Five-Star Business Finance Limited

June 05, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	497.00 (Reduced from 1,847.00)	CARE AA-; Positive	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	3.00	CARE AA-; Positive / CARE A1+	Reaffirmed; Outlook revised from Stable
Commercial paper	25.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and debt instruments of Five-Star Business Finance Limited (Five-Star) factor in the company's long track record of operations in the secured MSME lending business, well-defined credit policy, and continuous growth in scale of operations with assets under management (AUM) growth of 23% in FY25. Ratings also factor in the strong capitalisation levels supported by good internal accruals, strong liquidity, and healthy profitability levels. However, ratings are constrained by the moderate seasoning of its loan portfolio, moderately diversified resource profile albeit improvement, concentration of its loan portfolio in terms of geography, wherein, diversification is under progress, moderation in asset quality parameters with increase in softer bucket delinquencies in FY25 and inherent risks associated with its borrower profile, mostly being small business owners or self-employed in the informal segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

- Significant improvement in the scale of operations.
- Improvement in geographical diversification.
- Diversification in the resource profile with improvement in the cost of borrowings.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Weakening of delinquency levels and asset quality, with gross non-performing asset (GNPA) of above 4% on a sustained basis.
- Decline in profitability, with return on total assets (ROTA) falling below 3% on a sustained basis.

Analytical approach: Standalone

Outlook: Positive

Positive outlook reflects CARE Ratings Limited's (CareEdge Ratings') expectation of continued growth momentum while maintaining capitalisation, stable profitability and asset quality, and strengthening of its resource profile. However, outlook may be revised to stable, in case the company is not able to grow its loan portfolio, or if there is significant moderation in asset quality and profitability.

Detailed description of key rating drivers:

Key strengths

Long track record of operations and experienced management team

Founded in 1984, Five-Star has over three decades' experience in the lending industry. The company initially focused on hire purchase and vehicle loans but has since transitioned to offering secured financial solutions tailored to small business owners and self-employed individuals, primarily in semi-urban regions.

As on March 31, 2025, Five-Star operated through a robust network of 748 branches across 10 states and one union territory, supported by a workforce of 11,934 employees. The company reported a gross loan portfolio of ₹11,877 crore. Notably, in FY25

[1]Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

alone, Five-Star expanded its footprint by adding 228 new branches, with significant growth in Andhra Pradesh, Karnataka, Tamil Nadu, Telangana and Madhya Pradesh.

The company benefits from a highly experienced leadership team. Chairman and managing director, D Lakshmipathy brings nearly two decades' expertise in the non-banking financial company (NBFC) sector and oversees daily operations. He is supported by a seasoned senior management team across functions. The board comprises eight directors, including four independent members, ensuring strong governance. Five-Star has established dedicated verticals for key operational areas, each led by experienced professionals at the senior management level.

Well-defined credit policy with stringent norms and evolving MIS

Five-Star primarily focuses on providing small business loans to borrowers in the micro, small, and medium enterprises (MSME) segment. These loans are fully secured by collateral and are mainly extended to service-oriented businesses, typically for repayment of debt taken from the informal sector for starting the business or for expanding operations, as well as to self-employed individuals. The company also provides loans for home renovation or modification and exigencies like wedding expenditure, children's education, medical emergencies etc. The typical loan ticket size ranges from ₹1 lakh to ₹10 lakh, with a smaller portion (1.32% as of March 31, 2025) comprising loans above ₹10 lakh—a share that has been steadily declining over the years.

The company targets middle and lower-middle-income segments in urban, semi-urban and rapidly developing rural areas. This borrower base is generally characterised by marginal credit profiles. To mitigate risk, Five-Star maintains a conservative loan-to-value (LTV) ratio of up to 50%, offering a significant buffer against potential delinquencies.

As on March 31, 2025, majority loans carried an internal rate of return (IRR) exceeding 23%, enabling the company to sustain strong profitability and growth without significant deterioration in asset quality. Operationally, Five-Star enforces robust internal controls. Its internal audit team conducts biannual visits to all branches, reporting directly to the head of the internal audit function. Independent credit officers—granted approval limits based on their tenure and experience—are responsible for evaluating borrower income and property, and for determining loan amounts and tenures. Considering its future growth strategy, Five-Star has undertaken initiatives to enhance its IT infrastructure, management systems, and internal control frameworks.

Improvement in scale of operations continues in FY25

Five-Star reported a 23% year-over-year (y-o-y) growth in its gross loan portfolio, reaching ₹11,877 crore as on March 31, 2025, compared to ₹9,641 crore as on March 31, 2024. Disbursements in FY25 stood at ₹4,970 crore. The average ticket size of loans disbursed increased to ₹3.58 lakh in FY25, up from ₹3.42 lakh in FY24.

Considering the envisioned growth plans for the next few years, the company has increased its employees and branches from 9,327 and 520 as on March 31, 2024, to 11,934 and 748 as on March 31, 2025, respectively, to support the growth plans for the next few years.

Strong capital adequacy levels

Five-Star has consistently attracted capital over the years, with the most recent equity infusion of ₹907 crore in FY22 from promoters, existing shareholders, and new investors. Over the eight-year period ending March 31, 2022, the company has raised ~₹2,300 crore in fresh equity from stakeholders. In FY23, Five-Star successfully completed its initial public offering (IPO), and its equity shares were listed on BSE Limited (BSE) and the National Stock Exchange of India Limited (NSE) on November 21, 2022.

The company's strong internal accruals have supported its capital base, with the capital adequacy ratio (CAR) remaining robust at 50.10% as on March 31, 2025, compared to 50.50% a year earlier—providing ample headroom for future growth and credit risk absorption. As of the same date, overall gearing stood at 1.28x, while net gearing (excluding cash and cash equivalents) was

0.93x, marginally higher than the previous year's 1.24x and 0.91x, respectively. The company has also declared first time dividend of 200% in April 2025 considering strong profitability in FY25.

CareEdge Ratings expects the capitalisation levels to remain strong over the medium term considering the company's healthy internal accruals and gearing is expected to remain within 3x over the medium term.

Healthy profitability

In FY25, Five-Star Business Finance Limited reported a PAT of ₹1,072 crore on a total income of ₹2,866 crore, with a pre-provision operating profit (PPOP) of ₹1,520 crore. This marks a notable increase from FY24, where the company posted a PAT of ₹836 crore on a total income of ₹2,195 crore (PPOP: ₹1,171 crore).

Operating in the MSME segment, where borrowers are transitioning from informal to formal credit channels, Five-Star has historically benefited from higher internal rates of return (IRR), contributing to strong profitability. However, in Q3FY25, the company strategically reduced its IRR to pass on the benefits of lower borrowing costs to its customers.

Despite significant investments in branch expansion and workforce growth, the company maintained operational efficiency. Operating expenses as a percentage of average total assets declined to 5.24% in FY25 from 5.50% in FY24, reflecting economies of scale. Net interest margin (NIM) remained strong at 16.32% in FY25, slightly down from 16.45% in FY24. Credit costs rose modestly to 0.69% in FY25 from 0.55% in FY24, with the stage 3 provision coverage ratio standing at 51% as on March 31, 2025. ROTA remained stable at 8.34% for FY25 and FY24.

CareEdge Ratings expects the profitability to remain healthy over the medium term with the spreads remaining higher and credit costs remaining under control.

Key weaknesses

Moderately diversified resource profile albeit improvement

As on March 31, 2025, term loans from banks and NBFCs accounted for ~72% Five-Star's total borrowings, down from 77% a year earlier witnessing shift towards market borrowings. The company also maintains working capital limits of ~₹46 crore, though utilisation remains minimal.

Borrowings through non-convertible debentures (NCDs) and pass-through certificates (PTCs) constituted 9.87% and 16.80% of total borrowings, respectively, as on March 31, 2025—compared to 4.61% and 17.17% in the previous year. Five-Star raised its first external commercial borrowing (ECB) of ₹76 crore in FY22, with the outstanding ECB balance representing 0.86% total borrowings as on March 31, 2025. The company has demonstrated improvement in its lender base over the years, reducing its dependence on banks by diversifying through other lender categories such as mutual funds, multinational and domestic development finance institutions. Going forward, the ability of the company to further diversify its funding profile and secure funds at competitive rates would be a key monitorable.

Concentration of its loan portfolio in terms of geography, wherein, diversification is under progress

Five-Star Business Finance Limited began its operations in Tamil Nadu and has gradually expanded its geographic footprint over the years. The company entered Andhra Pradesh and Karnataka in FY15, Telangana in FY17, Madhya Pradesh and Maharashtra in FY18, Chhattisgarh and Uttar Pradesh in FY20, Rajasthan in FY24, and most recently, Gujarat in FY25.

As on March 31, 2025, Five-Star operated 748 branches across 10 states, with the highest concentration in Andhra Pradesh (234), followed by Tamil Nadu (206 branches), Telangana (115), Madhya Pradesh (94), Karnataka (59), Maharashtra (25), Uttar Pradesh (6), Rajasthan (5), Chhattisgarh (3), and Gujarat (1). Andhra Pradesh alone accounted for 37.63% portfolio (up from 36.84% in the previous year), while the top three states—Tamil Nadu, Andhra Pradesh, and Telangana—collectively contributed 85.28% (down slightly from 87.56% in the previous year).

CareEdge Ratings expects the portfolio to remain geographically concentrated in the Southern India in the near term considering the significant presence of branches in the South and maturity of the business in the region. The company's ability to manage its growing scale of operations as it opens new branches and enters new geographies, while maintaining good asset quality remains critical for its growth prospects.

Concentration of loan portfolio in MSME segment

Five-Star primarily lends to the MSME segment, which is typically characterised by borrowers with marginal credit profiles. To mitigate the associated credit risk, the company maintains a conservative loan-to-value (LTV) approach. As on March 31, 2025, 99% outstanding loan portfolio had an LTV of less than 50%, providing a strong collateral cushion.

Considering the relatively smaller ticket sizes and modest collateral values, the company uses settlement through self-liquidation of the property by the customer as the preferred mode of recovery with a demonstrated track record and negligible loss of income (without principal loss) through this.

Moderate asset quality

Gross stage-III assets stood at 1.79% as on March 31, 2025, against 1.38% as on March 31, 2024. Stage-III provision coverage has stood at 51.30% as on March 31, 2025, as compared to 54.29% as on March 31, 2024. Delinquency in the softer buckets moderated in FY25, and on a y-o-y basis, 0+ and 30+ stood at 15.72% and 9.65%, respectively, as on March 31, 2025, from 12.61% and 7.89%, respectively, as on March 31, 2024. The company has demonstrated its ability in handling higher softer bucket delinquency in the past, which adds comfort.

Moderate seasoning

Although Five-Star has a longer operational history, its significant growth trajectory began in FY16. The rapid loan book expansion between FY16 and FY20 led to relatively lower portfolio seasoning, considering the typical loan tenure of five to seven years. However, with more controlled disbursements and moderate portfolio growth in FY21 and FY22, the seasoning profile improved in that period.

As on March 31, 2025, 39% loan portfolio had seasoning of less than one year, while 13% had seasoning of over three years. This compares to 47% and 16%, respectively, as on March 31, 2024. Considering the company's ongoing expansion plans, CareEdge Ratings anticipates portfolio seasoning will remain moderate in the near term.

Liquidity: Strong

The contracted tenure of the majority loan book ranges from six to seven years, while borrowings have a tenure of three to five years, which closely matches the behavioural tenor of its assets (after adjusting for prepayments). However, the company's asset and liability management profile remained comfortable, with no negative cumulative mismatches across time buckets as on March 31, 2025, as a significant portion of the portfolio is funded by equity. Five-Star has a contractual obligation (principal alone), including capital market borrowings, of ₹1,947 crore in FY26. Five-Star currently has a liquidity policy of maintaining liquidity of three months' expenses, three months' repayments, and one month's disbursement. Five-Star has been holding higher liquidity than per its internal policy with unencumbered cash and liquid investments of ₹2,295 crore as on March 31, 2025. It is further strengthened by its un-availed working capital limits, funds in the pipeline, and assets available for securitisation.

Environment, social, and governance (ESG) risks

The company's direct energy consumption includes the usage of fuel such as diesel in DG at its head office (Chennai) and hub offices in Andhra Pradesh and Karnataka. Indirect energy consumption includes the electricity purchased from the grid. Five-star's water consumption is minimal and is limited to use by its personnel only. By providing financial services to the 'unbanked and under-banked' segments of society, the company opens the door to financial inclusion and economic empowerment to the masses with ~25% customers being completely new-to-credit. Five-star has adopted a CSR strategy that enables them to improve the lives of communities. Five-star's business is exposed to internal and external risks, and the company ensures these risks are identified through a structured process. To reduce risks brought by increasing complexities in the cyberspace, the company has implemented facilities such as the Amazon cloud platform, periodic information technology audits, vulnerability assessments, and penetration testing carried out by an independent third-party agency.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Short Term Instruments
Non Banking Financial Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

Five-Star is a non-deposit taking NBFC (loan company), registered with RBI. The company was founded by V. K. Ranganathan in 1984. Five-Star lends mortgage loans for commencement of new businesses / improvement of their existing businesses (primarily towards the service sector), construction, takeover, home repairs and improvements, and personal loans among others, to small business entrepreneurs and self-employed customers. All these loans are collateralised and secured against the residential property of the customers and are given targeting the middle and lower middle-class segment in urban, semi urban, and fast-growing rural geographies. As on March 31, 2025, Five-Star has a gross loan portfolio of ₹11,877 crore operating through 748 branches present across ten states and one union territory with head office in Chennai, Tamil Nadu (TN). The company got listed in BSE and NSE in FY23. As on March 31, 2025, individual promoter and promoter group hold 18.38% of the shareholding.

Brief Financials (₹ crore) (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	March 31, 2025 (A)
Total Income	1,529	2,195	2,866
PAT	603	836	1,072
Interest coverage (times)	4.00	3.36	3.13
Total Assets	8,649	11,403	14,323
Net NPA (%)	0.69	0.63	0.88
ROTA (%)	8.08	8.34	8.34

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2
Detailed explanation of covenants of rated instrument / facility: Annexure-3
Complexity level of instruments rated: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	25.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	September, 2029	462.50	CARE AA-; Positive
Fund-based - LT-Working Capital Limits	-	-	-	-	34.50	CARE AA-; Positive
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	3.00	CARE AA-; Positive / CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Fund-based - LT-Term Loan	LT	462.50	CARE AA-; Positive	-	1)CARE AA-; Stable (07-Jun-24)	1)CARE AA-; Stable (08-Jun-23)	1)CARE A+; Stable (20-Jul-22) 2)CARE A+; Stable (05-Jul-22)
2	Fund-based - LT-Working Capital Limits	LT	34.50	CARE AA-; Positive	-	1)CARE AA-; Stable (07-Jun-24)	1)CARE AA-; Stable (08-Jun-23)	1)CARE A+; Stable (20-Jul-22) 2)CARE A+; Stable (05-Jul-22)
3	Commercial Paper-Commercial Paper (Standalone)	ST	25.00	CARE A1+	-	1)CARE A1+ (07-Jun-24)	1)CARE A1+ (08-Jun-23)	1)CARE A1+ (20-Jul-22) 2)CARE A1+ (05-Jul-22)
4	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (08-Jun-23)	1)CARE A+; Stable (20-Jul-22) 2)CARE A+; Stable (05-Jul-22)
5	Debentures-Market Linked Debentures	LT	-	-	-	-	-	1)Withdrawn (20-Jul-22) 2)CARE PP-MLD A+; Stable (05-Jul-22)
6	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (08-Jun-23)	1)CARE A+; Stable (20-Jul-22) 2)CARE A+; Stable (05-Jul-22)
7	Fund-based - LT/ ST-Working Capital Limits	LT/ST	3.00	CARE AA-; Positive / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (07-Jun-24)	1)CARE AA-; Stable / CARE A1+ (08-Jun-23)	1)CARE A+; Stable / CARE A1+ (20-Jul-22)

								2)CARE A+; Stable / CARE A1+ (05-Jul-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the Reserve Bank of India. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit. For more information: www.careratings.com

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