

September 02, 2025

Five-Star Business Finance Limited: Rating reaffirmed

Summary of rating action

| Instrument* | Previous rated amount (Rs. crore) | Current rated amount (Rs. crore) | Rating action |
|--------------------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Non-convertible debenture programme | 220.00 | 220.00 | [ICRA]AA- (Stable); reaffirmed |
| Long-term fund-based bank facilities | 6,500.00 | 6,500.00 | [ICRA]AA- (Stable); reaffirmed |
| Total | 6,720.00 | 6,720.00 | |

*Instrument details are provided in Annexure I

Rationale

The rating action factors in Five-Star Business Finance Limited's (FSBFL) strong capitalisation and track record of maintaining a robust earnings profile over the years. It provides mortgage-backed loans mainly to small business owners and self-employed individuals. The company expanded at a robust pace in the past {assets under management (AUM) rose at a compound annual growth rate (CAGR) of more than 60% during FY2017-FY2024}, though it has slowed down recently. FSBFL's AUM growth is expected to remain moderate at 20-25% in the medium term.

FSBFL's asset quality performance witnessed some moderation over the last two quarters, with its gross stage 3 (GS-3) increasing to 2.5% as of June 2025 (1.8% as of March 2025) from 1.4% as of March 2024, largely due to overleveraging issues at the borrower level. Credit costs would, therefore, remain elevated in the near term, though profitability would remain healthy. However, it is crucial to keep incremental slippages under control, considering the sizeable overlap of its borrowers with the microfinance segment, especially for its lower ticket size (<Rs. 3 lakh) loans. Hence, the company is taking steps to extend its focus on higher ticket size loans (Rs. 3-5 lakh and Rs. 5-10 lakh) with the share of this category in its overall portfolio expected to increase gradually, going forward. It is also strengthening its collections teams, especially in vulnerable locations. The rating continues to consider the secured nature of lending (more than 95% of the loans are secured against self-occupied residential properties) with 47% of the AUM as of June 2025 having a loan-to-value (LTV) ratio of less than 40%, which provides comfort against the modest risk profile of the target borrower segment.

FSBFL is expected to remain regionally concentrated in southern India over the medium term. As of June 2025, Andhra Pradesh (AP), Tamil Nadu (TN), Karnataka and Telangana accounted for 91% of the overall portfolio (100% as of March 2018).

The Stable outlook takes into consideration ICRA's expectation that the company will maintain robust earnings and capital buffers, notwithstanding the recent moderation in the asset quality performance, which shall support its credit profile in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Strong capital structure – FSBFL has a strong capitalisation profile with a net worth of Rs. 6,574 crore and a capital adequacy ratio (CAR) of 49.1% as of June 2025. The CAR includes the impact of higher risk weights for consumer credit extended by non-banking financial companies (NBFCs) as ~40% of its loans were classified as having been given for consumption purposes, though these were secured in nature. Regular equity infusions in the past (~Rs. 2,273 crore raised during FY2016-FY2022), coupled with consistent internal accruals, have supported the overall risk profile even as the company registered sharp AUM

growth. FSBFL's portfolio is expected to increase at a CAGR of 20-25% during FY2026-FY2028 with its managed gearing projected to remain comfortably below 4 times during this period.

Robust earnings profile – FSBFL's net profitability remains robust, with profit after tax/average managed assets (PAT/AMA) of 7.2% in Q1 FY2026, though lower than the level recorded in the previous two years (8.1% in FY2024 as well as FY2025). The moderation was on account of the decline in its lending rates, which were affected from Q3 FY2025, and higher credit costs (1.2% in Q1 FY2026 vis-à-vis 0.6% in FY2025 and 0.4% in FY2024) due to the increase in delinquencies. As credit costs will stay elevated in the near term, the net profitability for FY2026 is likely to remain lower than the previous year. FSBFL's profitability continues to be supported by healthy interest margins (16.1% and 15.9% in FY2025 and Q1 FY2026, respectively), and range-bound operating expenses (5.1% and 5.4% of AMA in FY2025 and Q1 FY2026, respectively). Interest margins could also witness some moderation over the medium term as the lending rates decline and the leverage increases. ICRA expects the net profitability to stabilise at 5.5-6.0% in the medium-to-long term.

Adequate internal control and risk management systems – FSBFL has an experienced board, consisting of seven members. Apart from the Chairman and Managing Director (promoter) and a Joint Managing Director (Chief Financial Officer), the board consists of four independent directors and one non-executive director. ICRA takes note of the experience of the promoter and the senior management team in retail lending and banking services. ICRA also takes note of some senior management exits recently, though this is not expected to materially impact the company's near-term operations.

FSBFL has maintained prudent underwriting policies with the LTV and the fixed obligations to income ratio (FOIR) capped at 40-50%. As of June 2025, 47% of the portfolio had an LTV of less than 40% (48% as of March 2024) while AUM with LTV of more than 50% stood at only 1% (3% as of March 2024). Considering the target segment, the tenors are relatively longer with 78% of the loans having a tenor of seven years. This is expected to keep the loan instalments at manageable levels for the borrowers. The loans are largely given for a ticket size below Rs. 5 lakh, constituting 84% of the AUM as of June 2025. The company, in response to the asset quality impact, is expected to reduce the share of loans with ticket sizes of less than Rs. 3 lakh by focussing on loans with ticket size of Rs. 3-5 lakh and Rs. 5-10 lakh. All loans are sourced in-house; the business team, which sources loans, is also primarily responsible for collections with dedicated collections support and legal teams providing assistance for loans in harder buckets. FSBFL relies on its internal assessment of cash flows to arrive at the borrower-level eligibility though it verifies the credit bureau report for all cases.

Credit challenges

Modest credit profile of target customer segment; recent increase in delinquencies – FSBFL's borrowers are mainly small business owners and self-employed individuals with a focus on the services industry and with gross household income in the range of Rs. 25,000-40,000 per month, largely without traditional income proof. This borrower segment, especially in the less than Rs. 3 lakh ticket size, has sizable overlap with the microfinance segment.

In the backdrop of overleveraging concerns (~23% of FSBFL's overall borrowers have three or more loans from other lenders), FSBFL's collections witnessed some moderation in recent quarters. Especially in Q1 FY2026, the softer bucket delinquencies spiked with the 30+ days past due (dpd) increasing to 11.3% in June 2025 from 9.7% in March 2025 (7.9% in March 2024). Also, the GS-3 rose to 2.5% in June 2025 from 1.8% in March 2025 (1.4% as of March 2024) on account of the deterioration in the collection efficiency (collections including arrears but excluding prepayments/total demand for the month), mainly among overleveraged customers. The collection efficiency stood at 96.3% and 97.7% in Q1 FY2026 and Q4 FY2025, respectively, vis-à-vis 98.0% and 98.4% in Q3 FY2025 and Q2 FY2025, respectively. The company also increased its credit provisions to 1.9% of the AUM as of June 2025 (1.6% in March 2025) from 1.6% in March 2024. The Covid-19 pandemic-related restructured book has largely run down and stood at 0.3% of the AUM with provision coverage of 46.8% as of June 2025.

Low portfolio seasoning and geographically concentrated operations – FSBFL witnessed strong growth in the past with its portfolio expanding at a CAGR of 63% during FY2017-FY2024. However, the company has slowed down its growth over the last one year, with the portfolio expanding by 23% in FY2025 and 20% (YoY basis) in Q1 FY2026. The AUM stood at Rs. 12,458 crore as of June 2025 (Rs. 9,641 crore as of March 2024) and is expected to increase at a CAGR of 20-25% during FY2026-FY2028. With the slowdown in AUM growth, loans with a vintage of less than one year declined to 37% of the AUM as of June 2025 from 47% as of March 2024. Nevertheless, ICRA notes that portfolio seasoning remains modest, considering the average tenor of the loans (5-7 years).

The four southern states, i.e. AP, TN, Karnataka and Telangana, accounted for about 91% (100% as of March 2018) of the overall portfolio as of June 2025. FSBFL is expected to remain a regional player with the southern states accounting for a sizeable share of the portfolio in the medium term. Some of these states, especially AP and Karnataka, have recently witnessed some asset quality challenges. In the near term, the impact of these factors on FSBFL’s asset quality performance would be a key monitorable.

Environmental and social risks

Given the service-oriented business of FSBFL, its direct exposure to environmental risks/material physical climate risks is not significant. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, such risks are not material for FSBFL as its incremental lending operations encompass a well-diversified customer base.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for NBFCs as material lapses could be detrimental to their reputation and invite regulatory censure. FSBFL has not faced such lapses over the years. Also, the disclosures made by the company outline the key policies, processes, and investments made by it to mitigate the occurrence of such instances. Customer preference is increasingly shifting towards digital means of payments, which provides an opportunity to reduce the operating costs. In this regard, FSBFL has been making investments to enhance its digital interface with its customers while continuing to maintain a personal touch point with them. While the company contributes to promoting financial inclusion by lending to underserved segments, its lending practices remain prudent as reflected by its asset quality performance in this segment compared with its peers.

Liquidity position: Strong

The liquidity position is strong with free cash and liquid investments of ~Rs. 2,065 crore as on June 30, 2025 against debt-servicing obligations of ~Rs. 2,278 crore during July 2025-June 2026. The funding mix comprises bank term loans (58% of the total borrowings as of June 2025), term loans from financial institutions and NBFCs (17%), securitisation (15%), non-convertible debentures (NCDs; 10%), and external commercial borrowings (ECBs; the balance). Going forward, it would be crucial for FSBFL to secure adequate long-term funds at competitive rates, to achieve the envisaged business growth, while maintaining a strong liquidity profile.

Rating sensitivities

Positive factors – The company’s rating could be positively impacted if it is able to scale up its loan portfolio significantly while maintaining good asset quality and a strong earnings profile on a sustained basis.

Negative factors – Pressure on the rating could arise on an increase in the leverage beyond 4.0 times or a deterioration in the asset quality indicators, leading to a decline in the return on managed assets (ROMA) to less than 4.0% on a sustained basis.

Analytical approach

| Analytical approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | ICRA’s credit rating methodology for non-banking finance companies |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | The rating is based on the standalone financials of the company |

About the company

Five-Star Business Finance Limited (FSBFL) is a Chennai-headquartered non-banking financial company (NBFC) extending secured loans to micro entrepreneurs and self-employed individuals, primarily in semi-urban markets. The company commenced operations in 1984, with a focus on consumer loans and vehicle finance. In 2005, it shifted its focus to small business loans with a typical loan ticket size of Rs. 2-10 lakh and an average ticket size of Rs. 3-5 lakh. Its loans are predominantly backed by self-occupied residential properties. As on June 30, 2025, the company had 767 branches across 11 states/Union Territories.

FSBFL was listed on the NSE and BSE in November 2022. As of June 2025, the individual promoters & promoter group (Mr. Lakshmi pathy Deenadayalan and his family) held 18.4% in the company, being the single largest shareholder.

Key financial indicators (Ind-AS; audited)

| Five-Star Business Finance Limited | FY2024 | FY2025 | Q1 FY2026* |
|------------------------------------|--------|--------|------------|
| Total income | 2,195 | 2,866 | 791 |
| Profit after tax | 836 | 1,075 | 266 |
| Total managed assets | 11,847 | 14,614 | 14,971 |
| Return on managed assets | 8.1% | 8.1% | 7.2% |
| Gearing (managed; times) | 1.2 | 1.3 | 1.2 |
| Gross stage 3 | 1.4% | 1.8% | 2.5% |
| CRAR | 50.5% | 50.1% | 49.1% |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Current rating (FY2026) | | | Chronology of rating history for the past 3 years | | | | | |
|--------------------------------------|-------------------------|--------------------------|-------------------|---|-------------------|-------------|-------------------|-------------|-------------------|
| | Type | Amount rated (Rs. crore) | Sep-02-2025 | FY2025 | | FY2024 | | FY2023 | |
| | | | | Date | Rating | Date | Rating | Date | Rating |
| Long-term fund-based bank facilities | Long term | 6,500.00 | [ICRA]AA-(Stable) | Sep-04-2024 | [ICRA]AA-(Stable) | Jun-09-2023 | [ICRA]AA-(Stable) | Feb-23-2023 | [ICRA]AA-(Stable) |
| | | | | | | Jul-24-2023 | [ICRA]AA-(Stable) | Mar-01-2023 | [ICRA]AA-(Stable) |
| | | | | | | Jan-05-2024 | [ICRA]AA-(Stable) | - | - |
| NCD | Long term | 220.00 | [ICRA]AA-(Stable) | Sep-04-2024 | [ICRA]AA-(Stable) | Jun-09-2023 | [ICRA]AA-(Stable) | Feb-23-2023 | [ICRA]AA-(Stable) |
| | | | | | | Jul-24-2023 | [ICRA]AA-(Stable) | Mar-01-2023 | [ICRA]AA-(Stable) |
| | | | | | | Jan-05-2024 | [ICRA]AA-(Stable) | - | - |

| | | | | | | | | | |
|---------------------------------|-----------|---|---|---|---|-------------|-------------------------|-------------|--------------------------|
| Market linked debentures | Long term | - | - | - | - | Jun-09-2023 | PP-MLD[ICRA]AA-(Stable) | Feb-23-2023 | PP-MLD[ICRA]A A-(Stable) |
| | | | | | | Jul-24-2023 | PP-MLD[ICRA]AA-(Stable) | Mar-01-2023 | PP-MLD[ICRA]A A-(Stable) |

Complexity level of the rated instrument

| Instrument | Complexity indicator |
|---|----------------------|
| Non-convertible debentures | Simple |
| Long-term fund-based bank facilities | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

| ISIN | Instrument name | Date of issuance/ Sanction | Coupon rate | Maturity date | Amount rated | Current rating and outlook |
|--------------|--|----------------------------------|-------------|----------------------------------|--------------|----------------------------|
| | | | | | (Rs. crore) | |
| INE128S07424 | NCD | May-13-20 | 12.75% | May-13-26 | 15.00 | [ICRA]AA- (Stable) |
| INE128S07598 | NCD | Jun-15-23 | 9.10% | Dec-15-26 | 100.00 | [ICRA]AA- (Stable) |
| Unallocated | NCD | - | - | - | 105.00 | [ICRA]AA- (Stable) |
| NA | Long-term fund-based bank facilities – Term loan | Nov-08-2021 to Jun-27-2025 | NA | Mar-01-2025 to Jun-30-2032 | 5,537.16 | [ICRA]AA- (Stable) |
| NA | Long-term fund-based bank facilities – Cash credit | Nov-15-2012 To Nov-22-2024 | NA | NA | 54.40 | [ICRA]AA- (Stable) |
| NA | Long-term fund-based bank facilities – Unallocated | NA | NA | NA | 908.44 | [ICRA]AA- (Stable) |

Source: FSBFL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

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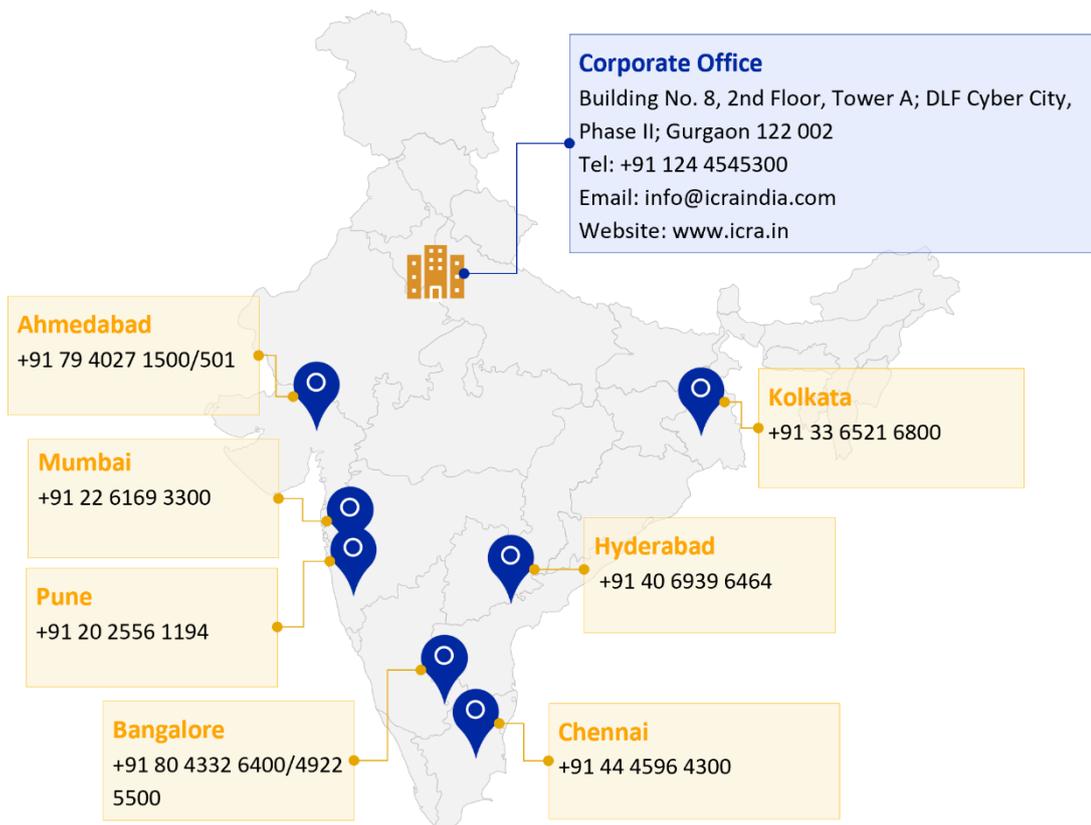
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