

Five Star Business Finance

NBFC | India

IPO | 08 November 2022

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South Based Star Rated NBFC

About the Company

Five Star Business Finance (FSBF) is a NBFC providing secured business loans to micro-entrepreneurs and self-employed individuals. It has headquarter in Chennai, Tamil Nadu with strong presence in south India, with all of its loans are secured by the borrowers' property, predominantly self-occupied residential property. The company is coming out with an IPO of Rs19.6bn comprising fully OFS of 41.4mn shares.

Strong AUM & Loan Growth

FSBF is one of the fastest growing NBFC in India with AUM of Rs50.7bn as of FY22 in the subset of large peers (>Rs30bn gross term loan). FSBF is the fastest growing NBFC in terms of gross term-Loans growth, with a CAGR of 65% during FY17-21. The company is among the top three players in terms of GNPA as of FY22, while it has the best asset quality among lenders identified by CRISIL as engaged in extending MSME business loans, with other lenders reporting 90+ DPD (days past dues) more than 2%.

Extensive Network & Strong Presence in South

As of Jun'22, the company has an extensive network of 311 branches, spread across 8 states and 1 union territory and ~150 districts across India, with Tamil Nadu, Andhra Pradesh, Telangana and Karnataka being the key states. FSBF has created a business model based on identifying an appropriate risk framework and the ideal installment-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.

Stable Average Ticket Size

As of FY22 the company has an active loan-base of 217,745 customers, which increased to 230,175 customers as of Jun'22. Over 95% of the loan portfolio comprises loans between Rs0.1-1mn in principal amount, with an average ticket size of Rs0.28mn, Rs0.26mn and Rs0.31mn in FY22, FY21 and FY20, respectively. Company's growth is primarily volume led through increasing their customer base while keeping the ATS stable. ~95% of the loans disbursed have the interest rate range of 24-26% and the tenure range of 5-7 years.

Financials

The company has a large and diversified mix of 53 lenders comprising a range of public banks, private banks, and financial institutions, as of FY22. FSBF is one of the fastest growing NBFC in India with AUM of Rs50.7bn as of FY22 from Rs44.5bn as of FY21. During FY20-22, its total income clocked 26% CAGR to Rs12.5bn in FY22, while its net profit grew at a CAGR of 32% to Rs4.5bn in FY22. The company reported an average ROE of ~14% over FY20-22. FSBF leveraged its processes and technology to reduce the turnaround time from login to loan sanction from an average of 20 days in FY18 to 17 days, and 15 days in FY19, and FY20 respectively. There has been an increase in the turnaround time during FY21 and FY22 due to onset of COVID-19 and the related periodic disruptions such as the lockdowns. However, during 1QFY23, it reduced the turnaround time on the loans disbursed to 18 days.

Our View

Based on FY22 annualized earnings, the company is valued at 3.7x P/BV. FSBF enjoys a niche place among financiers in the southern regions. **It has posted healthy profitability over the past couple of years. In view of strong growth outlook, extensive distributional network, healthy financials and an experienced management team, we recommend 'SUBSCRIBE' to the issue.**

IPO Details	
Price Band (Rs)	Rs450-474
Face Value (Rs)	1
Issue Open/Closing Date	9-Nov-22/11-Nov-22
Fresh Issues (mn)	-
OFS (mn)	41.4
Total Issue (mn)	41.4
Minimum Bid Qty. (Nos)	31
Issue Size (Rs bn)	19.6
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs bn)	138
<i>*At a higher band</i>	

Object of the Issue	
▶ OFS	

Key Risk	
▶ Disruption in sources of capital.	
▶ Risk of non-payment or default by borrowers.	
▶ Inability to meet obligations, including financial and other covenants under debt financing.	
▶ Downgrade in credit ratings.	
▶ Substantial portion of customers are first time borrowers which increases default risk.	

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	40.1	33.7
Others	59.9	66.4

Key Financials			
(Rs mn)	FY20	FY21	FY22
Total number of employees	3,734	3,938	5,675
Number of Collections Officers	1,834	2,008	2,467
Gross Term Loans per Business Officer	21.22	22.14	20.54
Disbursement per Business Officer	16.79	6.52	7.92
Avg No. of Business Officers per branch	7.28	7.66	8.22
Average Ticket Size	0.31	0.26	0.28
Average Yield on Gross Term Loans (%)	24.2	24.2	24.1
Average Cost of Borrowing (%)	12.1	11.5	10.5
Net Interest Margin (%)	16.7	16.0	17.7
Operating Exp to Avg Total Assets (%)	4.9	4.2	4.9
Cost to Income Ratio (%)	39.0	34.3	36.9
PAT	2,620	3,590	4,535
Net Profit Margin (%)	33.3	34.2	36.1
Profit per employee	0.9	0.9	1.0
Net Worth	19,446	23,182	37,104
Total Borrowings	23,637	34,252	25,588
ROE (%)	15.4	16.9	13.9
Book Value (Rs)	66.7	79.6	127.3
P/BV (x)	7.1	6.0	3.7

Source: RHP

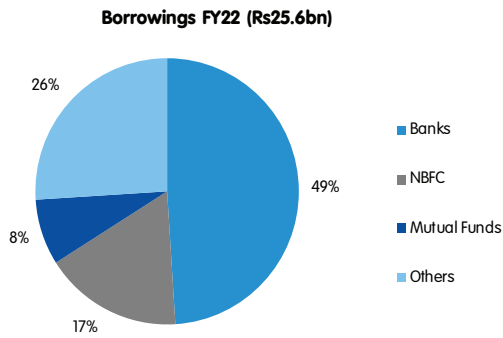
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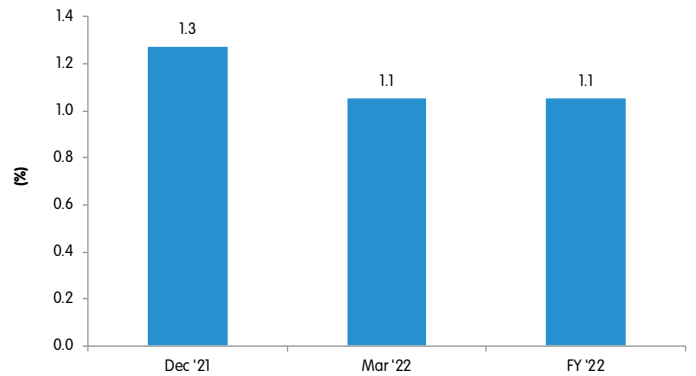
Email : arafat.saiyed@relianceada.com

Exhibit 1: Diversified Sources of Funding



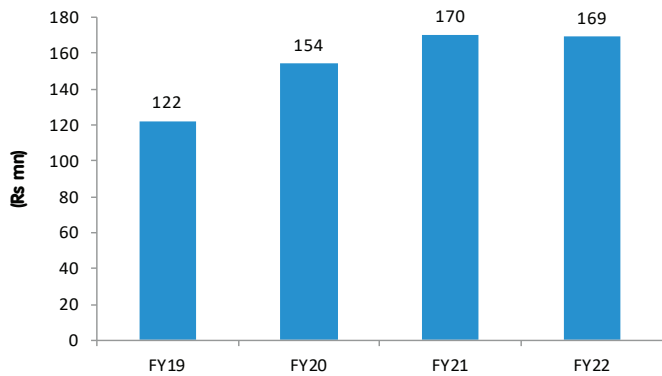
Source: RHP

Exhibit 2: 90+ DPD (Gross)



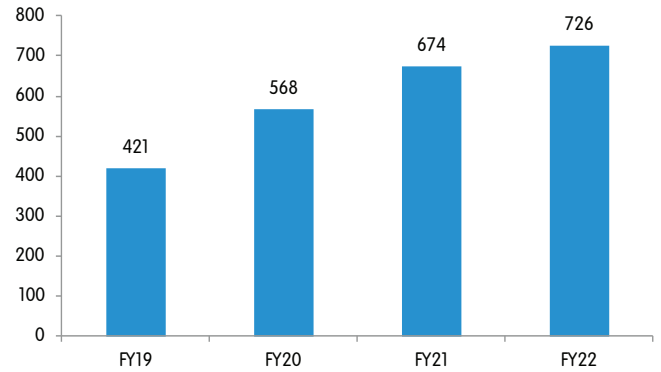
Source: RHP

Exhibit 3: Avg. AUM Per Branch



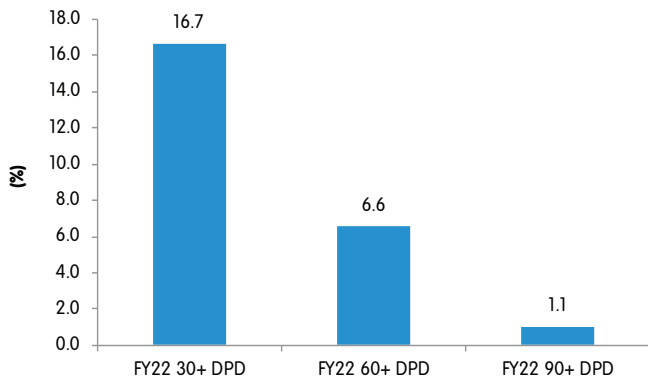
Source: RHP

Exhibit 4: Live Accounts Per Branch (#)



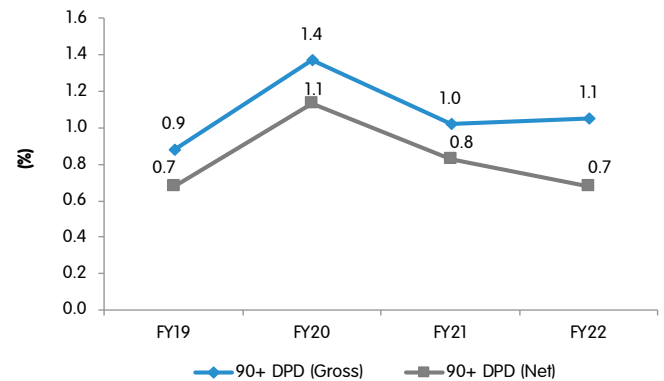
Source: RHP

Exhibit 5: Strong Collections Framework



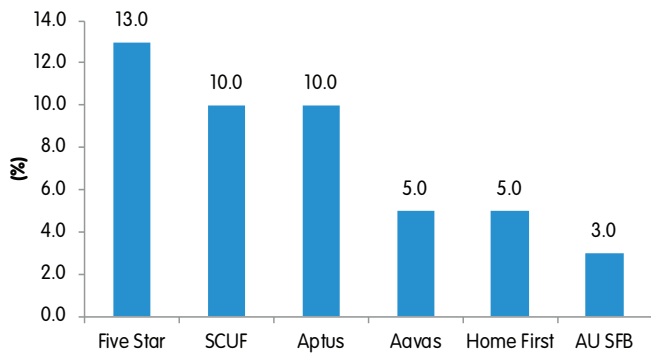
Source: RHP

Exhibit 6: Robust Asset Quality



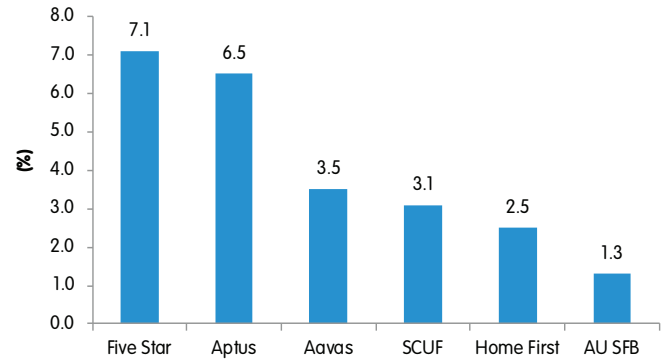
Source: RHP

Exhibit 7: Highest NIM Among Peers



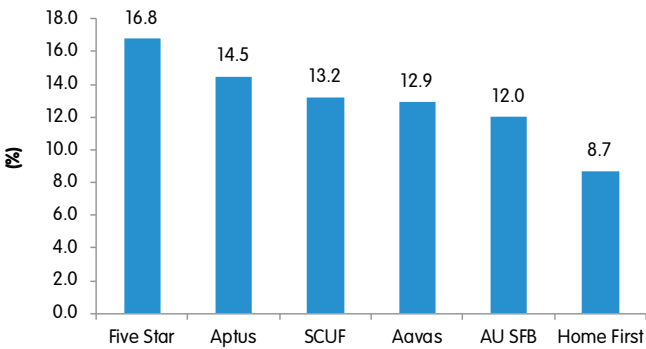
Source: RHP

Exhibit 8: Highest ROA Among Peers



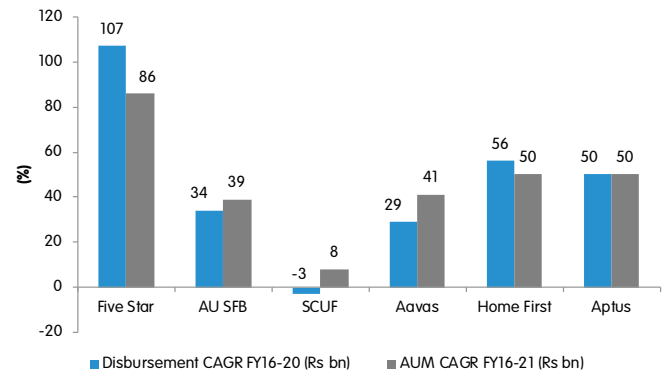
Source: RHP

Exhibit 9: Highest ROE Among Peers



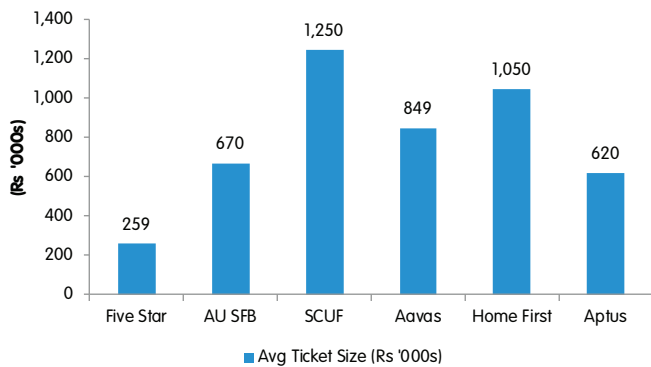
Source: RHP

Exhibit 10: Fastest AUM and Disbursement Growth



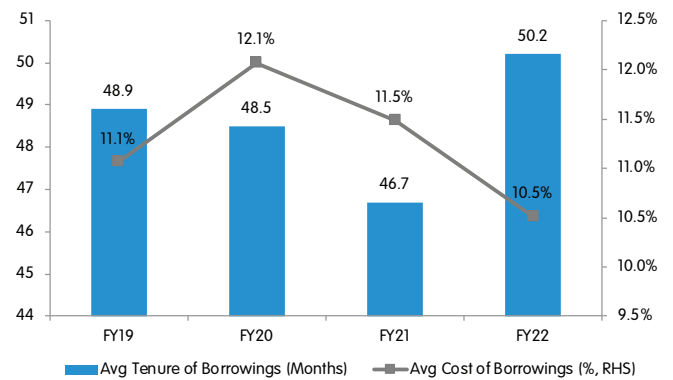
Source: RHP

Exhibit 11: Lowest Ticket Size Among Peers



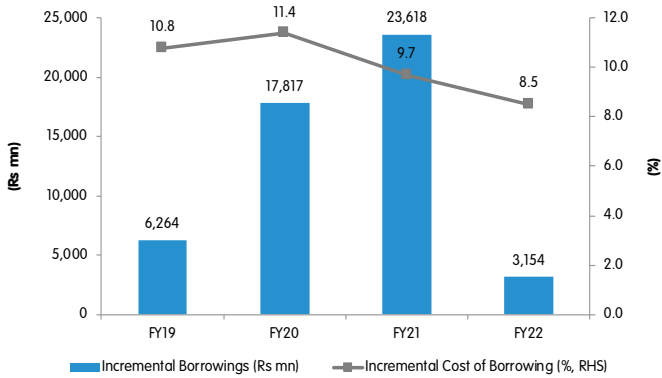
Source: RHP

Exhibit 12: Reducing Funding Cost Even in Times of Uncertainty



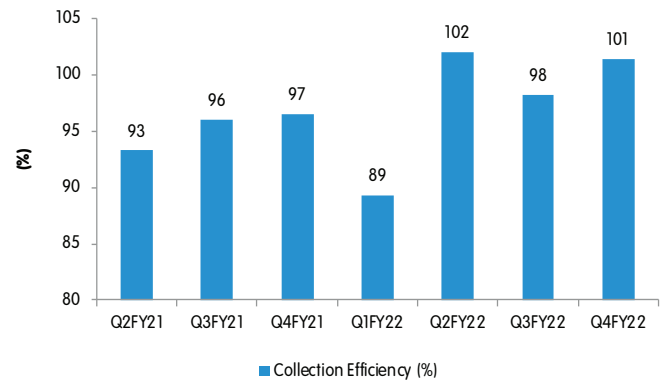
Source: RHP

Exhibit 13: Incremental Borrowing



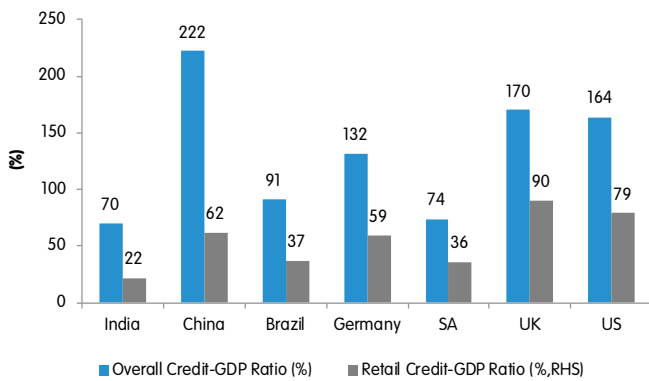
Source: RHP

Exhibit 14: Strong Focus on Collections



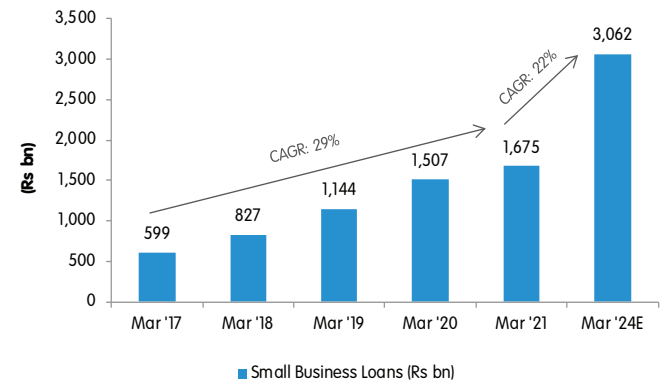
Source: RHP

Exhibit 15: India's Overall and Retail Credit Penetration Remains Lower Than Peers



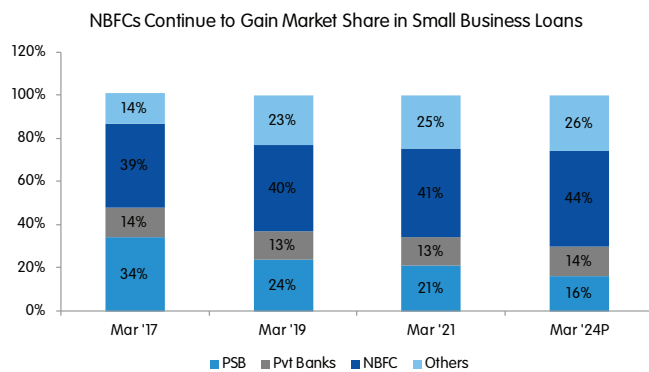
Source: RHP, CRISIL

Exhibit 16: Demand For Small Business Loans to Grow



Source: RHP, CRISIL

Exhibit 17: Market Share in Small Business Loans



Source: RHP, CRISIL

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