetration and recent strong economic growth. The company has adopted 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.

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

Catering primarily to small business owners and self-employed customers while maintaining asset quality requires a special skillset in absence of traditional income evidence. 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.

They ensure that all of their loans are sourced in-house, either through their branch-led local marketing efforts, 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. In addition, self-employed customers are prone to variable cash-flows and lending to them requires robust underwriting systems to appropriately price the risk. Their credit team is independent of their 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.

The company had a 4,381 members business and collections team including 3,424 Business officers and Collection Officers catering to 230,175 loan accounts as of June 30, 2022. The organizational structure is such that almost all of their business and collections team members are also responsible for collections. Their risk management framework includes a comprehensive audit mechanism of internal audits performed at a corporate level on a quarterly basis, regular branch level audits and management audits, which cover specific risk-based assignments.

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

The company has 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.

- ***Experienced, cycle-tested leadership with a longstanding promoter, professional management team and supported by marquee investors***

The company is led by qualified and experienced management personnel, who are supported by a capable and motivated team of managers and other employees. Their management team has knowledge and understanding of the small business finance landscape in India and the expertise and vision to organically grow their business. They also have diverse experience in a range of financial products and functions related to their business and operations and are supported by qualified personnel who have an in-depth understanding of the geographic regions in which they operate, their loan products and customer segment as a result of their focus on hiring local staff with strong local personal and professional networks.

Company's founder, Promoter, and Chairman and Managing Director, Lakshmipathy Deenadayalan, has been associated with Five Star for the past 20 years. They have a deep understanding of customer behaviour and their business and operations, and have been critical to developing and enhancing their business model and driving their total income and profitability. Further, their field teams (business and collections, and credit) and their file credit teams have an in-depth understanding of their customer segment, loan products, types of collateral and businesses of their borrowers.

Company's Shareholders include marquee investors, including affiliates of **TPG Capital, Sequoia Capital, Matrix Partners, Norwest Venture Partners, KKR and TVS Capital Funds Ltd**. They, along with their senior management, have been instrumental in formulating and executing their core strategies and implementing their corporate governance framework, which has been and will continue to be critical to the growth of their business.

## **KEY BUSINESS STRATEGIES**

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

Company's operations have historically focused on the south Indian states of Tamil Nadu, Andhra Pradesh, Karnataka and Telangana. Such states contribute significantly to their Gross term Loans and they intend to continue to expand in these states in a contiguous manner, to drive greater and deeper penetration. Their 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 their presence in their 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. They are constantly evaluating additional locations using their criteria and expect to continue to add branches to grow out network in the near term.

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

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, Five Star has customers who are first time borrowers from the formal secured lending ecosystem. As of June 30, 2022, they had 30.42% of customers who were new to credit while the remaining customers were sanctioned higher ticket loans with higher tenors than they had availed earlier. Company's 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 the borrowing costs, reduce operating expenses further and continue to expand and diversify the lender base***

Company's Average Cost of Borrowings has steady decline over the last 3 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 their funding sources to ensure that their debt capital requirements are met at optimal costs.

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 their asset and liability management to ensure that they continue to have a positive asset-liability position.

- ***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***

The company has made strategic investments in their 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 ₹24.60 crore in their information technology systems. The adoption of such digital service delivery mechanisms has and will continue to enable them to be more efficient, customer friendly and over time improve cost efficiencies through automation.

- ***Focus on Enhancing the Risk Management Framework***

Company's 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, improving the credit scoring models and algorithms that they have currently deployed, improving their collection techniques and their 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 behavioural and other trends of their customers and use those to strengthen their credit assessment framework.

Company's 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.

- ***Enhance the Brand Recall to Attract New Customers***

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.

## **COMPETITION**

The small business finance industry in India is highly competitive. They face competition from other NBFCs as well as scheduled commercial banks. In addition to NBFCs and banks, the competition from unorganized small market participants who are prevalent in semi-urban and urban landscapes, local money lenders in urban areas, and small finance banks which are also focused on lending to low and middle-income segments and micro, small and medium enterprises and unorganized money-lenders.

The company generally compete on the basis of their product offerings and ticket sizes, reach of branches, turnaround time and simple, transparent and efficient loan process, as well as trained and skilled employee base, with their competitors. Their competitors include **Shriram City Union Finance Ltd, Vistaar Financial Services Pvt Ltd, Veritas Financial and Management Services Pvt Ltd, Aye Finance, Lendingkart Technologies Pvt Ltd, Digikredit Finance Pvt Ltd and AU Small Finance Bank, Aavas Financiers Ltd, Home First Finance Co India and Aptus Value Housing Finance India.**

## INDUSTRY OVERVIEW

Five Star Business is one of the fastest growing NBFCs among the compared peers

AUM (₹ Cr)	CAGR (FY18-22)	FY22	FY21	FY20	FY19	FY18
AU Small Finance Bank	30%	16,500	14,300	11,300	8,600	5,800
Shriram City Union Finance	(1)%	14,700	15,100	16,600	17,700	15,500
Aavas Financiers	29%	11,300	9,500	7,800	5,900	4,100
Five Star Business	50%	5,100	4,400	3,900	2,100	1,000
Home First Finance	41%	5,400	4,100	3,600	2,400	1,400
Aptus Value Housing	38%	5,200	4,100	3,200	2,200	1,400
Lendingkart	63%	3,300	2,500	2,400	1,400	500
Vistaar Finance	17%	2,400	2,100	1,900	1,400	1,300
Veritas Finance	60%	2,200	1,600	1,300	700	300
Aye Finance	34%	1,500	1,600	1,800	1,000	500
Digikredit Finance	128%	500	500	400	200	-

Trend of Yield on advances and NIMs of players

	Yield on advances (%)				NIMs (%)			
	Average (FY20-22)	FY22	FY21	FY20	Average (FY20-22)	FY22	FY21	FY20
AU Small Finance Bank	12.9%	12.1%	12.8%	13.7%	5.2%	5.4%	5.0%	5.1%
Shriram City Union Finance	20.5%	20.5%	20.1%	20.9%	10.7%	9.9%	10.5%	11.8%
Aavas Financiers	13.2%	12.8%	13.1%	13.5%	6.4%	6.5%	6.2%	6.5%
Five Star Business	24.4%	24.7%	24.3%	24.2%	14.8%	14.9%	13.6%	15.8%
Home First Finance	12.9%	12.5%	12.8%	13.3%	5.6%	6.2%	5.3%	5.4%
Aptus Value Housing	17.3%	17.2%	17.2%	17.6%	9.6%	11.4%	10.2%	7.3%
Lendingkart	26.0%	29.6%	23.7%	24.7%	13.4%	14.5%	12.2%	13.3%
Vistaar Finance	19.5%	18.6%	19.2%	20.7%	10.6%	9.5%	10.0%	12.2%
Veritas Finance	23.6%	22.4%	23.4%	24.9%	11.4%	12.3%	11.3%	10.5%
Aye Finance	27.6%	25.3%	29.0%	28.5%	12.9%	11.6%	12.0%	15.2%
Digikredit Finance	28.3%	31.7%	24.6%	28.6%	8.8%	11.5%	7.8%	7.1%

Trend of Net Profit Margin, Return of Assets and Return of Equity of players

	Net Profit Margin (%)				ROA (%)				ROE (%)			
	Average (FY20-22)	FY22	FY21	FY20	Average (FY20-22)	FY22	FY21	FY20	Average (FY20-22)	FY22	FY21	FY20
AU Small Finance Bank	16%	16%	18%	14%	2.1%	1.9%	2.5%	1.8%	18.8%	16.4%	22.0%	17.9%
Shriram City Union Finance	17%	17%	18%	17%	3.1%	2.9%	3.1%	3.3%	13.5%	12.7%	13.2%	14.7%
Aavas Financiers	27%	27%	26%	28%	3.6%	3.6%	3.5%	3.8%	13.1%	13.7%	12.9%	12.7%
Five Star Business	35%	36%	34%	33%	7.5%	7.5%	7.1%	7.8%	15.9%	15.0%	16.8%	15.8%
Home First Finance	24%	31%	20%	19%	3.0%	3.9%	2.5%	2.7%	10.7%	12.6%	8.6%	10.9%
Aptus Value Housing	41%	44%	39%	40%	6.3%	7.3%	6.5%	5.1%	15.7%	15.1%	14.5%	17.5%
Lendingkart	(4)%	(22)%	4%	6%	(1.2)%	(5.5)%	0.7%	1.5%	(4.6)%	(21.1)%	2.5%	4.9%
Vistaar Finance	15%	17%	16%	12%	2.8%	2.9%	3.0%	2.5%	9.0%	10.0%	9.6%	7.3%
Veritas Finance	15%	17%	17%	12%	2.8%	3.1%	3.1%	2.3%	6.4%	6.6%	7.3%	5.3%
Aye Finance	0%	(10)%	3%	8%	0.2%	(2.1)%	0.8%	2.0%	1.0%	(6.3)%	2.7%	6.5%
Digikredit Finance	(77)%	(63)%	(86)%	(83)%	(18.4)%	(17.6)%	(18.3)%	(19.2)%	(47.7)%	(64.5)%	47.6)%	(30.8)%

**COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31<sup>ST</sup> MARCH 2022)**

Name of the Bank	Consolidated/ Standalone	Face Value	Closing Price#	Total Income for FY 2021 (₹ Cr)	EPS		NAV	P/E	P/B	RoNW (%)
					Basic	Diluted				
Five-Star Business Finance Ltd	<b>Standalone</b>	<b>1</b>	<b>NA</b>	<b>1,256.17</b>	<b>16.09</b>	<b>15.92</b>	<b>127.35</b>	<b>[ • ]</b>	<b>[ • ]</b>	<b>13.86%</b>
Aavas Financiers Ltd	Consolidated	10	2062.30	1,305.65	44.81	44.81	355.53	46.02	5.80	12.66%
Aptus Value Housing Finance Ltd	Consolidated	2	326.00	840.22	7.53	7.53	58.68	43.29	5.56	12.69%
AU Small Finance Bank Ltd	Consolidated	10	592.25	6,915.43	18.03	17.85	119.31	33.19	4.96	15.04%

Source: RHP; The Basic EPS for AU Small Finance Bank Ltd has been adjusted for the bonus issue allotment in 1:1 ratio on June 12, 2022.

\*P/E Ratio and P/B has been computed based on the closing market price of the equity shares (NSE) on Marcy 28, 2022.

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