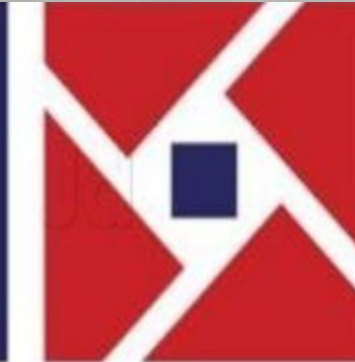


# ALL ABOUT



# FIVE STAR



**SECTOR - FINANCE & INVESTMENTS**

**Issue Opens - NOVEMBER 09 - NOVEMBER 11**

**Price Band**

**₹450 to ₹474**

**Face Value**

**₹1**

**Lot Size**

**31 SHARES**

**Issue Size**

**₹1960.05 CR**

**Issue Type**

**BOOK BUILT**

**RESEARCH@GANESHSTOCK.COM**

# Important Events

**Issue Size**

**₹1960.05 CR**

**Fresh Issue**

**N/A**

**Offer for Sale**

**41,351,266 shares ₹1,960.01 Cr**

**Basis of Allotment**

**Nov 16, 2022**

**Initiation of Refunds**

**Nov 17, 2022**

**Credit of Shares to Demat**

**Nov 18, 2022**

**ACIL IPO Listing Date**

**Nov 21, 2022**

## Promoters

- **LAKSHMIPATHY DEENADAYALAN ( CHAIRMEN & MANAGING DIRECTOR)**
- **ANAND RAGHAVAN ( INDEPENDENT DIRECTOR)**
- **SRINIVASARAGHAVAN THIRUVALLUR THATTAI (INDEPENDENT DIRECTOR)**
- **VIKRAM VAIDYANATHAN (NON-EXECUTIVE DIRECTOR)**

**Promoters collectively hold 44.16% of the Equity Share .**

# ABOUT COMPANY

- **Five Star Business Finance, founded in 1984, is a Chennai-based company that provides small loans and mortgages to freelancers and small entrepreneurs who are underserved by large financial institutions. All loans issued by the company are secured by the borrower's assets.**
- **As of September 30, 2021, the company has an extensive network of 268 branches in 8 states and 1 union territory. 92% of branches are located in cities and towns with more than one million inhabitants. Their direct count increased from 15,803 in fiscal year 17 to 1,92,000 in September 2021. Tamil Nadu, Andhra Pradesh, Telangana and Karnataka account for 95% of the company's total portfolio.**
- **The company has the largest assets under management worth Rs 3,000 crore, compared to peers. Since clients often do not have proof of income, the entire underwriting process requires a lengthy and detailed personal discussion with the borrower, their family, relatives and neighbors to Get an idea of cash inflows and outflows, income patterns, and aspects of human behavior.**



# **BUSINESS MODEL**

- Secured business loans and mortgage loans to small businesses in rural areas and semi-urban areas of the country. Five Star Business's target customers include small shop owners, housekeepers, florists, small and medium enterprises, who are unbanked through traditional funding channels.
- The company uses a unique cash flow-based loan appraisal system to ensure quick sanction and disbursement of loans to customers. USP of Star Business funding is a quick extension of disbursement of small loans with longer duration and simple documentation. The average loan per borrower is 2.3 yen in fiscal year 2022, and the longer term for business loans is 7 years and up to 15 years for home loans.

# **OBJECTS OF THE OFFER**

**THE NET PROCEEDS FROM THE ISSUE ARE PROPOSED TO BE UTILIZED BY THE COMPANY FOR THE FOLLOWING OBJECTS:**

- **THE MAIN OBJECTIVE OF THE ISSUE IS TO GAIN FROM THE COMPANY BEING LISTED ON THE STOCK EXCHANGES.**

# TRACK RECORD OF FINANCIAL PERFORMANCE

- REVENUE FROM OPERATIONS ₹335.22 , ₹290.23, ₹1203.77, ₹1014.88 , ₹746.83 FOR THE YEAR Q1FY2023 , Q1FY2022 , FY2022 , 21 , 20.
- THE GROWTH IN THE REVENUE FROM OPERATIONS INCREASED WITH CAGR OF 17%.
- OPERATING PROFIT WAS ₹254.88 , ₹224.38, ₹479.54, ₹813.02, ₹576.30 FOR THE Q1FY2023 , Q1FY2022 , FY2022, 21 & 20.
- The net interest margin was 19.17% (Q1FY23), 17.68% (FY22), 16.00% (FY21), and 16.69% (FY20) respectively.
- PAT WAS ₹139.43 , ₹101.57, ₹453.55, ₹358.99, ₹261.95 FOR THE Q1FY2023 , Q1FY2022 , FY2022, 21 & 20.
- FIVE STAR HAS POSTED TOTAL ASSETS OF ₹6471.55 , ₹6129.1 , ₹6343.07 , ₹5993.61 , ₹4353.15 FOR THE Q1FY2023 , Q1FY2022 , FY2022, 21 & 20.
- Total Borrowings were Rs 2520.32 crore (Q1FY23) and Rs 2558.83 crore (FY22) respectively.
- FIVE STAR HAS REPORTED AN EPS OF RS. 10.24, RS. 14 & RS,1.56 FOR THE FY20 , 21 & 22.
- NET CASH REPORTED ₹-174.57, ₹5.89, ₹-277.16 , ₹-157.27, ₹-1523.28 FOR THE Q1FY2023 , Q1FY2022 , FY2022, 21 & 20.
- DEBT TO EQUITY RATIO WAS 0.65X (Q1FY23), 0.69X (FY22), AND 1.48X (FY22) RESPECTIVELY. AND RETURN ON NET WORTH HAS BEEN 3.62% (Q1FY23), 12.22% (FY22), AND 15.49% (FY21).

# STRENGTHS

- **Five Star Business Finance has seen the fastest AUM growth among its peers with over Rs 3,000 in AUM, while also having strong growth and profitability.**
- **One of the few institutions in the country that has developed a cash flow analysis model for small business owners and self-employed to provide them with loans .**
- **The Company has the ability to expand into untapped geographies through a calculated approach.**
- **They have experienced and competent promoters and a very professional management team with the support of famous investors.**

# RISKS

- **The main inherent risk is that the borrower fails to repay the loan and the risk is higher in this case because the customer group is mainly middle-income group and the probability of default is very high for the borrower. Small business owners and freelancers.**
- **A substantial amount of capital is required to operate the business and the business must be obtained from various external sources and therefore the entire business is completely dependent on the timely availability of these resources. this capital.**
- **In addition to the above, a large proportion of borrowers are new borrowers, which increases the risk of default.**
- **Interest rate fluctuations can have a negative impact on net interest income.**

# Valuation and Outlook

THE IPO SHALL OPEN WITH A PRICE BAND OF RS 450-474 PER SHARE. THIS MAKES THE ISSUE VALUED WITH A PRICE-TO-EARNINGS RATIO (P/E RATIO) AT 29.45 TIMES ITS ANNUALIZED FY23 EARNINGS INR 16.09 THE INDUSTRY AVERAGE IS 36X TIMES THAT OF LISTED PEERS.

THE FIVE-STAR BUSINESS FINANCE LIMITED, ACCORDING TO DRHP OF SOME COMPANY IS LISTED WHOSE PE MULTIPLE IS SHOWN IN THIS TABLE.

S.NO.	COMPANY	PE RATIO
1.	AAVAS FINANCIERS,	39
2.	APTUS VALUE	35.7
3.	AU SMALL FINANCE BANK	34

IN EVALUATION WITH ITS INDEXED PEERS, THE ENTERPRISE'S SALES ARE LESSER THAN EACH AU SMALL FINANCE BANK AND AAVAS FINANCIERS, EVEN THOUGH IT IS A WHOLE LOT TOWARD THE LATTER. HOWEVER, IT'S MILES DRASTICALLY EXTRA THAN THAT OF APTUS.

THIS PHASE OF SMALL CONSUMER FINANCING IS GETTING CROWDED AND MAXIMUM COMPETITIVE. HOWEVER, THINKING ABOUT THE CURRENT MONETARY OVERALL PERFORMANCE AND THE SELF ASSURANCE EXPRESSED VIA WAY OF MEANS OF THE CONTROL IN RETAINING THE BOOM PATTERN,

WELL-KNOWLEDGEABLE BUYERS AY CONSIDER PARKING FUNDS WITH A **LONG-TERM** PERSPECTIVE.