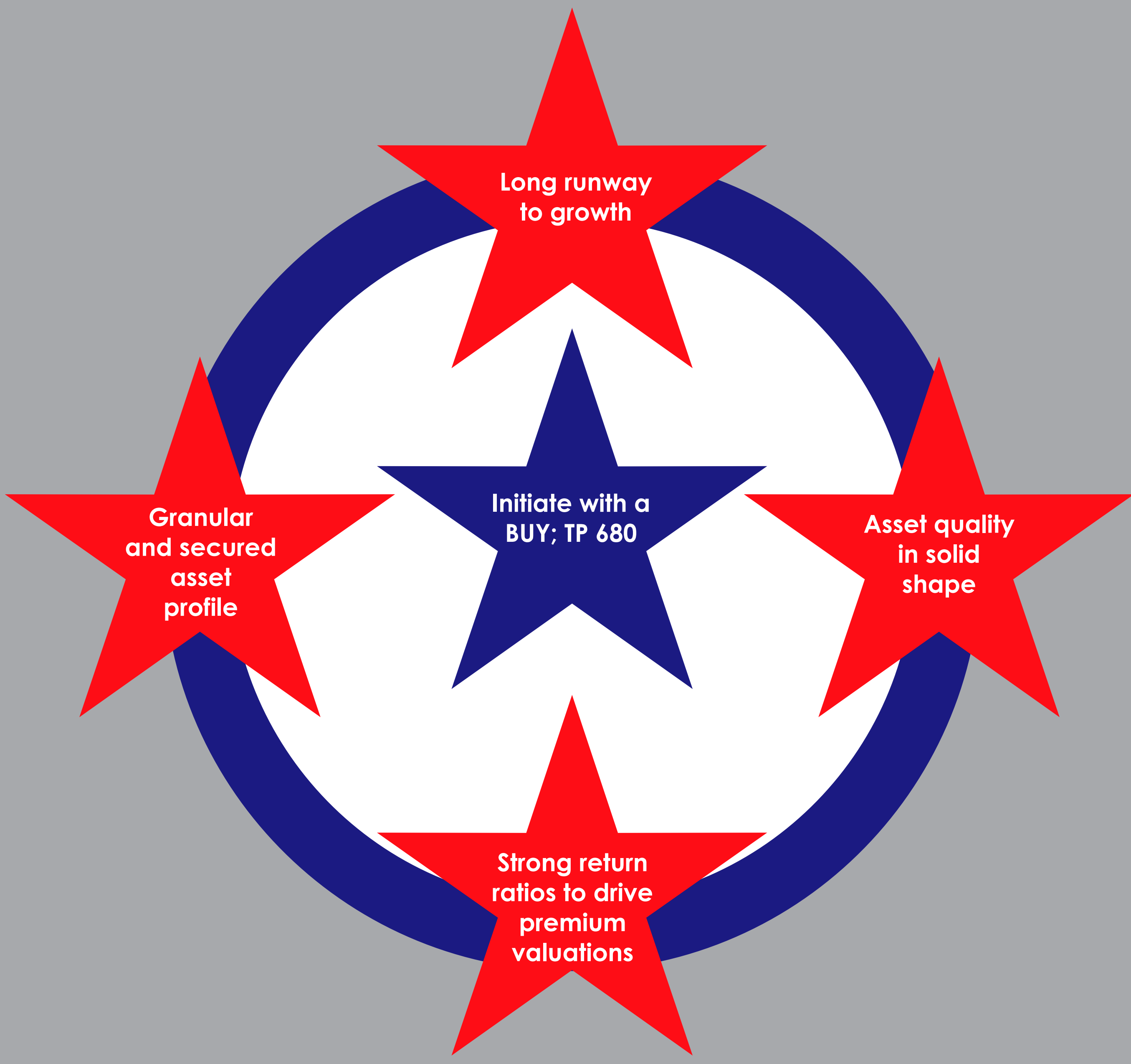
31 May 2023

INDIA | NBFC |
COVERAGE INITIATION

Five-Star Business Finance

"Blazing a trail"



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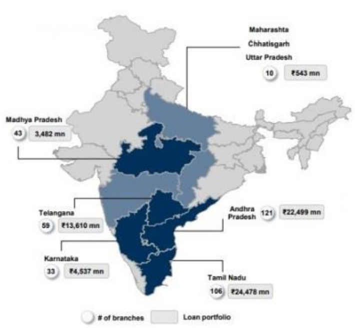

Five-Star is a niche play on unorganised small business lending with focus on secured loans. Its business model revolves around unique strengths such as a) cashflow assessment of the customer, b) strong focus on collateral value (and thus, low LTVs and primarily SORPs), and c) ability to ensure timely collections. Hence, it has a high-yielding granular portfolio (INR 0.25mn average ticket size), strong growth profile (47% AUM CAGR over the last 5 years) and superior return metrics (average RoA/RoE of 7.9%/17.5% over FY23-FY25E).

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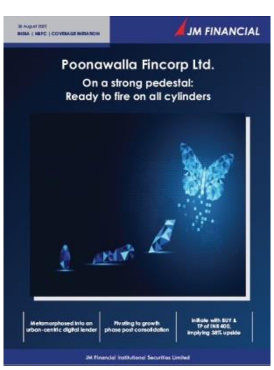

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Five-Star Business Finance Limited

"Blazing a trail"

Five-Star Business Finance Ltd (Five-Star) is a niche play on unorganised small business lending with focus on secured loans. Its business model revolves around unique strengths such as a) cashflow assessment of the customer, b) strong focus on collateral value (and, thus, low LTVs and primarily SORPs), and c) ability to ensure timely collections. Its granular portfolio (INR 0.25mn average loan outstanding), lucrative yields (24-26%) and strong growth profile (47% AUM CAGR over the last 5 years) have created a unique combination of growth and profitability.

In our view, Five-Star's growth opportunity is large (residential property backed MSME lending market estimated at INR 22trn). Moreover, the company's ability to ride through business cycles (GNPAs have been low across both Covid-19 and demonetisation) due to its focus on customers engaged in essential services should hold it in good stead as it expands its geographical presence (currently, southern states account for 94% of AUM). While its high yields could moderate over time, we believe Five-Star's model of assessing cashflows and ensuring collections are its keys moats. Additionally, its improving cost of funds provides a cushion for spreads.

Five-Star's strong return metrics (average RoA/RoE of 7.9%/17.5% over FY23-FY25E) and high growth rates (AUM CAGR of 33% over FY23-25, earnings CAGR of 29% over FY23-25) should ensure premium valuations. We initiate coverage with a BUY rating and target of INR 680.

Large growth canvas, geographical expansion to drive growth: Five-Star operates in a business that, we believe, has large growth potential: secured lending to small businesses primarily in Tier 3 to Tier 6 towns (85% of branches) with a granular portfolio (average loan outstanding of INR 0.25mn) with EMI-based products. Over the last 2 decades it has developed a strong model of customer acquisition, collateral-based lending, and collections in this segment. As Five-Star expands to newer geographies away from southern India (94% of AUM currently), we see AUM growth at 33% CAGR over FY23-25E. Its strong branch-led acquisition model has delivered 55% CAGR in customer acquisition over the past 5 years.

Enviable asset quality track record, collections model: Although it operates in the informal income segment, Five-Star's asset quality track record has been strong through economic cycles. While early delinquencies are relatively higher because of its presence in this segment (0-30DPD at 5.99% and 30-90DPD at 9.15%), Five-Star's focus on self-occupied residential property (SORP) as collateral ensures that eventual loss rates are minimal. This has helped it maintain strong asset quality even during crises such as Covid-19 and demonetisation. A razor-sharp focus on collections keeps credit cost low (we expect credit cost to average c.1.0% over FY24-FY25E).

Strong return metrics; premium valuations to sustain: Five-Star has also demonstrated its ability to reduce funding cost as it has achieved scale and boasts of over 50 lenders with a long-term credit rating of 'AA-'. This bodes well for the company's spreads over the medium term. A high yield portfolio, controlled opex and low credit cost should help sustain Five-Star's strong return metrics. While near-term RoE is suppressed due to high capital adequacy (67.2% Tier 1), we expect RoE to expand to 17.9% by FY25E and forecast earnings CAGR of 29% over FY23-25E. We value Five-Star at 3.3x FY25E P/BV and initiate coverage with a BUY rating and TP of INR 680. Five-Star's inability to execute growth plans while maintaining asset quality in newer geographies and sharp broad-based deceleration in economic activity are key risks to our call.

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	680
Upside/(Downside)	24.8%

Key Data – FIVESTAR IN	
Current Market Price	INR545
Market cap (bn)	INR158.9/US$1.9
Free Float	18%
Shares in issue (mn)	291.4
52-week range	688/448
Sensex/Nifty	62,622/18,534
INR/US$	82.7

Price Performance			
%	1M	6M	12M
Absolute	5.8	6.6	NA
Relative*	3.3	7.7	NA

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	3,590	4,535	6,035	7,941	9,996
Net Profit (YoY) (%)	37.0%	26.3%	33.1%	31.6%	25.9%
Assets (YoY) (%)	33.1%	9.5%	37.2%	28.4%	27.7%
ROA (%)	7.1%	7.5%	8.0%	8.0%	7.9%
ROE (%)	16.8%	15.0%	15.0%	16.8%	17.9%
EPS	14.0	15.6	20.7	27.3	34.3
EPS (YoY) (%)	36.7%	11.2%	33.1%	31.6%	25.9%
P/E (x)	**38.9**	**35.0**	**26.3**	**20.0**	**15.9**
BV	90	127	149	176	206
BV (YoY) (%)	18.9%	40.9%	16.9%	18.3%	17.1%
P/BV (x)	**6.03**	**4.28**	**3.66**	**3.09**	**2.64**

Source: Company data, JM Financial. Note: Valuations as of 31/May/2023

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

You can also access our portal: www.jmflresearch.com

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

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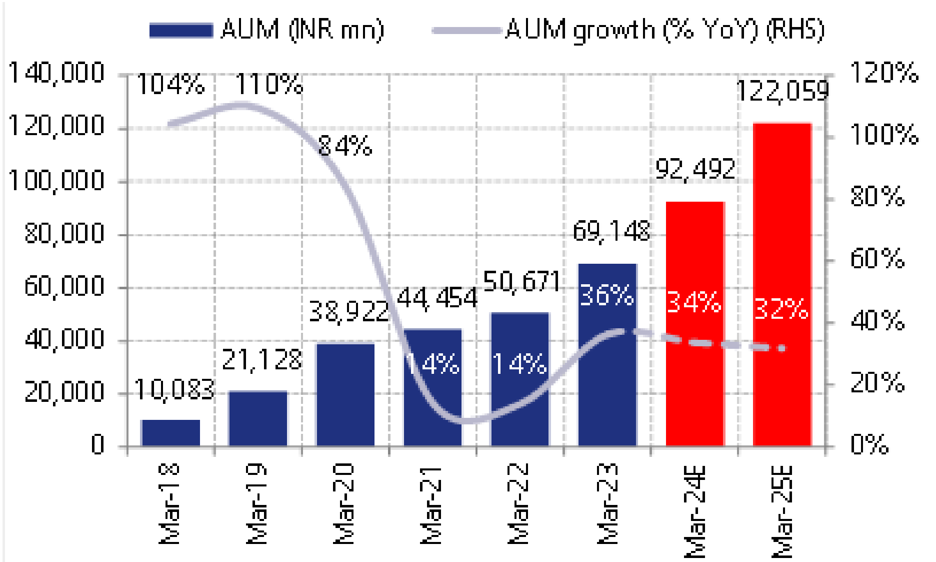
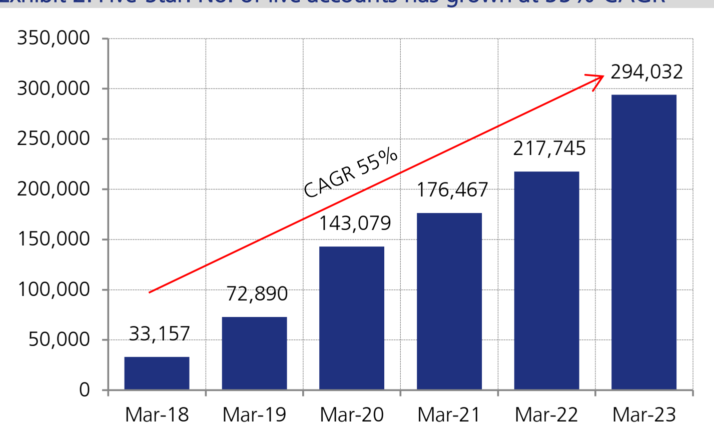
Focus Charts

Exhibit 1. Five-Star: AUM expected to grow at 32-34% CAGR over FY23-25E



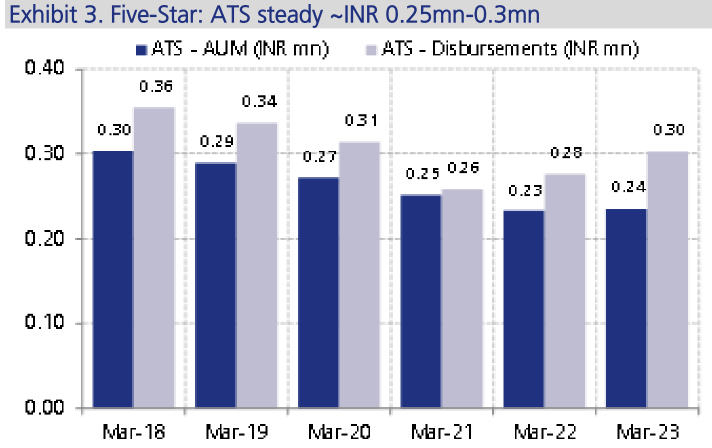
Source: Company, JM Financial

Exhibit 2. Five-Star: No. of live accounts has grown at 55% CAGR



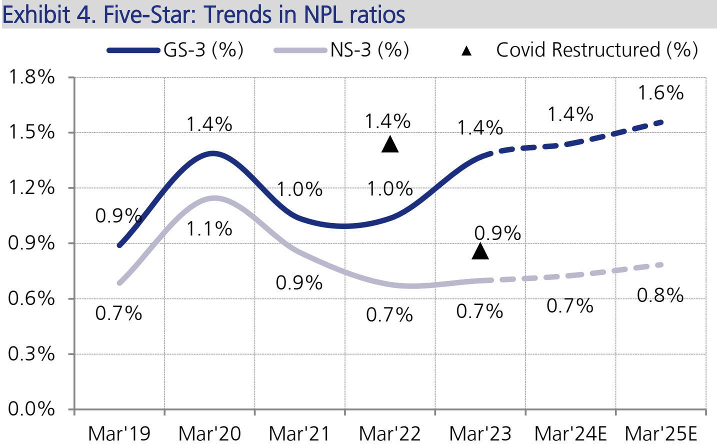
Source: Company, JM Financial

Exhibit 3. Five-Star: ATS steady ~INR 0.25mn-0.3mn



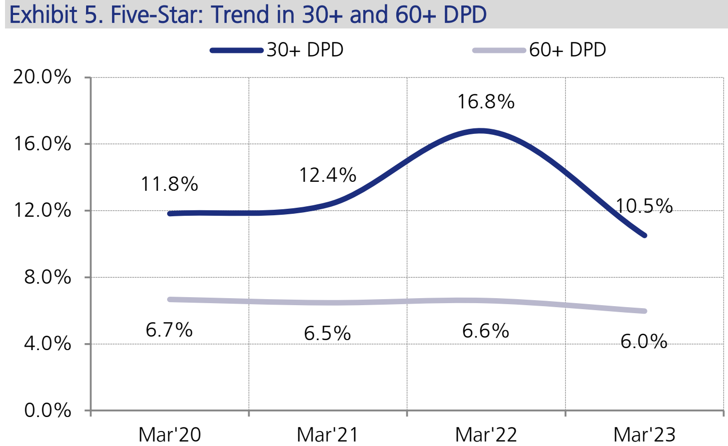
Source: Company, JM Financial

Exhibit 4. Five-Star: Trends in NPL ratios



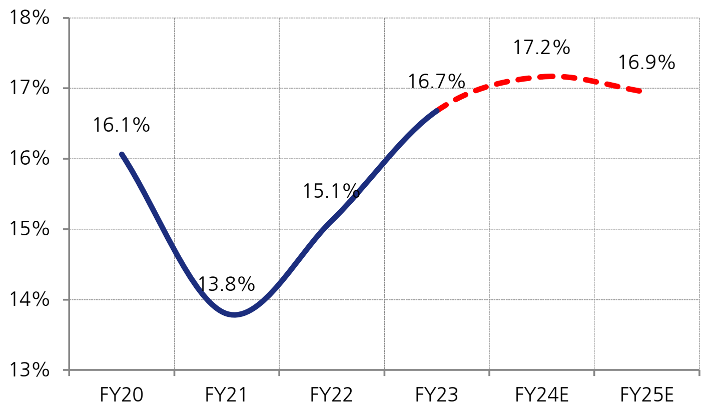
Source: Company, JM Financial; for Mar'23 GS-3 and NS-3 are higher by 32bps and 22bps resp. due to new IRAC norms

Exhibit 5. Five-Star: Trend in 30+ and 60+ DPD



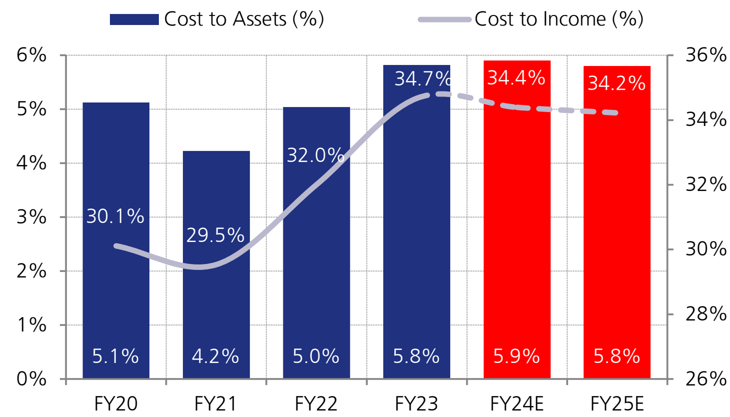
Source: Company, JM Financial

Exhibit 6. Five-Star: Trend in NIMs (%)



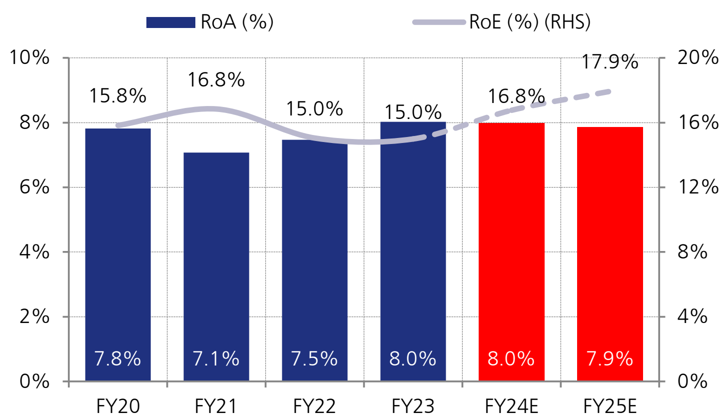
Source: Company, JM Financial; % of IEA

Exhibit 7. Five-Star: Trend in cost ratios



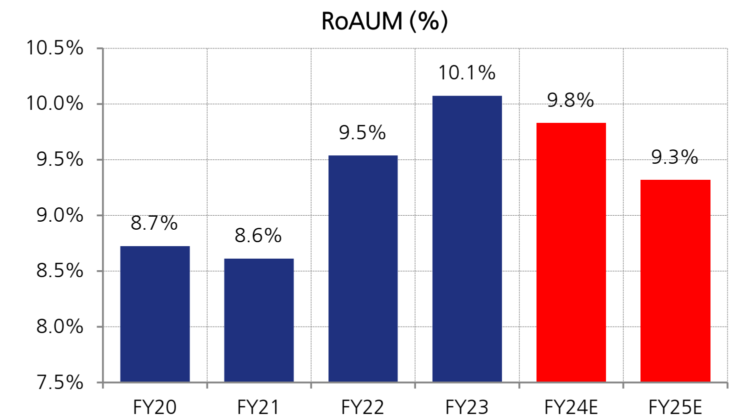
Source: Company, JM Financial

Exhibit 8. Five-Star: Trend in return metrics



Source: Company, JM Financial

Exhibit 9. Five-Star: Trend in RoAUM



Source: Company, JM Financial

Company Overview

Five-Star Business Finance Limited (Five-Star) is an NBFC-ND-SI providing secured business loans to micro-entrepreneurs and self-employed individuals largely excluded by traditional financing institutions. It is headquartered in Chennai, Tamil Nadu, and has a strong presence in South India (94% of assets under management from South India); all its loans are secured by borrowers' property, predominantly self-occupied residential property. Over 95% of the loan portfolio comprises loans between INR 0.1mn and INR 1.0mn (principal amount), with an average loan outstanding of INR 0.24mn as of Mar'23. Active loans' base stood at 0.29mn as of Mar'23 with assets under management (AUM) at INR 69.1bn (growing at a CAGR of 47% over FY18-23).

Five-Star was incorporated as Five-Star Business Credits Private Limited in Chennai as a private limited company in May'84. It was converted into a public limited company in 1988 and, consequently, the name of the company was changed from 'Five-Star Business Credits Private Limited' to 'Five-Star Business Credits Limited'. The name of the company was subsequently changed again to 'Five-Star Business Finance Limited' in 2015.

Exhibit 10. Five-Star: History of key events

Year	Particulars
1984	Incorporation of Five-Star
1988	Conversion from private limited to public limited company
2006	Rearranged portfolio focus to financing in immoveable properties
2010	Loan book crossed INR 250mn
2013	Opened 25th branch
2014	Expanded geographical presence outside Tamil Nadu to Karnataka and Andhra Pradesh
	Investment of INR 170mn by Matrix Holdings
	Loan book crossed INR 1bn
2015	Investment of INR 156mn by Matrix Holdings
2017	Crossed 100 branches
	Expanded geographical presence to Telangana
2020	Crossed 200 branches
2021	Loan book crossed INR 40bn
2022	Loan book crossed INR 50bn
	Crossed 300 branches
	Listed on stock exchanges

Source: Company, JM Financial

Exhibit 11. Five-Star: Shareholding as of Mar'23

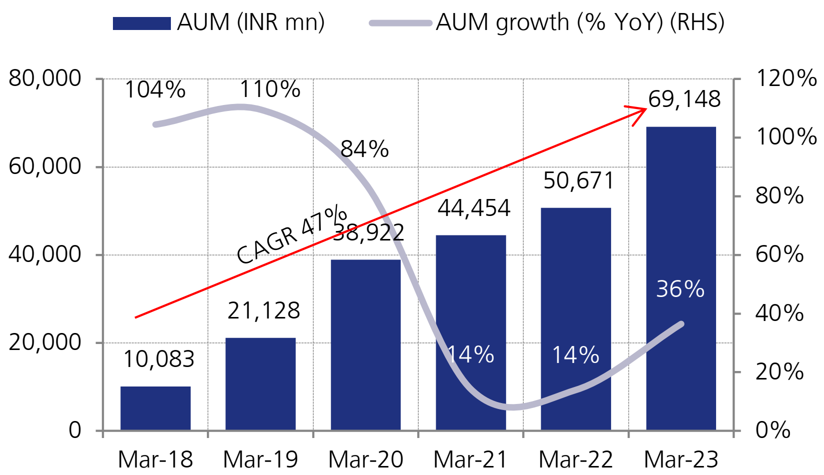
Category	% shareholding
Promoters	**34.87%**
Individual Promoter (Mr. D. Lakshmipathy) and Promoter Group	18.74%
Institutional Promoters	16.13%
-Matrix Partners	8.29%
-Sequoia Capital	7.84%
Public:	
Foreign Corporates	50.75%
AIFs	2.85%
Employees	1.29%
Insurance Companies	1.16%
Mutual Funds	1.04%
Others	8.04%

Source: Company, JM Financial

Strong growth led by customer acquisition and branch expansion

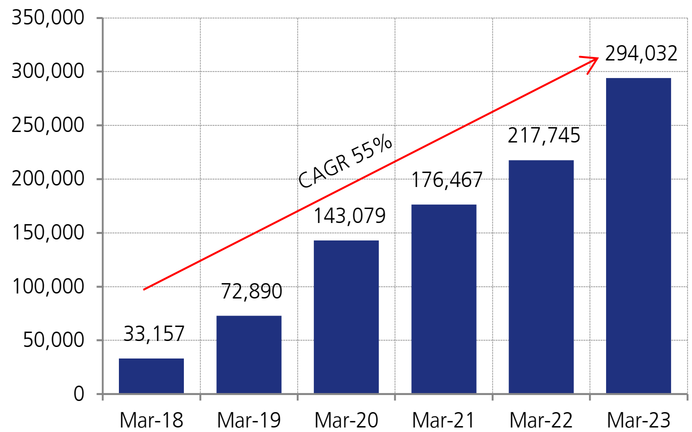
Five-Star's AUM has grown at a robust CAGR (compound annual growth rate) of c.47% from FY18 to FY23. This growth has primarily been driven by the acquisition of new customers while maintaining a steady average loan outstanding. The number of live accounts has also grown at a CAGR of around 55% during this period, while average loan outstanding has been relatively stable at INR 0.25mn-0.3mn. This highlights the strength of Five-Star's business model, which focuses on expanding through new customer acquisition rather than relying on higher ticket lending to existing borrowers.

Exhibit 12. Five-Star: AUM grew at CAGR of 47% over FY18-23



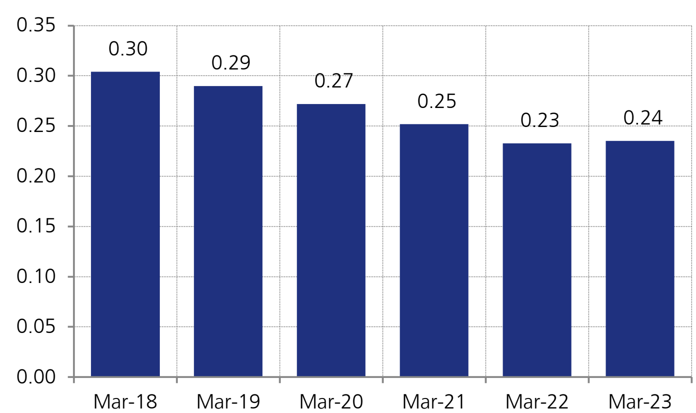
Source: Company, JM Financial

Exhibit 13. Five-Star: No. of live accounts has grown at 55% CAGR



Source: Company, JM Financial

Exhibit 14. Five-Star: Average Loan outstanding steady ~INR 0.25mn-0.3mn



Source: Company, JM Financial

A business model focused on secured small businesses loans

Who is Five-Star's typical customer?

Five-Star provides secured loans to small business owners and self-employed individuals, as well as small mortgage loans to meet asset creation needs (home construction, expansion, renovation, etc) and certain personal needs of its customers. Five-Star's customers typically derive income from "everyday" cash and carry businesses with a focus on services, with household net cashflows of ~INR 25,000-INR 40,000 per month.

These are customers who can provide collateral (typically land and building of c.INR 1mn in value and whose family will act as co-applicants on the loan. Five-Star's customer-centric business model is predicated on arriving at an appropriate risk framework, with the optimal instalment to income ratio, to ensure that customers have the necessary means to repay the loan after meeting their regular obligations and other event-based capital requirements.

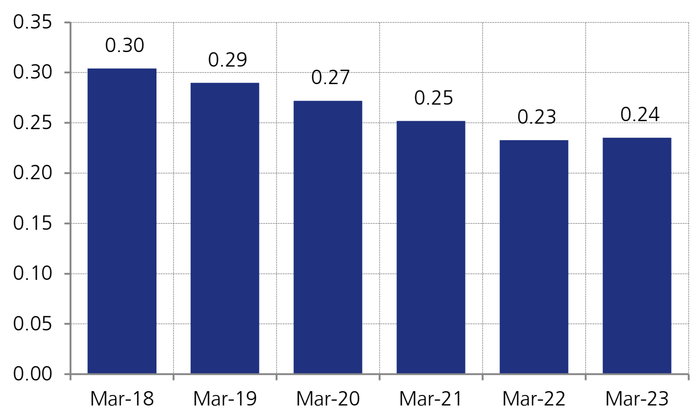
Product characteristics – secured, granular and EMI-based

Five-Star's entire product portfolio is secured in nature and ~95% of the loan book is secured against the self-occupied residential property of the borrower. Almost all of the collaterals across the loan portfolio are standalone independent homes, as Five-Star generally does not resort to taking vacant land, agricultural land, or flats in residential complexes as collateral. Five-Star takes an exclusive charge on the collateral against the loan, i.e., it does not share the collateral charge with any other lender either at the time of sanction and disbursal or at any time during the tenure of the loan. The mortgage is also registered with the appropriate governmental authority through the payment of stamp duty.

Average loan outstanding of the portfolio stands at INR 0.24mn as of Mar'23. The interest rates on the portfolio depend on the underlying tenure (which is 2-7 years) with approximately 95% of the loans sanctioned having interest rate of 24-26% and tenure of 5-7 years.

In addition, Five-Star requires its customers to pay certain login fees prior to the loan application being processed and certain charges prior to the disbursement of the loan. These fees and charges are collected at different stages of the loan application to cover the initial cost of underwriting the loan, document verification and storage.

Exhibit 15. Five-Star: Average loan outstanding steady ~INR 0.25mn-0.3mn



Source: Company, JM Financial

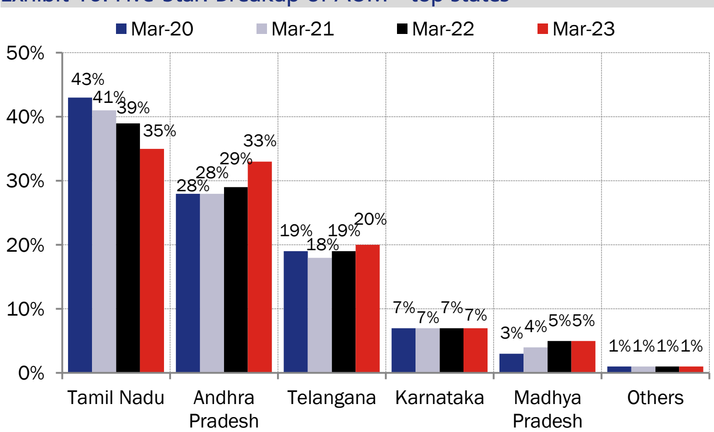
Five-Star's differentiation with respect to value proposition for the customer in Tier-3 to Tier-6 markets is as below:

- Ability to understanding the cashflow cycle of the borrower
- Lending rates significantly lower than local money lenders (where rates are 40%+)
- Ability to offer an EMI-based product that has principal amortisation unlike the one from the money lender where repayment involves only interest-servicing while principal is to be repaid at the end of the loan through a single payment. While borrowers can service the regular interest repayments, they are, in most cases, unable to repay the principal amount in the form of a single payment. This results in continued leverage at high interest rates
- Ownership documents of the collateral are in the possession of the moneylender and, in many cases, involve sale deed for the property. In contrast, Five-Star, like organised lenders, registers a mortgage deed while the property ownership remains with the borrower.

Presence primarily in semi-urban and rural locations with a contiguous expansion strategy

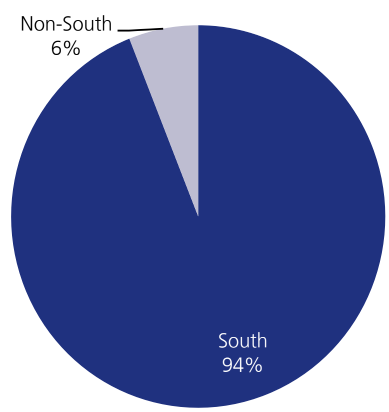
Five-Star is primarily focused on Tier-3 to Tier-6 centres of India, where the penetration of formal financial services providers is relatively low. Over 80% of its branches are located in locations with a population upto 1mn. Given its origins (the state of Tamil Nadu) and focused strategy to expand presence only in contiguous districts/geographies, a significant proportion of (85%) of the branch presence is in centres in the southern states – Tamil Nadu, Karnataka, Andhra Pradesh and Telangana.

Exhibit 16. Five-Star: Breakup of AUM - top states



Source: Company, JM Financial

Exhibit 17. Five-Star: Breakup of AUM - South and non-South



Source: Company, JM Financial; As of Mar23

Exhibit 18. Five-Star: Vintage-wise avg. AUM per branch

Branch Vintage	No of branches	Average AUM
<=1 year	73	57
1 - 3 years	48	105
3 - 5 years	129	191
>5 years	123	286
Total	**373**	**185**

Source: Company, JM Financial; as of Mar23

The decision to open a branch is based on a detailed analysis of the potential catchment area, economic and business potential, competition and availability of human resource talent. In the potential catchment areas, Five-Star analyses retail density and diversity, overall industrial activity and financial literacy, among other factors. The prevalence of retail activity demonstrates the potential for lending to small business owners, who may need funding for their business requirements; hence, the presence and density of retail activity is an important parameter in determining whether to set up a branch.

Five-Star also analyses competition within the potential catchment area as a risk mitigation measure, because where competitors are present [such as other banks and non-banking financial companies (NBFCs)] the company is able to assess (i) general acceptance of a formal lender with EMI-based loan products amongst the target customer segment, (ii) repayment behaviour, (iii) asset quality trends and (iv) availability of suitable human resources for hiring as business and collections officers. As indicated earlier, Five-Star also prefers to open new branches contiguous to existing locations to leverage neighbouring insights and exercise effective supervision over new branch operations.

In newer geographies or where contiguous expansion is not feasible, Five-Star typically begins by establishing pilot branches to gain a deeper understanding of the catchment area and customer characteristics. Such branches are used to gain a deeper understanding of the catchment area and customer characteristics including (i) sourcing opportunities, (ii) differences in legal and technical evaluation of collateral from its existing markets, (iii) collection behaviour, (iv) understanding staff behaviour and culture, among other metrics.

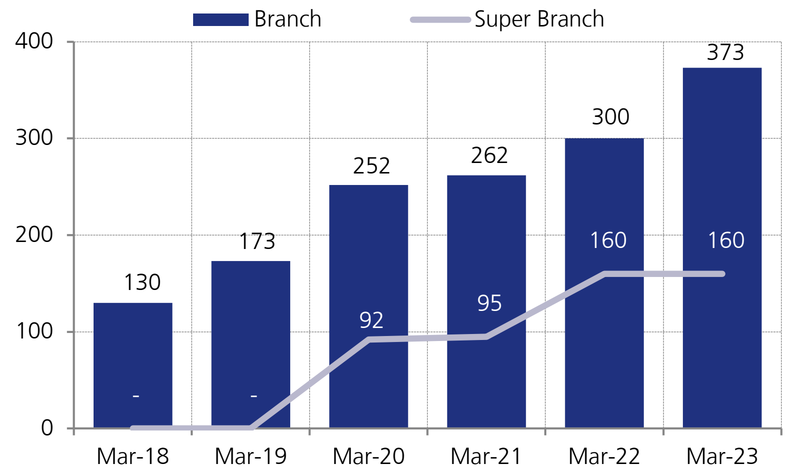
Further, Five-Star's branches initially start as "normal branches" and transition to "super branches" based on specific criteria. Super branches effectively operate as two branches in areas with consistently positive performance and significant business potential. Operationally, both branch types operate with the same reporting structure and the same set of protocols and products, and target the same customer segment. The decision to transition a branch is based on factors such as consistent performance, meeting targets, maintaining asset quality, appropriate human resource skills, availability of additional relationship officers, and growth potential in the catchment area.

Exhibit 19. Five-Star: Normal vs. Super branch

Branch Particulars	Normal Branch	Super Branch
Branch Size	500-600 sq. feet	1,200-1,600 sq. feet
Branch Managers / Senior Branch Managers	1 BM	2 BM; 1 Senior BM
Business Officers	4-6	10-12 (2 teams of 5-6 each)
Field Credit Officers	1 (exclusive / share with neighbouring branches)	1 (Exclusive)
Cashiers and Operations Personnel	1 Cashier; 1 Operations Personnel	1-2 Cashier; 1-2 Operations Personnel
Catchment Area Radius	Approx. 25-30 kms	Approx. 40-45 kms

Source: Company, JM Financial

Exhibit 20. Five-Star: Trend in branches and super branches



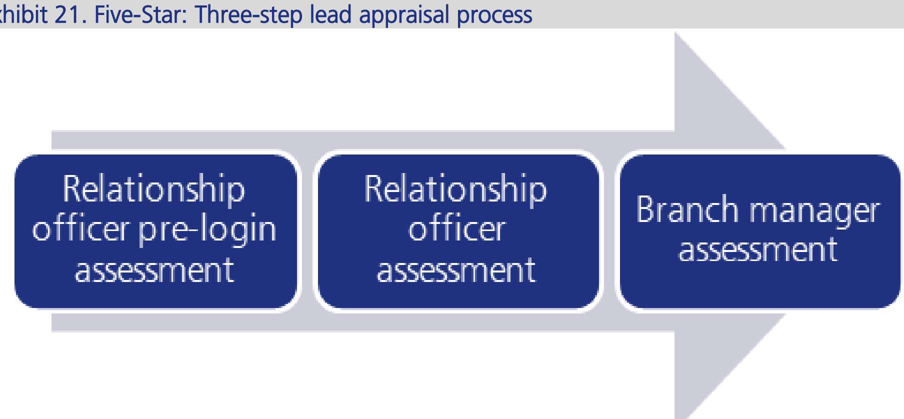
Source: Company, JM Financial; Super branches in FY23 is as of Dec22

A strong underwriting model for non-income proof customers and robust collection infrastructure

Five-Star's 100% in-house sourcing, comprehensive credit assessment and robust risk management and collections framework allows it to identify, monitor and manage risks inherent in its operations.

First, Five-Star ensures all of its loans are sourced in-house, either through its branch-led local marketing efforts (i.e., door-to-door or specific referral marketing), 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, compared to other methods of customer acquisition. Further, as the customers are on-boarded by Five-Star's own officers and not by third party selling agents who may or may not be working with multiple financial institutions, Five-Star experiences a lower churn rate of customers throughout the portfolio.

Exhibit 21. Five-Star: Three-step lead appraisal process



Source: Company, JM Financial

The "Three Cs" model

Five-Star's underlying principle with respect to underwriting loans is premised upon the 3Cs – **Character** (of the customer), **Cashflow** (to assess repayment abilities), and **Collateral** (to ensure that there is adequate ability and a high motivation on the part of the customer to repay).

The company has created a two layered underwriting architecture comprising a field credit team that is "on the ground" and closer to the customer (the "Field Credit Team"); and a file credit team that remotely reviews loan applications and undertakes credit decision making (the "File Credit Team").

The underwriting practices are characterised 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 the Field Credit Team, before File Credit Team reviews and approves the loan proposal.

Fundamental elements of the underwriting model include:

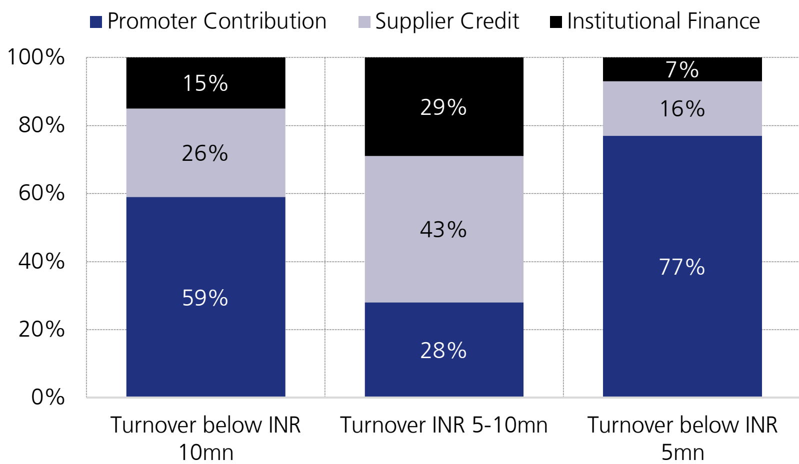
- All household members whose cashflows are factored in to evaluate the loan proposal or those who have a current or potential claim on the property being mortgaged will be included as co-applicants to the loan proposal;
- Deliberately focusing on services-oriented businesses with a majority of the target market comprising individuals who are typically the last to be impacted by macro downcycles and are the first to emerge from such cycles;
- Multiple physical verification touchpoints by business and collection teams and Field Credit Teams to assess applicants and collateral;
- Self-Occupied Residential Property (SORP) collateral focus;
- All activities carried out as part of underwriting process are undertaken by employees, which ensures staff accountability;
- Independent field credit verification is undertaken on all proposals;
- Limit loan approval powers to the File Credit Team only, with loan amount limits based on approver experience; and
- Conservative loan-to-value ratios and instalment to income ratios on outstanding loan accounts.
- 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 collection activities effectively;
- 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 to a customer's location when 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;
- 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 time for business officers to focus on new business; 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.

Growth opportunity large but highly competitive

According to a report published by the International Finance Corporation (IFC) in Nov'18, it was estimated that the credit demand for India's Micro, Small, and Medium Enterprises (MSMEs) in FY17 amounted to INR 69.3trln. However, only approximately 16% of this demand was met through formal financing, leaving a significant credit gap of INR 58.4trln for MSMEs. Over time, with an assumed annual increase of about 9% in both credit demand and availability from formal sources, the credit gap is estimated to have further widened to INR 85trln by FY22.

Among MSMEs, smaller enterprises face greater challenges in accessing institutional credit, as they receive only 7% of their financing needs from formal sources, compared to 29% for larger MSMEs. As a result, smaller enterprises primarily rely on promoter contributions for their working capital and funding requirements. Despite some improvements in access to funding in recent years, a significant portion of the MSME population in India continues to struggle with limited access to credit.

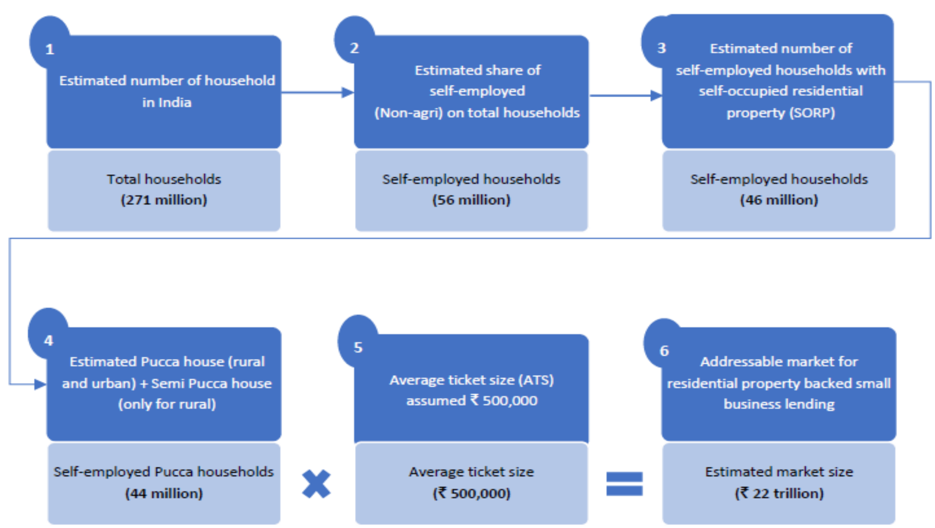
Exhibit 22. Dependence of enterprises on various sources of finance for working capital needs



Source: CRISIL Ratings; Based on analysis of 12,000 SMEs graded by CRISIL between Jan10 and Sep15

According to CRISIL, the potential market for residential property-backed secured MSME lending in India is c.INR 22trln, with Uttar Pradesh, West Bengal, Maharashtra, Rajasthan and Tamil Nadu collectively accounting for over half of the potential market.

Exhibit 23. Addressable market for secured MSME with residential self-occupied property as collateral



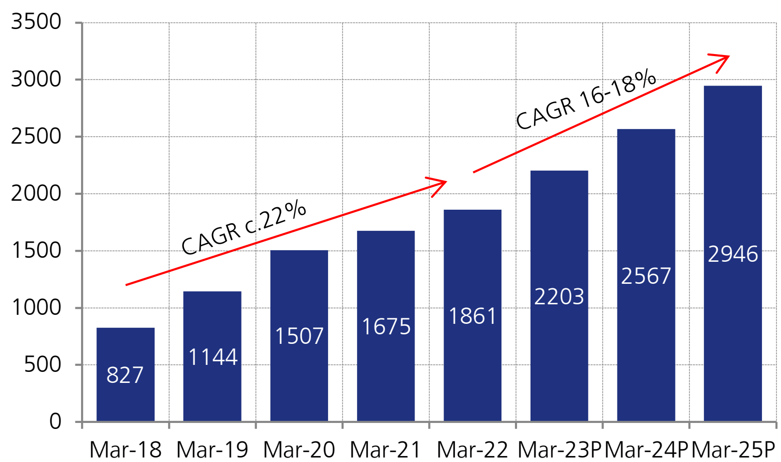
Source: National Sample Survey (NSS) 73rd (Jul15 – Jun16) and NSS 76th round (Jul18-Dec18), CRISIL Research

However, despite this significant opportunity, there is a limited number of formal financiers operating at scale in this segment. The reasons for this limited presence can be attributed to various factors. Firstly, serving this market entails relatively high cost, given the specific requirements and complexities involved. Building expertise in this domain also takes time, and a strong understanding of local market dynamics is crucial. Additionally, establishing a credit underwriting model for customers without income proof and developing collection infrastructure pose further challenges.

Currently, Five-Star operates within this market and has successfully developed an underwriting model tailored to serve these specific customers. As a result, the company is well-positioned to capitalise on further growth opportunities within this market segment.

As data availability increases and technology advancements are leveraged, lenders have recognised the potential of serving the underserved segment within the small business loans market. This focus has resulted in a continuous rise in the proportion of smaller ticket size loans within the overall lending landscape. Furthermore, as previously mentioned, this segment exhibits the largest demand-supply gap, presenting significant business opportunities for financiers who possess a deep understanding of the target customer segment across specific geographical areas, along with the ability to effectively assess creditworthiness and establish favourable unit economics.

Exhibit 24. Trend in small business loans (ticket size < INR 1mn)



Source: CRIF Highmark, CRISIL Research; INR bn

In terms of market share, small business loans with ticket sizes below INR 1mn have experienced growth in overall disbursements, increasing from 12% in FY18 to 16% in FY22. Notably, during the same period, loans with relatively smaller ticket sizes have demonstrated a considerably higher growth rate of 22%, surpassing the growth rate of overall MSME loans (which achieved a CAGR of 8-9% in the same period).

The small business loan portfolio is poised for robust growth in future, fuelled by the expanding presence of such loans in smaller cities and the growing emphasis of lenders on serving the underserved customer segment. CRISIL Research forecasts a CAGR of 16-18% for the small business loans portfolio from FY22 to FY25. Several factors contribute to this anticipated growth. Lenders are intensifying their focus on, and penetration of, small business loans while the increased availability of data is enhancing their confidence in underwriting such loans. Moreover, the utilisation of technology is being maximised to streamline processes and improve efficiency. Additionally, the entry of new players into the segment and sustained government support further bolsters the growth prospects of the small business loan portfolio.

Among various loan products such as affordable housing loans, microfinance loans, auto loans, and personal loans, secured small business loans stand out as an appealing asset class. They provide higher yields over a moderate period, possess favourable collateral quality, and carry lower default risk. This is primarily due to the loans being predominantly secured by self-occupied residential property, which serves as reliable collateral. Due to the attractive return metrics in this segment along with lower risks of asset quality issues, the number of players catering to this segment is on the rise.

Exhibit 25. Portfolio characteristics across different asset classes

	Market Size – Portfolio outstanding Mar-22 (INR trln)	Ticket size	Yields	Typical tenure	Collateral Quality	Tendency to default
Secured property-backed small business loans	1.8	Small to Medium	High	Medium	Good	Low
Secured non-LAP loans	13.6	Small to Medium	High	Low	Good	Low
Microfinance loans	3.9	Small	Medium	Low	No collateral	Relatively High
Housing loan	25.4	Large	Medium	High	Very good	Low
Auto loans	10.1	Small to Medium	Low to Medium	Low to Medium	Moderate	Medium
Personal loans	1.3	Small	High	Low	No collateral	Medium to High

Source: CRISIL Research

Exhibit 26. AUM growth of NBFCs present in secured small business loans

AUM (INR bn)	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	CAGR (FY18-23)
AU SFB	58	86	113	143	165	196	28%
Shriram City Union Finance	155	177	166	151	147	191*	4%
Aavas Financiers	41	59	78	95	113	142	28%
Five Star Business	10	21	39	44	51	69	47%
Home First Finance	14	24	36	41	54	72	39%
Aptus Value Housing	14	22	32	41	52	67	37%
Lendingkart	5	14	24	25	33	40#	59%
Vistaar Finance	13	14	19	21	24	27#	18%
Veritas Finance	3	7	13	16	22	31^	63%
Aye Finance	5	10	18	16	17	22^	37%

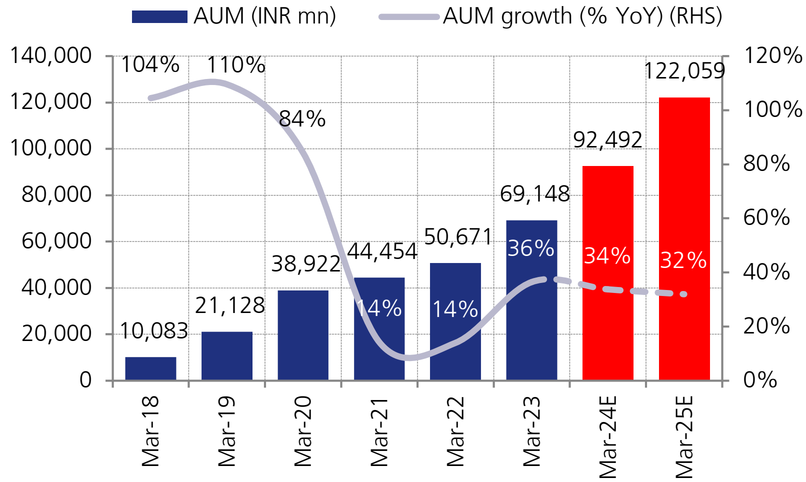
Source: Company Reports, Rating Reports, CRISIL Research, JM Financial; *for merged Shriram entity, # as of Sep-22, ^as of Dec-22

However, Five-Star's unique business model (placed between MFI and SME lending) along with its experience of 15+ years in underwriting such loans lends it an exclusive advantage in lending to this segment.

Strong growth outlook to sustain going ahead

Five-Star has experienced significant growth in its AUM, which grew at a CAGR of c.47% from FY18 to FY23. It is well-positioned to achieve a CAGR of 32-34% in its AUM during FY23-25E. While historical growth has been led by high customer acquisition, incremental growth drivers for Five-Star are: a) increase in branch network and penetration, b) increase feet on street in existing branches, and c) increase in ATS in line with inflation.

Exhibit 27. Five-Star: AUM expected to grow at 32-34% CAGR over FY23-25E



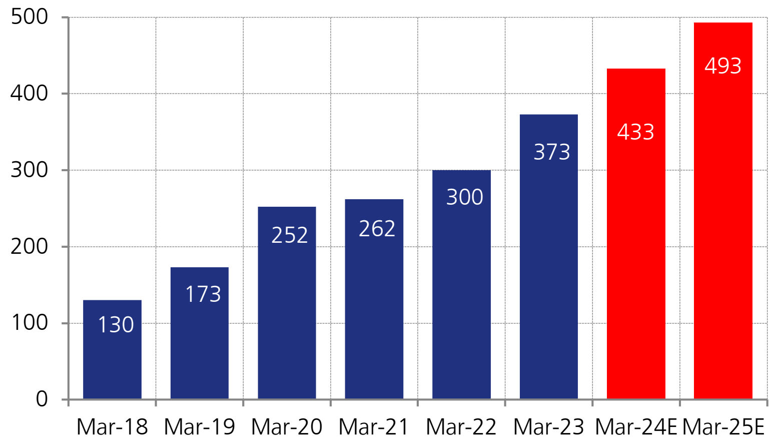
Source: Company, JM Financial

Increase in branch network and penetration:

Five-Star initially operated as a Chennai-based NBFC but has successfully expanded beyond its local market. It expanded its branch network from six branches in Chennai to 39 branches across Tamil Nadu between FY10 and FY15. From FY15 to FY18, it further expanded to 72 branches in the states of Andhra Pradesh, Telangana, and Karnataka. As of Mar'23, Five-Star has expanded its presence to 213 branches in these three states. During this period, the contribution to AUM from these states increased to 60%. Recently, Five-Star has expanded into Madhya Pradesh, Chhattisgarh, Maharashtra, and Uttar Pradesh. The company adopts a strategic approach of contiguous expansion in geographies with substantial demand and maintains robust asset quality by leveraging neighbouring branches, local credit evaluations, and hiring staff with strong local networks.

The management has guided for sustaining the branch addition run-rate at 50-60 branches per year. Further, at least 80% of the new branches will be in south India and the balance 20% in non-South regions. The company has highlighted that while there is sufficient opportunity to grow in south India, it has started to add some branches in non-South regions as well with a view to establish presence and get an understanding of the geography – given these regions are expected to be growth drivers 5-6 years down the line.

Exhibit 28. Five-Star: Trend in branches



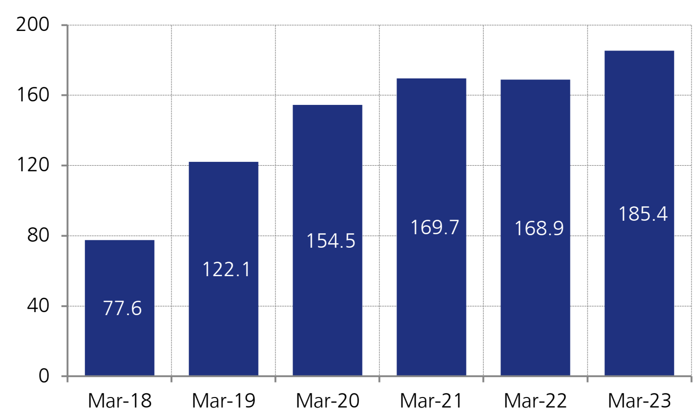
Source: Company, JM Financial

Increase in fleet on the street:

The second lever is increase in the number of officers per branch. When a branch is successful, instead of putting up a new branch, Five-Star adds more people to the existing branch. This is done with a view that given Five-Star is already familiar with the area and has existing customers in the area, new business can be easily shored up in the existing branch.

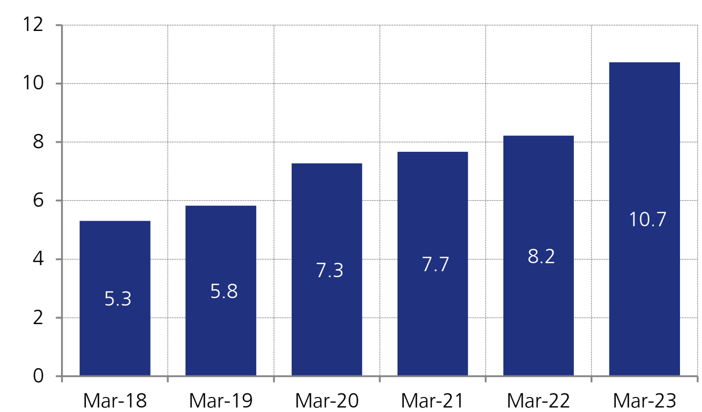
Thus, the number of officers has constantly increasing from 5.3 business and collections officer per branch in Mar'18 to 10.7 business and collections officers in Mar'23. The management has indicated that over time the number of officers in a branch will continue to rise steadily, leading to an increase in the potential business opportunity from the existing branch.

Exhibit 29. Five-Star: AUM per branch (INR mn)



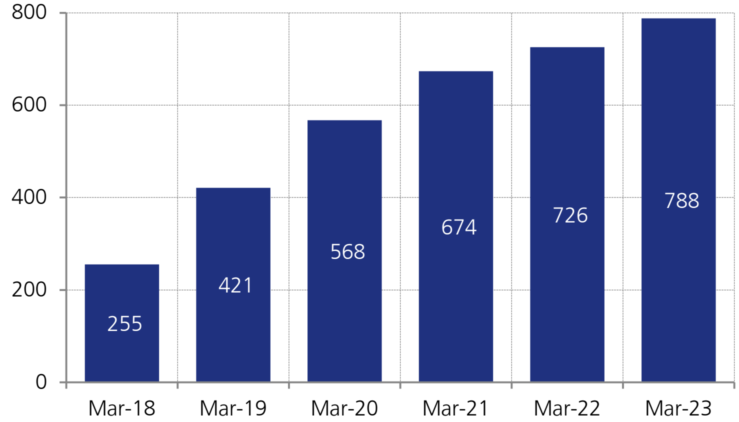
Source: Company, JM Financial

Exhibit 30. Five-Star: Business and collections officers per branch



Source: Company, JM Financial

Exhibit 31. Five-Star: Live accounts per branch

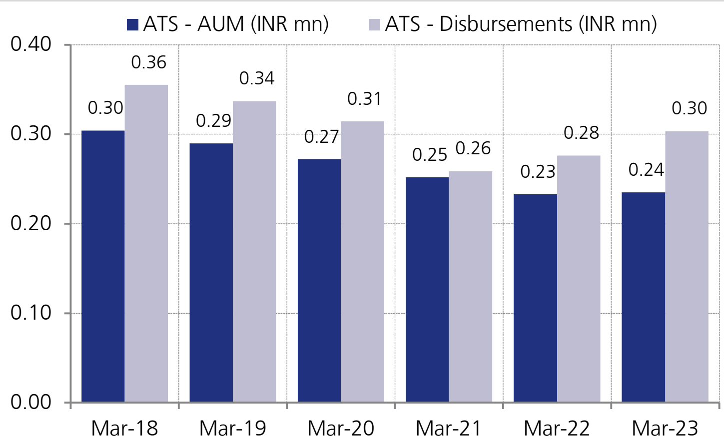


Source: Company, JM Financial

Gradual increase in ATS aligned with inflation:

The ATS for Five-Star in Q4FY23 was approximately INR 0.32mn. Before the Covid-19 pandemic, it was already ~INR 0.33mn-0.35mn. However, during the period of uncertainty brought about by the pandemic, the company consciously tightened its credit metrics, leading to a decrease in ATS to around INR 0.25mn. As the economy is gradually recovering and reopening, ATS has started to recover and is currently at INR 0.32mn. Over the next few quarters, Five-Star expects to gradually increase the ATS to ~INR 0.33mn-0.35mn. Beyond that, future increases in ticket size will largely be driven by inflationary factors.

Exhibit 32. Five-Star: Average ticket size on AUM and disbursements have been ~INR 0.25mn-0.30mn

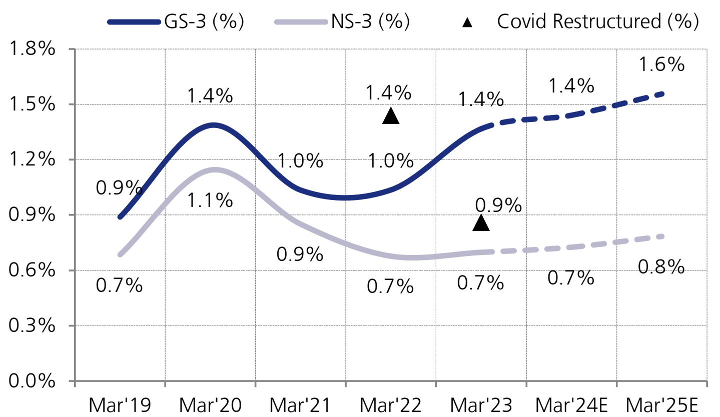


Source: Company, JM Finan

Asset quality – impeccable track record; sustainability critical

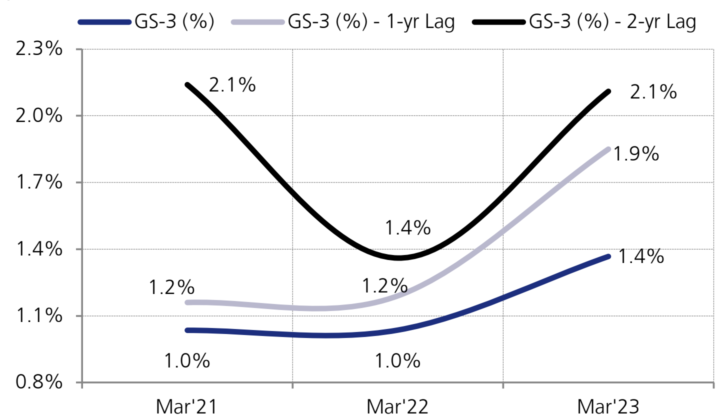
Five-Star's 100% in-house sourcing, comprehensive credit assessment and robust risk management and collections framework allows it to identify, monitor and manage risks inherent in its operations. This, in turn, has aided the company to maintain robust gross stage 3 assets of 1.36%. Even on a 1-year and 2-year lag basis, Five-Star's GS3 ratio remains at comfortable levels of 1.85% and 2.11% respectively. Five-Star was able to manage its CG3 ratio at robust levels (with a slight increase) on account of transition to new IRAC norms.

Exhibit 33. Five-Star: Trends in NPL ratios



Source: Company, JM Financial; for Mar'23 GS-3 and NS-3 are higher by 32bps and 22bps resp. due to new IRAC norms

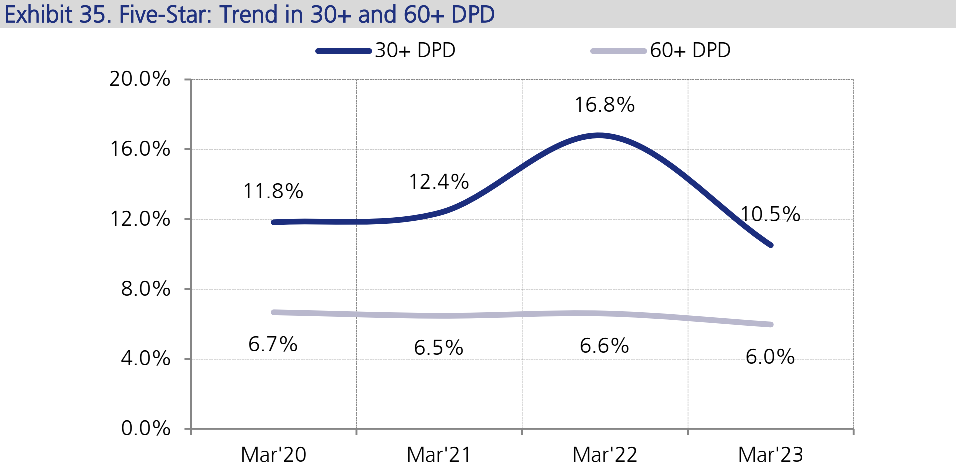
Exhibit 34. Five-Star: Trend in GS-3 ratio on lagged basis



Source: Company, JM Financial

Considering that a significant number of Five-Star's customers have previously borrowed from unorganised lenders or moneylenders, minor delays in the repayment of regular monthly instalments are seen as a normal part of the repayment culture. As a result, a portion of the loan portfolio falls under the overdue category, ranging from 1 to 90 days past due (DPD). However, it's important to note that loans classified as 1-90 DPD being overdue does not automatically mean that they will result in default or revenue loss. This is primarily due to Five-Star's strong collection and monitoring system.

Exhibit 35. Five-Star: Trend in 30+ and 60+ DPD



Source: Company, JM Financial

To ensure effective engagement between business officers and customers, Five-Star follows a high-touch collections process. Each relationship officer is responsible for an average of 120 customers, allowing them to attend to each loan effectively and maintain a robust asset quality. Additionally, Five-Star has a comprehensive monitoring mechanism that involves the participation and intervention of various individuals across the business, further contributing to the strength of its asset quality.

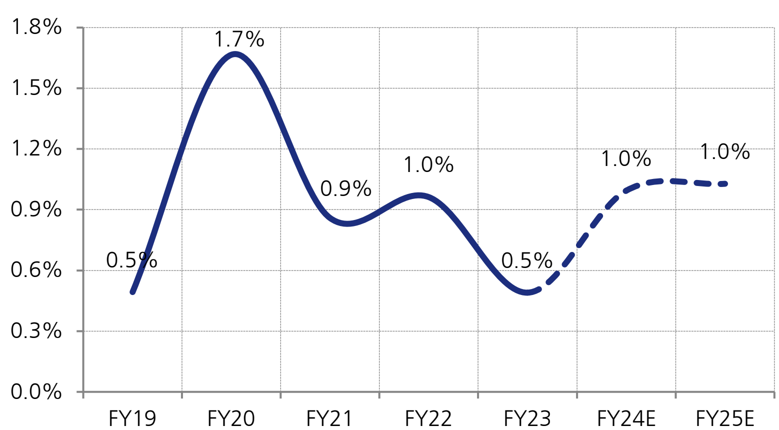
For accounts falling within the 1-30 DPD range, collection efforts include reminders via messages, calls from the branch, and visits by the branch manager to the customer's residence or business. For loans in the 31-60 DPD category, Five-Star's supervisory layer, consisting of senior branch managers, area managers, regional managers, and state heads of business and collections, may get involved. Officials from the head office may also take follow-up actions, along with additional in-person visits by other members of the business and collections team. In such situations, Five-Star may initiate legal action as a first step.

For loans classified as 61-90+ DPD, follow-up activities are carried out by the head office, with senior management officials, including the Deputy Head of Business and Collections, Chief Business Officer, COO, CEO, and the Chairman and Managing Director, becoming involved on a need basis. Every effort is made to stabilise the account within the same category or roll it back to lower categories. Subsequent actions may include serving a legal notice to the borrower and co-applicants, and filing arbitrations if necessary. When it comes to accounts in the 90+ DPD category, the corporate office and the branch coordinate efforts to bring the account to a lower category.

As a result of these efforts, Five-Star has been successful in recovering a significant portion of revenue even on loans that are overdue within the 1-90 DPD range. One of the primary reasons for this successful recovery is the collateral property held by Five-Star, which tends to appreciate in value over time. Additionally, conservative loan-to-value ratios (LTVs) at the time of loan sanction further reduce the risk over the loan term. Collateralised properties typically represent a substantial portion of the customers' net worth, and they prefer to work with Five-Star to resolve the delay rather than risk losing possession of their collateral. Even, in cases of stage 3 gross term loans, Five-Star has a proven track record of profitable recovery without any principal loss, leading to lower credit cost for the company.

Thus, Five-Star has successfully kept its credit cost under control and we expect this trend to sustain in the near to medium term as well.

Exhibit 36. Five-Star: Trend in credit cost



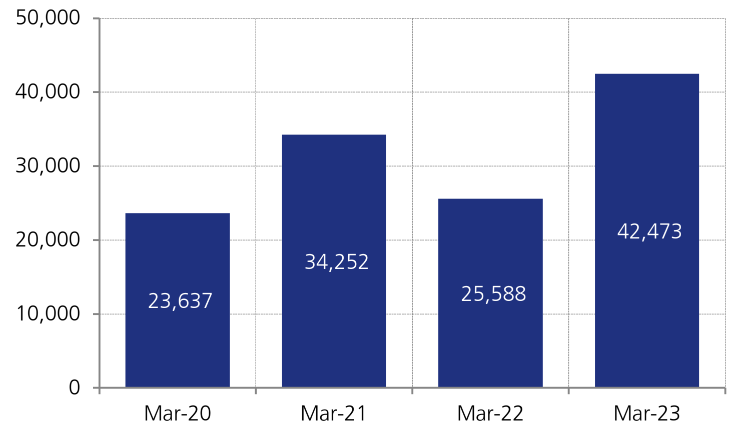
Source: Company, JM Financial

Diversified borrowing profile with strong capital ratios

Five-Star has a diversified borrowing profile with 50 lending relationships with a view to prevent over-reliance on any single lender. Majority of funding is sourced from bank loans (56% as of Mar'23) while capital market borrowings contribute c.12% of total borrowings. As of Mar'23, c.35% of the borrowings were at fixed rates – down from 66% as of Mar'22. This was on account of scheduled maturity of fixed rate borrowings during the year and they being replaced by floating rate borrowings. The management indicated that, given the current higher interest rate environment, which is expected to go down in the forthcoming quarters/years, it did not want to lock in long-term borrowings at higher interest rates and had, hence, increased the proportion of floating rate borrowings.

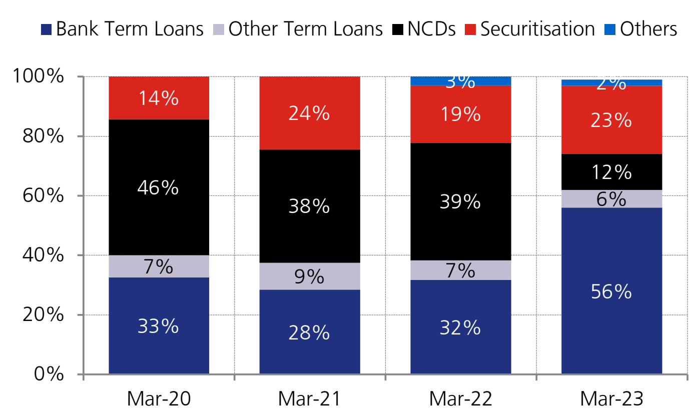
Five-Star generally maintains liquid funds to cover at least the gross of (i) next 3 months of scheduled debt repayments, (ii) next 3 months of operational cost and (iii) next 1 month of projected disbursements. Further, given the longer-tenure nature of the company's assets, it does not rely on short-term borrowings like commercial papers and, thus, has no cumulative mismatch in its asset liability position.

Exhibit 37. Five-Star: Trend in borrowings



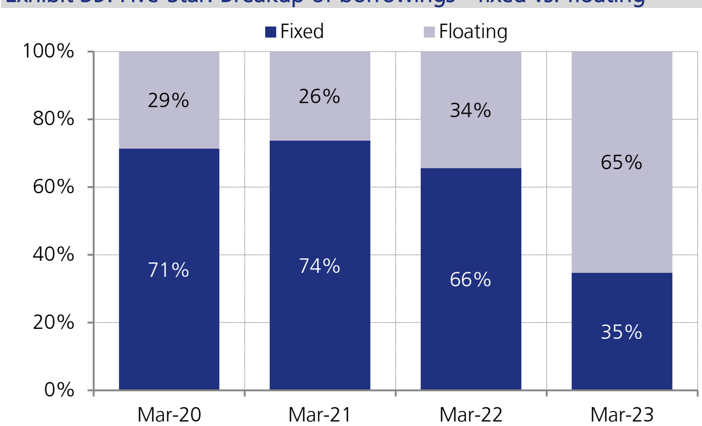
Source: Company, JM Financial

Exhibit 38. Five-Star: Breakup of borrowings



Source: Company, JM Financial

Exhibit 39. Five-Star: Breakup of borrowings - fixed vs. floating



Source: Company, JM Financial

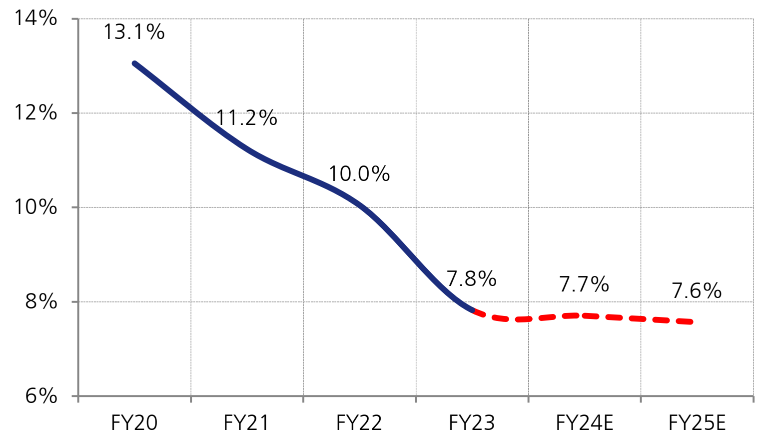
Five-Star has recently received a rating upgrade from ICRA and its long-term ratings now stand at ICRA AA- (stable) and IND AA- (stable). The rating upgrade should help Five-Star in maintain its cost of borrowings at lower levels, and we build in cost of borrowings (calculated) to gradually reduce to ~7.6% in the next 2 years.

Exhibit 40. Five-Star: Credit ratings from various rating agencies

Rating Agency	Credit Rating	Rating Month
ICRA	ICRA AA- (Stable)	Mar'23
India Ratings	IND AA- (Stable)	Jan'23
CARE	CARE A+ (Stable); CARE A1+	Jul'22

Source: Company, JM Financial

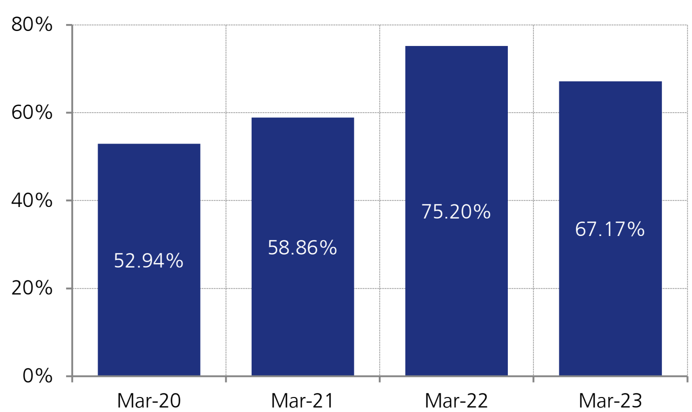
Exhibit 41. Five-Star: Trend in cost of borrowings (calculated)



Source: Company, JM Financial

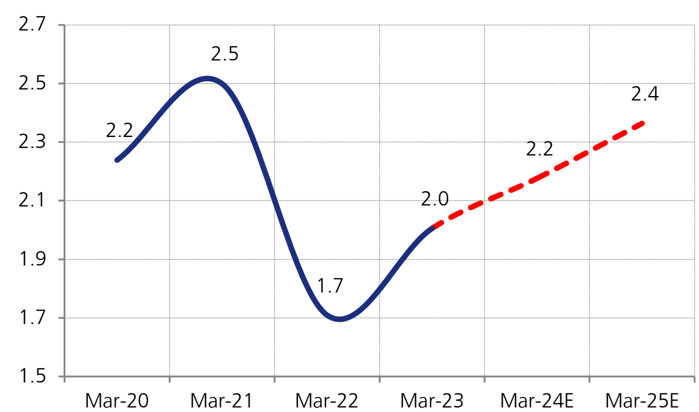
Five Star has a high CRAR of 67.2%; that, along with high internal accruals, should be sufficient to fund the company's medium-term loan growth targets.

Exhibit 42. Five-Star: Trend in CRAR



Source: Company, JM Financial

Exhibit 43. Five-Star: Trend in gearing



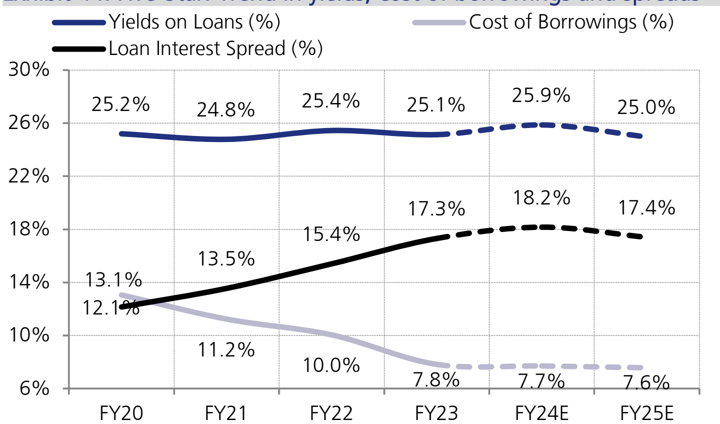
Source: Company, JM Financial

Margin expected to remain strong

Five-Star's entire AUM is at fixed rate lending with 95% of the loans sanctioned having interest rate of 24-26% and tenure of 5-7 years. Thus, the portfolio yield inch up is gradual. However, Five-Star has been able to protect its lending spreads even in an increasing interest rate environment on the back of decline in cost of funding (as discussed earlier) and has, thus, been able to maintain healthy portfolio NIMs of 16.9% in FY23.

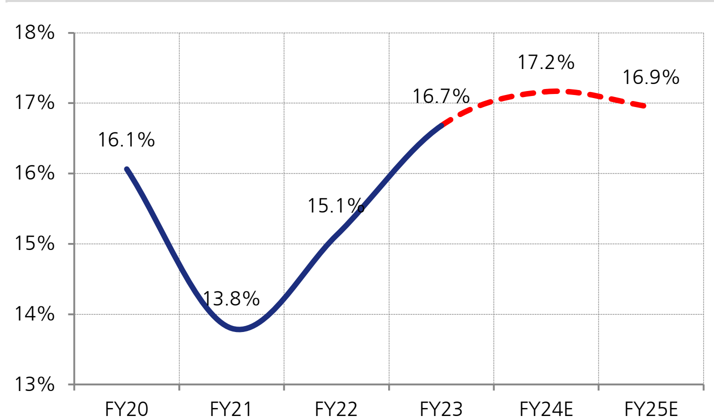
We expect Five-Star to see a yield uptick in FY24E as the benefit of increase in lending rates starts to reflect in overall portfolio yields. This coupled with low cost of borrowings (as discussed earlier) should aid in increasing the company's loan spreads, which should consequently aid in expansion of NIMs. However, the management also indicated that it will pass on some benefit of the lower cost of funding to the borrowers, which may, in turn, lead to a minor moderation in NIMs in FY25E.

Exhibit 44. Five-Star: Trend in yields, cost of borrowings and spreads



Source: Company, JM Financial

Exhibit 45. Five-Star: Trend in NIMs (%)



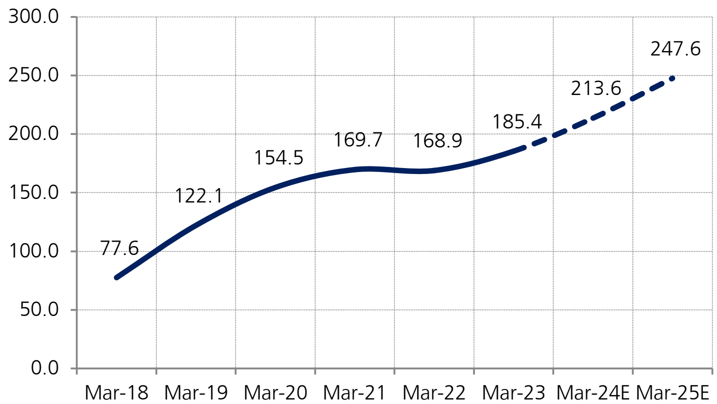
Source: Company, JM Financial; % of IEA

Operating leverage to start playing out

While Five-Star will continue its branch expansion strategy in newer geographies, for existing geographies where it already has a successful branch it has a policy of adding more employees to the existing branch rather than opening a new branch. This practice helps improve cost efficiencies at the organisation level.

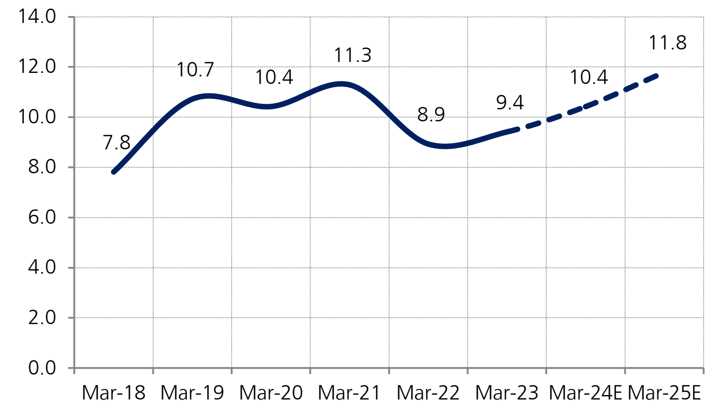
Thus, even with the target opening of 60 new branches per year, we expect the productivity of branches/employees to improve continuously. We expect the AUM per branch to go up from the current c.INR 185mn to c.INR 250mn by FY25E on the back of increase in number of employees per branch and also AUM per employee (though number of clients per employee is expected to remain ~85-100, disbursement ticket size is expected to increase, leading to increase in AUM per employee).

Exhibit 46. Five-Star: AUM per branch (INR mn)



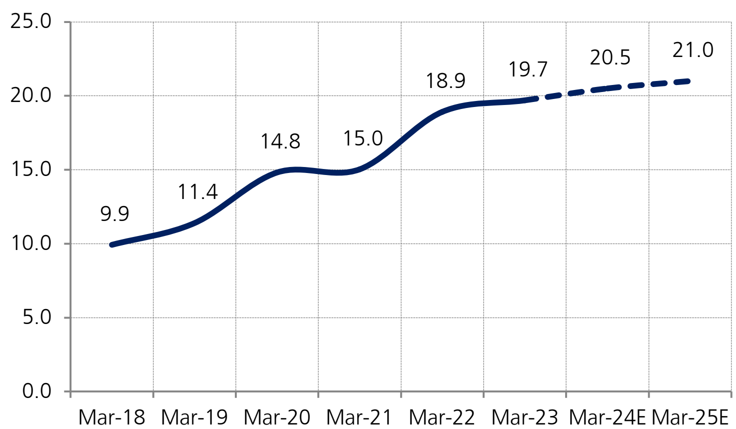
Source: Company, JM Financial

Exhibit 47. Five-Star: AUM per employee (INR mn)



Source: Company, JM Financial

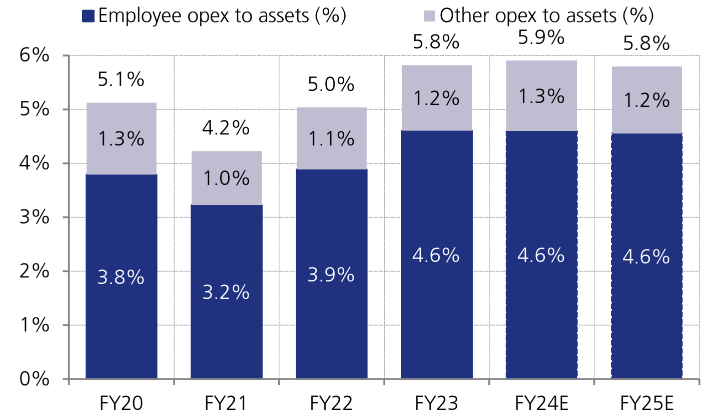
Exhibit 48. Five-Star: Employees per branch



Source: Company, JM Financial

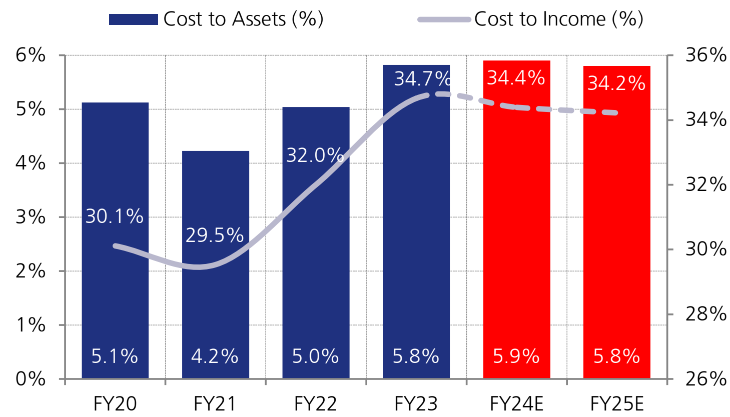
Thus, we expect Five-Star to maintain healthy cost ratios with cost to asset ratio and cost to income ratio at 5.8% and 34.2% respectively by FY25E.

Exhibit 49. Five-Star: Trend in employee and other opex ratios



Source: Company, JM Financial

Exhibit 50. Five-Star: Trend in cost ratios



Source: Company, JM Financial

Best-in-class returns metrics

Five-Star has demonstrated its ability to reduce its funding cost as it has achieved scale, which, in turn, bodes well for spreads and NIMs over the medium term. Strong margin profile, further aided by controlled opex and low credit cost should help sustain Five-Star's strong return metrics and we expect it to report RoA of 7.9-8.0% over FY23-25E. While near-term RoE is expected to be a bit suppressed due to high capital adequacy (67.2% Tier1), we expect RoE to expand to 17.9%% by FY25E and forecast earnings CAGR of 29% over FY23-25E.

Exhibit 51. Five-Star: DuPont (% of assets)

DuPont (% of Assets)	FY20	FY21	FY22	FY23	FY24E	FY25E
NII / Assets (%)	15.8%	13.6%	14.9%	16.4%	16.9%	16.7%
Other income / Assets (%)	1.2%	0.7%	0.9%	0.4%	0.3%	0.3%
Total Income / Assets (%)	17.0%	14.3%	15.7%	16.8%	17.2%	16.9%
Employee Cost to Assets (%)	3.8%	3.2%	3.9%	4.6%	4.6%	4.6%
Other Cost to Assets (%)	1.3%	1.0%	1.1%	1.2%	1.3%	1.2%
Cost to Assets (%)	5.1%	4.2%	5.0%	5.8%	5.9%	5.8%
PPP / Assets (%)	11.9%	10.1%	10.7%	11.0%	11.3%	11.1%
Provisions / Assets (%)	1.5%	0.7%	0.8%	0.3%	0.6%	0.6%
PBT / Assets (%)	10.4%	9.4%	10.0%	10.7%	10.7%	10.5%
ROA (%)	7.8%	7.1%	7.5%	8.0%	8.0%	7.9%

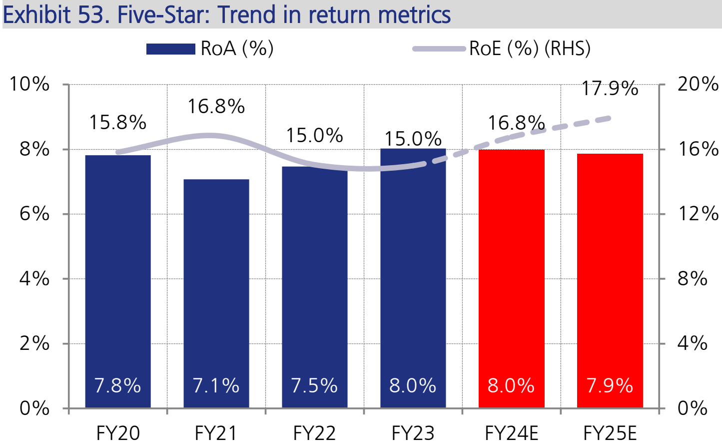
Source: JM Financial, Company

Exhibit 52. Five-Star: DuPont (% of AUM)

DuPont (% of Assets)	FY20	FY21	FY22	FY23	FY24E	FY25E
NII / AUM (%)	17.7%	16.6%	19.0%	20.6%	20.7%	19.8%
Other income / AUM (%)	1.4%	0.9%	1.1%	0.5%	0.4%	0.3%
Total Income / AUM (%)	19.0%	17.4%	20.1%	21.1%	21.1%	20.1%
Employee Cost to AUM (%)	4.2%	3.9%	5.0%	5.8%	5.7%	5.4%
Other Cost to AUM (%)	1.5%	1.2%	1.5%	1.5%	1.6%	1.5%
Cost to AUM (%)	5.7%	5.1%	6.4%	7.3%	7.3%	6.9%
PPP / AUM (%)	13.3%	12.3%	13.7%	13.8%	13.9%	13.2%
Provisions / AUM (%)	1.6%	0.8%	1.0%	0.3%	0.7%	0.8%
PBT / AUM (%)	11.6%	11.4%	12.7%	13.4%	13.1%	12.5%
ROAUM (%)	8.7%	8.6%	9.5%	10.1%	9.8%	9.3%

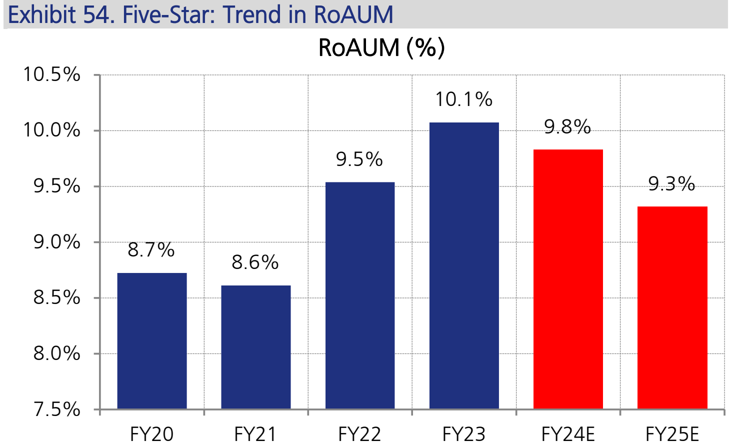
Source: JM Financial, Company

Exhibit 53. Five-Star: Trend in return metrics



Source: Company, JM Financial

Exhibit 54. Five-Star: Trend in RoAUM



Source: Company, JM Financial

Experienced leadership with a longstanding promoter and professional management team

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

Exhibit 55. Five-Star: Senior management team profile

Name	Designation	Profile
Lakshmipathy Deenadayalan	Promoter, Chairman and Managing Director	Mr. Lakshmipathy is an Engineering graduate from Madras University. He hails from a business family. Before joining Five-Star he was Managing Director of RKV Finance Limited, a NBFC registered with RBI. On amalgamation of RKV with Five-Star during 2002 he joined the Board of Five-Star as Joint Managing Director. His wide exposure in lending to small business customers, which was successful in that company, helped him to develop a similar advance portfolio at Five-Star with great success. Presently, he is also Director, Finance Companies Association of India and Management Committee member, South India Hire Purchase Association. He is on various committees of both the associations and takes active interest in the development of trade associations.
Rangarajan Krishnan	Chief Executive Officer	Rangarajan is a well-rounded finance professional with about 15 years of work experience across commercial banking, private equity investment, project finance and advisory. He started his career with HDFC Bank in the Corporate Banking division and then moved on to Standard Chartered Bank in the Mid-Market Commercial Banking division catering to a wide range of fund/ non-fund, trade and treasury requirements of these corporates. He then worked with the South Asia Infrastructure Investment team at International Finance Corporation, World Bank, and led a wide array of equity/ debt investments in projects across different economies. Over the last 5 years before joining Five-Star, he was with Spark Capital where he headed their advisory/ investment banking initiatives across the financial services and consumer sectors. He joined Five-Star in Aug'15 as Chief Operating Officer and heads business, credit and operations. By qualification, he is a commerce graduate and has done two Masters in Business Administration (one from Sri Sathya Sai Institute of Higher Learning and one from The Indian School of Business) with specialisation in Analytical Finance and Leadership.
Srikanth Gopalakrishnan	Chief Financial Officer	Srikanth is a seasoned banking and finance professional with a combined experience of about 15 years across multiple functions. He spent the first 8 years of his career in Citibank and other Citigroup entities working across various functions like financial planning and analysis, Securitisation and Structuring, Treasury, and Operations. He was the Vice President and Head of Business Planning and Analysis for the Consumer portfolio of Citibank when he moved out of the bank to take up the role of Chief Financial Officer at Asirvad Microfinance Private Limited. Srikanth is a commerce graduate and holds an MBA in Finance and General Management from Sri Sathya Sai Institute of Higher Learning (Deemed University) and has been a gold medallist in both the UG and PG courses.
Vishnuram Jagannathan	Chief Operating Officer	Vishnuram is an experienced banking professional with over 15 years' experience across transaction banking and operations. He had previously worked with HDFC Bank and HSBC where he was part of the Global Trade & Receivable Finance team. Prior to joining Five-Star, Vishnuram was the Vice President at Deutsche Bank heading the transaction banking division of the bank in Tamil Nadu and Andhra Pradesh.
Parthasarathy Srinivasan	Chief Credit Officer	Parthasarathy is a Chartered Accountant with 14+ years of banking experience. He started his career with ICICI Bank and then moved to Standard Chartered Bank as a Credit Analyst. His last assignment was with DBS Bank (Development Bank of Singapore) as a Vice President, where he worked close to 9 years in the Risk Analytical Unit of Large Corporates managing the portfolio of clients based in Tamil Nadu and Kerala.
Sathya Ganesh Thirumalaidoss	Chief Business Officer	Sathya comes with 18+ years of experience with Banks & NBFCs and had worked with various organisations including ICICI Bank, Cholamandalam and Equitas. Prior to joining Five Star, Sathya headed Shriram Housing in Tamil Nadu. At Five-Star, Sathya heads the Business and Collections vertical of Tamil Nadu, Andhra Pradesh and Telangana. He is a Post Graduate in Commerce from Madras University and holds an MBA in Banking & Finance from Symbiosis, Pune.
Vanamali Sridharan	Chief Technology Officer	Vanamali Sridharan is a banking and financial services professional with over 3 decades of experience in the industry. He has spent many years with international banks such as Standard Chartered & Natwest Group in global roles across various businesses and functions. He has led many global technology transformation programmes in these organisations, with a significant part of his career spent in the Middle East and South Asia markets, based in Dubai. During his career, he has also worked in technology services organisations such as Tata Consultancy Services and Accenture. More recently, he has been responsible for setting up and leading technology transformation at a couple of small finance banks such as Equitas & Suryoday. By qualification, he is an engineering graduate with a specialisation in Computer Science and a Masters in Business Administration specialising in Marketing & Finance.
Jayaraman Sankaran	Chief Risk Officer	Jayaraman is a qualified Chartered Accountant and comes with about 22 years of work experience in areas of Credit, Finance & Treasury. He was with Redington for over 15 years handling areas like Credit Management, Investor Relations, Indirect Taxation and Internal Audit, etc.
Naveen Raj	Chief Audit Officer	Naveen Raj is a Qualified Chartered Accountant with more than 16+ years of industry experience & has previously worked with leading audit firms like B S R & Co. LLP (KPMG) & Deloitte. He was the Audit Director in B S R & Co. LLP and was pivotal in building the Financial Services sector practice in the audit firm. He has handled various capital market transactions including structured transactions like Mergers & Acquisitions and has prior experience in analysing loan books & identifying high risk portfolios.
Ramesh Kannah	Chief Legal Officer	Ramesh is a Law & MBA Graduate and a qualified CAIIB professional with specialisation in Rural Banking. He has over 22 years of experience, specialising in Collections & Recoveries. Prior to joining Five-Star, he was the Head – Collections (Legal) in Piramal Capital & Housing Finance (DHFL). He had also worked in Legal divisions of leading Banks and NBFCs like Citibank, ICICI Bank, HDFC Bank and Cholamandalam Finance.
Prashanth S	Chief Treasury Officer	Prashanth is an MBA with more than 16 years' cross-functional experience across industry and advisory, of which the last 7 years have been spent working with a number of corporates across industries shepherding various fund-raise proposals from banks, FIs, etc.
M Sai Suryanarayana	Chief People Officer	Sai Surya comes with 26 years of experience across industries. He has worked with various organisations like ING Vysya Bank, Toyota Financial Services and AU Small Finance Bank. Prior to joining Five-Star, he worked as Chief People Officer at Fincare Small Finance Bank based at Bangalore. At Five Star, Sai Surya will be responsible for all People Deliverables - building talent capabilities to support & power up the scaling up plans. He will work closely with the Management Team to further strengthen the culture of excellence at Five-Star. He holds a PGDPM from Xavier Institute of Social Service, Ranchi.
Shalini Baskaran	Company Secretary & Compliance Officer	Shalini is a qualified Company Secretary and a Commerce graduate who started her career with Five-Star in 2017. She is currently the Company Secretary and Compliance Officer of Five-Star, and she is responsible for all the secretarial compliances across various regulations.

Source: Company, JM Financial

In addition to compensation that includes both salary and allowances (including performance linked bonuses), Five-Star also provides its employees with other benefits including insurance coverage, medical reimbursements and employee stock options. As of Jun'22, 301 employees were covered under the ESOP programme with c.4.13mn options in force (representing c.1.4% of outstanding equity shares).

Valuation and View

A high yield portfolio, controlled opex and low credit cost should help sustain Five-Star's strong return metrics. While near-term RoE is suppressed due to high capital adequacy (67.2% Tier1), we expect RoE to expand to 17.9% by FY25E and forecast earnings CAGR of 29% over FY23-25E. We value Five-Star at 3.3x FY25E P/BV and initiate coverage with a BUY rating and TP of INR 680. Five-Star's inability to execute growth plans while maintaining asset quality in newer geographies and sharp broad-based deceleration in economic activity are key risks to our call.

Exhibit 56. Five-Star: Steady State (Schematic) RoE

NII / Assets (%)	15.0%
Other income / Assets (%)	0.3%
Total Income / Assets (%)	15.3%
Cost to Assets (%)	5.5%
PPP / Assets (%)	9.8%
Provisions / Assets (%)	1.0%
PBT / Assets (%)	8.8%
ROA (%)	6.5%
Leverage (x)	3.2x
ROE (%)	21.0%

Source: JM Financial

Exhibit 57. Five-Star: Computation of Valuation multiple

Blended ROE	20.2%
g (initial growth)	16.2%
r (Cost of equity)	12.7%
gn (perpetual growth rate)	5.1%
n (initial growth period, years)	10
Payout 1	20%
Payout n	75%
K1	2.37
K2	13.91
P/BV	3.3x

Source: JM Financial

Key Risks

- Pressure on yields due to increased competition: Five-Star is able to charge higher yields of 24-26% to its customers given that it enjoys a competitive advantage over banks, MFIs and other NBFCs (on ticket size and underwriting capabilities built over time). If there is an increase in competition in Five-Star's target segment, it could pressure on the company's yields and margins.
- Inability to maintain healthy asset quality parameters: While Five-Star has successfully maintained its asset quality parameters within comfortable range despite higher early buckets delinquencies on the back of strong monitoring and collection mechanism, any failure to sustain its asset quality metrics in future leading to increase in credit costs will be a risk.
- Broad based economic slowdown: Broad based slowdown in the Indian economy may pose as a risk to our AUM and earnings growth estimates.

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	6,897	9,032	12,325	16,750	21,203
Non Interest Income	364	524	301	308	347
Total Income	**7,261**	**9,556**	**12,627**	**17,058**	**21,550**
Operating Expenses	2,144	3,058	4,378	5,867	7,375
Pre-provisioning Profits	**5,116**	**6,497**	**8,249**	**11,191**	**14,175**
Loan-Loss Provisions	252	163	490	575	812
Others Provisions	100	293	-289	0	0
Total Provisions	**352**	**455**	**201**	**575**	**812**
PBT	**4,764**	**6,042**	**8,047**	**10,617**	**13,364**
Tax	1,174	1,507	2,012	2,675	3,368
PAT (Pre-Extra ordinaries)	**3,590**	**4,535**	**6,035**	**7,941**	**9,996**
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	**3,590**	**4,535**	**6,035**	**7,941**	**9,996**
Dividend	0	0	0	0	1,200
Retained Profits	**3,590**	**4,535**	**6,035**	**7,941**	**8,796**

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	256	291	291	291	291
Reserves & Surplus	22,925	36,812	43,104	51,045	59,842
Stock option outstanding	0	0	0	0	0
Borrowed Funds	34,252	25,588	42,473	58,188	79,717
Deferred tax liabilities	0	0	0	0	0
Preference Shares	502	739	1,160	2,235	2,854
Current Liabilities & Provisions	0	0	0	0	0
Total Liabilities	**57,936**	**63,431**	**87,028**	**111,760**	**142,704**
Net Advances	43,587	51,024	68,222	91,253	120,424
Investments	0	2,482	1,446	1,934	2,553
Cash & Bank Balances	13,557	8,799	15,809	16,426	17,462
Loans and Advances	0	0	0	91	120
Other Current Assets	192	339	570	794	535
Fixed Assets	230	319	449	576	736
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	370	467	533	685	874
Total Assets	**57,936**	**63,431**	**87,028**	**111,760**	**142,704**

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	44.9%	-25.3%	66.0%	37.0%	37.0%
Advances	13.8%	17.1%	33.7%	33.8%	32.0%
Total Assets	33.1%	9.5%	37.2%	28.4%	27.7%
NII	30.2%	31.0%	36.5%	35.9%	26.6%
Non-interest Income	-10.2%	44.0%	-42.5%	2.3%	12.6%
Operating Expenses	24.8%	42.6%	43.1%	34.0%	25.7%
Operating Profits	28.3%	27.0%	27.0%	35.7%	26.7%
Core Operating profit	28.3%	26.2%	29.9%	35.8%	26.8%
Provisions	-28.7%	29.4%	-55.7%	185.2%	41.3%
Reported PAT	37.0%	26.3%	33.1%	31.6%	25.9%
Yields / Margins (%)					
Interest Spread	9.07%	10.11%	12.46%	13.43%	13.55%
NIM	13.80%	15.12%	16.68%	17.16%	16.94%
Profitability (%)					
ROA	7.08%	7.47%	8.02%	7.99%	7.86%
ROE	16.8%	15.0%	15.0%	16.8%	17.9%
Cost to Income	29.5%	32.0%	34.7%	34.4%	34.2%
Asset quality (%)					
Gross NPA	1.03%	1.04%	1.37%	1.44%	1.56%
LLP	0.86%	0.96%	0.49%	0.99%	1.03%
Capital Adequacy (%)					
Tier I	58.86%	75.20%	67.17%	62.40%	57.62%
CAR	58.86%	75.20%	67.17%	62.40%	57.62%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	13.59%	14.88%	16.38%	16.85%	16.67%
Other Income / Assets	0.72%	0.86%	0.40%	0.31%	0.27%
Total Income / Assets	14.31%	15.75%	16.78%	17.16%	16.94%
Cost / Assets	3.23%	3.89%	4.60%	4.60%	4.56%
PPP / Assets	10.08%	10.71%	10.96%	11.26%	11.14%
Provisions / Assets	0.69%	0.75%	0.27%	0.58%	0.64%
PBT / Assets	9.39%	9.96%	10.70%	10.68%	10.50%
Tax rate	24.7%	24.9%	25.2%	25.2%	25.2%
ROA	7.08%	7.47%	8.02%	7.99%	7.86%
Leverage	2.5	1.7	2.0	2.2	2.4
ROE	16.8%	15.0%	15.0%	16.8%	17.9%

Source: Company, JM Financial

Valuations					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	256.4	291.3	291.4	291.4	291.4
EPS (INR)	14.0	15.6	20.7	27.3	34.3
EPS (YoY) (%)	36.7%	11.2%	33.1%	31.6%	25.9%
P/E (x)	38.9	35.0	26.3	20.0	15.9
BV (INR)	90	127	149	176	206
BV (YoY) (%)	18.9%	40.9%	16.9%	18.3%	17.1%
P/BV (x)	6.03	4.28	3.66	3.09	2.64
DPS (INR)	0.0	0.0	0.0	0.0	4.1
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.8%

Source: Company, JM Financial

APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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