

Five Star Business Finance Limited

Incorporated in 1984, Five Star Business Finance Ltd (FSBFL) is an NBFC-ND-SI (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 8 states and 1 UT and approximately 150 districts across India, with Tamil Nadu, Andhra Pradesh, Telangana, and Karnataka being the key states. Company's growth is primarily volume led through increasing their customer base while keeping the ATS stable, and they expect this to continue. 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.

Positives: (a) Fastest Gross Term Loans growth amongst its peers along with strong return metrics (c) Well-positioned to capitalize on industry tail winds (d) Strong "on-ground" collections infrastructure leading to its ability to maintain a robust asset quality

Investment concerns: (a) Substantial portion of company's customers are first time borrowers which increases risks of non-payment or default. (b) Any downturn in economy can impact GNPA/NNPA ratios (c) Any disruption in sources of funding or increase in costs of funding could adversely affect liquidity and financial condition

Outlook & Valuation: In terms of valuations, the post-issue P/B works out to 3.7x FY22 BVPS and P/E of 30.5x FY22 EPS (at upper price band of the IPO). FSBFL has strong NII/PAT growth (CAGR of 31%/32% respectively), healthy advances growth (CAGR of 15%) over 2 years period, strong ROE, and ROA metrics. Going forward, strong tailwinds in banking sector, uptick in credit cycle and strong Q1FY23 results of FSBFL, we believe all the near-term positive factors are priced in the valuation and it is at reasonable levels. Thus, we recommend a **NEUTRAL** rating on the issue. Investors may consider investment from a medium to long term perspective.

Key Financials

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Net Interest Income	530	690	903
% chg		30%	31%
Net profit	262	359	454
% chg		37%	26%
NIM (%)	13.8%	15.8%	17.7%
EPS (₹)	89.9	123.2	155.7
P/E (x)	5.3	3.8	3.0
P/ABV (x)	0.7	0.6	0.4
RoA (%)	6.0%	6.2%	7.2%
RoE (%)	13.5%	15.5%	12.2%

Source: Company RHP, Angel Research

NEUTRAL

Issue Open: November 09, 2022

Issue Close: November 11, 2022

Issue Details

Face Value: ₹1

Present Eq. Paid up Capital: ₹ 29.13cr

Offer for Sale: ₹ 1,960cr

Fresh issue: ₹ 0cr

Post Eq. Paid up Capital: ₹ 29.13cr

Issue size (amount): ₹ 1,960cr

Price Band: ₹450 - ₹474

Lot Size: 31 shares and in multiple thereafter

Post-issue mkt. cap: * ₹13,111cr - ** ₹13,811cr

Promoters holding Pre-Issue: 40.07%

Promoters holding Post-Issue: 33.65%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	33.7%
Public	66.4%

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Company background

Incorporated in 1984, Five Star Business Finance Ltd (FSBFL) is an NBFC-ND-SI (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 8 states and 1 UT and approximately 150 districts across India, with Tamil Nadu, Andhra Pradesh, Telangana, and Karnataka being the key states.

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

Issue details

The IPO is made up entirely of Offer for sale of ₹1,960cr where the selling shareholders would be receiving the entire amount.

Pre & Post Shareholding

Particulars	(Pre-Issue)		(Post-Issue)	
	No of shares	%	No of shares	%
Promoter	11,67,52,493	40.07%	9,80,57,219	33.65%
Public	17,46,13,627	59.9%	19,33,08,901	66.3%
Total	29,13,66,120	100.0%	29,13,66,120	100.0%

Source: Company, Angel Research

Financial Summary

Income Statement

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Net Interest Income	530	690	903
- YoY Growth (%)		30%	31%
Other Income	41	36	52
- YoY Growth (%)		-10%	44%
Operating Income	570	726	956
- YoY Growth (%)		27%	32%
Operating Expenses	172	214	306
- YoY Growth (%)		25%	43%
Pre - Provision Profit	399	512	650
- YoY Growth (%)		28%	27%
Prov. & Cont.	49	35	46
- YoY Growth (%)		-29%	29%
Profit Before Tax	349	476	604
- YoY Growth (%)		36%	27%
Provision for Taxes	87	117	151
- as a % of PBT	25%	25%	25%
PAT	262	359	454
- YoY Growth (%)		37%	26%

Source: Company, Angel Research

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Equity	26	26	29
Reserve & Surplus	1,919	2,293	3,681
Total Net worth	1,945	2,318	3,710
- Growth (%)		19%	60%
Financial Liabilities			
Debt Securities	-	-	1
Borrowings	1,079	1,304	1,009
Subordinated liabilities	1,285	2,121	1,550
Other Financial Liabilities	22	26	54
Non-Financial Liabilities			
Provisions	6	7	9
Other Liabilities	17	17	9
Total Liabilities	4,353	5,794	6,343
Financial Assets			
Cash Balances	290	1,267	613
Bank Balances	161	89	267
Advances	3,831	4,359	5,102
- Growth (%)		14%	17%
Other Financial Assets	5	5	266
Non-Financial Assets			
Fixed Assets	28	25	33
Other Assets	38	50	62
Total Assets	4,353	5,794	6,343
- Growth (%)		33%	9%

Source: Company, Angel Research

Key Ratios

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Profitability ratios (%)			
NIMs	13.8%	15.8%	17.7%
Cost to Income Ratio	30%	30%	32%
RoA	6.0%	6.2%	7.2%
RoE	13.5%	15.5%	12.2%
B/S ratios (%)			
CAR	36%	27%	22%
Tier I	33%	26%	20%
Asset Quality (%)			
Gross NPAs	1.1%	5.5%	5.7%
Net NPAs	0.4%	2.4%	1.7%
Provision /Avg. Assets	1%	1%	1%
Provision Coverage	65%	57%	69%
Per Share Data (₹)			
EPS	90	123	156
Diluted EPS	90	123	156
BVPS	667	796	1,274

Source: Company, Angel Research;

ROA TREE

Y/E March	FY'20	FY'21	FY'22
Interest Income	17.2%	17.5%	19.0%
Interest Expense	5.0%	5.6%	4.7%
Net Interest Income	12.2%	11.9%	14.2%
Other Income	0.9%	0.6%	0.8%
Total Income	13.1%	12.5%	15.1%
Operating Expenses	3.9%	3.7%	4.8%
PPoP	9.2%	8.8%	10.2%
Provisions	1.1%	0.6%	0.7%
Profit Before Tax	8.0%	8.2%	9.5%
Provision for Taxes	2.0%	2.0%	2.4%
ROA	6.0%	6.2%	7.2%
Leverage	2.2	2.5	1.7
ROE	13.5%	15.5%	12.2%

Source: Company, Angel Research;

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