



Nov 7, 2022

# FIVE-STAR BUSINESS FINANCE LTD. IPO

*An NBFC providing secured business loans to micro-entrepreneurs and self-employed individuals, Five-Star Business Finance Ltd said it will launch its initial public offer (IPO) on Nov 9, 2022. The offer will close on Nov 11, 2022 and the company has fixed the price band at ₹450-₹474 per equity share.*

Rating: **Subscribe**

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## Company's Overview

- Five Star Business Finance Limited is an NBFC (Non-Banking Finance Company) providing secured business loans to micro-entrepreneurs and self-employed individuals.
- The company has 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 the key states.
- Five Star Business Finance Limited has created a business model based on identifying an appropriate risk framework and the ideal instalment-to-income ratio to make sure that customers have the resources to repay the loan after meeting their regular obligations and other event-based capital requirements.
- The company is headquartered in Chennai, Tamil Nadu with a strong presence in south India. As of September 30, 2021, the company had a total of 4,306 employees.
- The company has provided loans to more than 185,000 customers in total. They had an active loan base of 230,175 and 217,745 as of June 30, 2022, and March 31, 2022, respectively.
- Over 95% of their loan portfolio comprises loans from between ₹0.1 mn to ₹1 mn in principal amount, with an average ticket size of ₹0.29 mn and ₹0.28 mn in the 3 months ended June 30, 2022, and FY 2022, respectively.
- With more than 30,000 mn in AUM, the company has the fastest AUM growth among the compared peers. As of June 30, 2022, and March 31, 2022, the Total Borrowings were Rs 25,203.19 mn and Rs 25,588.31 mn, respectively.

## Valuations

- Considering the TTM (Jun-22) BVPS of Rs.132.4 on a post issue basis, the company is going to list at a P/B of 3.6x with a market cap of Rs.138,108 mn whereas its peers namely Aavas Financiers Ltd and Apts Value Housing Finance Ltd are trading at P/B of 4.9x and 5.5x respectively.
- We assign "Subscribe" rating to this IPO as the company has demonstrated fastest gross term loans growth among the compared peers while maintaining the strong asset quality. Also, it is available at reasonable valuation as compared to its peers.

## Financial Snapshot

Particulars (in millions)	FY22	FY21	FY20
Interest Earned	12,038	10,149	7,468
Interest Expended	3,006	3,252	2,169
Net Interest Income	9,032	6,897	5,299
Other Income	524	364	405
Total Income	9,556	7,261	5,704
Operating Expenses	3,058	2,144	1,718
Pre Provision Profits	6,497	5,116	3,986
Provisions & Contingencies	455	352	493
Tax	1,507	1,174	874
PAT	4,535	3,590	2,620
BVPS	127	85	72

<b>Issue Open</b>	Nov 9, 2022, Wed
<b>Issue Close</b>	Nov 11, 2022, Fri
<b>Issue Type</b>	Book Built Issue IPO
<b>Issue Size</b>	<b>Fresh Issue:</b> Nil <b>OFS:</b> 41.35 mn Eq Shares (₹19,600.05 mn)
<b>Face Value</b>	₹1
<b>Issue Price Band</b>	₹450-₹474
<b>Listing at</b>	NSE, BSE
<b>Minimum Lot Size</b>	31 shares

### Objects of the Issue

- To carry out the Offer for Sale
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges

### Issue Break-Up

Category	No of shares (Mn)	In Million	% of issue
<b>QIB</b>	20.68	9,800.03	50.00%
<b>NIB</b>	6.20	2,940.01	15.00%
<b>Retail</b>	14.47	6,860.02	35.00%
<b>Total</b>	41.35	19,600.05	100.00%

### Shareholding Pattern

	Pre- Issue	Post- Issue
<b>Promoters and Promoters' Group</b>	40.07%	33.65%
<b>Public</b>	59.93%	66.35%
<b>Total</b>	100.00%	100.00%

### Capital Structure

Particulars	Aggregate value
<b>Authorized Equity Share Capital</b>	550.00 mn
<b>Paid -Up Capital (Pre-Offer)</b>	291.37 mn
<b>Paid- Up Capital (Post-Offer)</b>	291.37 mn



## Competitive Strengths

- Fastest Gross Term Loans growth among compared peers with more than ₹30,000 million in Gross Term Loans, with strong return and growth metrics and a significant potential addressable market
- 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
- Strong “on-ground” collections infrastructure leading to ability to maintain a robust asset quality
- Ability to successfully expand to new underpenetrated geographies through a calibrated expansion strategy
- 100% in-house sourcing, comprehensive credit assessment and robust risk management and collections framework, leading to good asset quality
- Access to diversified and cost-effective long-term financing with a conservative approach to asset liability and liquidity management
- Experienced, cycle-tested leadership with a longstanding promoter, professional management team and supported by marquee investors

## Key Business Strategies

- Increase penetration in existing markets through increasing branch staff numbers, increasing branch network in the existing geographies and diversifying to contiguous markets
- Continue to focus on small business owners and self-employed individuals
- Optimize borrowing costs, reduce operating expenses further and continue to expand and diversify lender base
- 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
- Focus on Enhancing Risk Management Framework
- Enhance Brand Recall to Attract New Customers

## Key Risks

- The company primarily serve customers in the low and middle-income groups with majority of borrowers being small business owners and self-employed individuals and hence there is risk of non-payment or default.
- The operations of the company 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 the business, cash flows and results of operations.

## Peer Comparison:

Company Name	Face Value (₹ Per Share)	Total Income (in ₹ mn)	EPS(₹)	NAV(₹per share)	RoNW(%)
Five-Star Business Finance Ltd	1	12,561.69	15.92	127.35	13.86%
Aavas Financiers Ltd	10	13,056.48	44.81	355.53	12.66%
Aptus Value Housing Finance Ltd	2	8,402.17	7.53	58.68	12.69%
AU Small Finance Bank Ltd	10	69,154.25	17.85	119.31	15.04%

## Promoters and Management Details

Name	Designation
Lakshmipathy Deenadayalan	Chairman and Managing Director
Rangarajan Krishnan	Chief Executive Officer
Srikanth Gopalakrishnan	Chief of Strategy and Finance