

IPO TIMELINE

Events	Date
IPO Opening Date	9 Nov 2022
IPO Closing Date	11 Nov 2022
Allotment Date	16 Nov 2022
Initiation of Refunds	17 Nov 2022
Credit of Shares to Demat	18 Nov 2022
IPO Listing Date	21 Nov 2022

IPO LOT SIZE

Application	Lots	Shares	Amount
Retail (Min)	1	31	14,694
Retail (Max)	13	403	1,91,022
S-HNI (Min)	14	434	2,05,716
B-HNI (Min)	69	2139	10,13,886

IPO KEY DETAILS

Price Band	₹450 to ₹474
Face Value	₹1 per share
Issue Size	₹ 1960 crore
Reservation	QIB 50%, Retail 35%, NII 15%
Post Issue Market Cap	₹ 13,111 - 13,800

FINANCIAL PERFORMANCE (Rs. Cr)

Y/E March	FY20	FY21	FY22
Revenue	787	1050	1254
Revenue Growth	92%	33%	19.42%
NII	479.17	639.1	828.96
NIM (%)	16.69%	16%	17.68%
EBITDA	578	814	919
EBITDA margin	73.4%	77.5%	73.3%
PAT	262	359	454
PAT growth	66.9%	37%	26.40%
PAT margin	33.3%	34.2%	36.2%
EPS	103.80	142.26	15.63
RoE (%)	15.35%	16.85%	13.86%
RoTA(%)	7.31%	6.99%	7.16%

PEER COMPARISONS

Company Name	Revenue (Rs Cr)	PAT (Rs Cr)	PAT margin	P/E(x)
AU Small Fin.	5922	1130	19%	32.5
Home Frist Fin.	596	186	31.2%	29.5
Bajaj Finance	31,633	7028	22.2%	44
Five-Star	1254	454	36.2%	30

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Our Recommendation: Five Star Business Finance reported strong revenue growth at 16.80% CAGR between FY2020-2022 and healthy Net Profit growth of 20.11% CAGR in the same period. Though, there are several companies that are in the business of financing small and medium enterprises, but the strong financial performance recorded by Five Star Business Finance over the years, investing in this stock can be a good choice over the long term. The IPO is fairly priced at 30x its FY22 earnings while its peers like AU Small Finance Bank and Bajaj Finance are trading at the P/E of 32.5x and 44x respectively. Investors may subscribe this IPO for medium to long-term gains.

About Company: Five Star Business Finance was founded in 1984 as NBFC to provide secure loans to micro-entrepreneurs and self-employed people. The company's goal is to provide this cohort with funding opportunities largely ignored by traditional financial institutions. Five Star Business Finance is headquartered in Chennai, Tamil Nadu and has a strong presence in the South Indian market. In total, the company will have 300 of his stores across India in 2022, more than double his 173 stores in 2019.

IPO Objectives: The Company will not receive any proceeds from the IPO as it is a complete OFS. The primary objectives of the IPO are i) to complete the Offer for Sale for existing investors. ii) to draw benefits from listing in the stock exchanges.

Key Products: About 95% of the company's loan portfolio consists of loans between Rs 1 lakh and Rs 10 lakhs with an average ticket size of Rs 2.7 lakhs, Rs 2.6 lakhs, Rs 3.1 lakhs, and Rs 3.4 lakhs in the six months ended September 30, 2021 and the Financial Years 2021, 2020 and 2019, respectively.

Industry Outlook: Lending to small businesses & SMEs has grown at a CAGR of 35.5% between FY 2017 and FY 2020. Post COVID, this rate will improve further aided by Govt's support to manufacturing sector and PLI scheme to some industries. NBFCs like Five Star Business Finance enjoys a 20% market share in this growing market. As per CRISIL report, small business loans (between Rs 1 lakh to Rs 10 lakh) will grow at a CAGR of 22% between FY2021 and FY2024. Five-Star Business Finance is well-positioned to take advantage of this tailwind as a major portion of their business is in this segment.

Business Growth Potential: Expansion of MSME industries: Five Star Business caters to the need of small businesses & MSME sector will grow with increased awareness about organized lenders like Five Star Business Finance. All MSME sector is starved of credit at reasonable rate, Five Star Business Finance with its established business and its reach, can take advantage of this. Company increased its branch base from 262 in FY21 to 300 in FY22. Company has strong presence in Southern parts of country and now the company is planning to expand its business in Maharashtra and Northern India

Key Risks:

- Company operates primarily in South Indian states, hence it is vulnerable to adverse regional developments.
- RBI's increasing interest rate to curb high inflation can hinder growth.

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Disclosure:

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