September 01, 2026

Five-Star Business Finance Limited: Rating reaffirmed; rating reaffirmed and withdrawn for matured instruments

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial sector regulator#
Long-term fund-based bank facilities	6,500.00	6,500.00	[ICRA]AA- (Stable); reaffirmed	RBI
Non-convertible debentures (NCDs)	205.00	205.00	[ICRA]AA- (Stable); reaffirmed	SEBI
	15.00	-	[ICRA]AA- (Stable); reaffirmed and withdrawn	SEBI
Total	**6,720.00**	**6,705.00**		

**Instrument details are provided in Annexure I*

#The Securities and Exchange Board of India's (SEBI) grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments that fall under the regulatory purview of financial sector regulators other than SEBI

Rationale

The rating action factors in Five-Star Business Finance Limited's (FSBFL) strong capitalisation, with managed gearing in the range of 0.7-1.3 times during the last five fiscal years, and its track record of maintaining a healthy earnings profile (return on managed assets (RoMA) of 6.8-8.1% during FY2021-Q1 FY2027). FSBFL provides mortgage-backed loans mainly to small business owners and self-employed individuals. The company added housing loans to its product mix recently, though the share of the same is negligible at present. It is also looking to diversify into new product segments in the near term. FSBFL 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 slowed down its growth over the last two years to 23% and 11%, respectively, in FY2025 and FY2026. FSBFL's AUM growth is expected to remain moderate at around 20%-25% in the medium term.

FSBFL's asset quality witnessed pressure in the previous year due to broader macro environmental factors and overleveraging issues at the borrower level. Its gross stage 3 (GS-3) increased to 3.5% as of June 2026 (3.4% as of March 2026) from 1.8% as of March 2025. The company particularly witnessed high delinquencies in the lower-ticket size loan segment due to the considerable overlap of its borrowers with the microfinance segment. Incrementally, the company is taking steps to strengthen its borrower profile in the lower-ticket loan segments and extend its focus towards higher-ticket size loans (Rs. 3-5 and 5-10 lakh) with the share of this category in its overall portfolio expected to increase gradually, going forward. The collection efficiency improved in Q4 FY2026 and Q1 FY2027, resulting in lower slippage rates vis-à-vis past quarters. The rating continues to consider the secured nature of lending (more than 95% of the loans are secured against self-occupied residential properties) with 43% of the AUM, as of June 2026, having a loan-to-value (LTV) ratio of less than 40%. This provides comfort regarding the modest risk profile of the target borrower segment.

FSBFL's profitability has continued to be healthy despite the recent increase in credit costs (1.3% and 1.4% of average managed assets (AMA) in FY2026 and Q1 FY2027, respectively, vis-à-vis 0.6% in FY2025). While credit costs are likely to remain range-bound in the near term, ICRA expects the company to continue maintaining healthy profitability metrics, supporting its credit profile.

FSBFL is expected to remain regionally concentrated in southern India over the medium term. As of June 2026, Andhra Pradesh (AP), Tamil Nadu (TN), Telangana and Karnataka accounted for 87% 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 moderation in the asset quality performance, which shall support its credit profile in the near-to-medium term.

ICRA has also withdrawn the long-term rating on the Rs. 15.00-crore non-convertible debentures (NCDs) in accordance with its policy on the withdrawal of credit ratings as the instruments have matured and have been fully repaid.

Key rating drivers and their description

Credit strengths

Strong capital structure – FSBFL has a strong capitalisation profile with a net worth of Rs. 7,653 crore and a capital adequacy ratio (CAR) of 51.3% as of June 2026. Its managed gearing stood at 1.0 times as of June 2026 (1.1 times as of March 2026) vis-à-vis 1.3 times as of March 2025. Equity infusions in the past (~Rs. 2,265 crore raised during FY2016-FY2022), coupled with consistent internal accruals, have supported the capitalisation profile even as the company registered sharp AUM growth. FSBFL's portfolio is expected to expand its AUM at a CAGR of 20%-25% during FY2027-FY2029, with its managed gearing projected to remain comfortably below 4 times during this period.

Robust earnings profile – FSBFL's net profitability remains strong, with profit after tax (PAT)/AMA of 7.2% in FY2026 (6.8% in Q1 FY2027), though lower than the level recorded in the previous two years (8.1% in FY2025 as well as FY2024). The moderation was on account of the decline in its lending rates (reduced by about 200 basis points (bps) on incremental disbursements from H2 FY2025), and higher credit costs (1.4% in Q1 FY2027 and 1.3% in FY2026 vis-à-vis 0.6% in FY2025) due to the increase in delinquencies. Credit costs are expected to stay range-bound in the near term.
FSBFL's profitability continues to be supported by healthy interest margins (15.9% and 16.2% in FY2026 and Q1 FY2027, respectively). Operating expenses rose moderately to 5.4% and 6.1% of AMA in FY2026 and Q1 FY2027, respectively, from 5.1% in FY2025, as the company focussed on strengthening its collections infrastructure. The same is expected to stabilise, going forward. Interest margins could, however, witness some moderation over the medium term as the older higher-yielding book (originated before the lending rate reduction in November 2024) runs down and the leverage increases. Nevertheless, 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, as on date. 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.

FSBFL has maintained prudent underwriting policies with the LTV and the fixed obligations to income ratio (FOIR) capped at 40-50%. As of June 2026, 43% of the portfolio had an LTV of less than 40% (48% as of March 2025) while AUM with LTV of more than 50% stood at only 1% (3% as of March 2024). The loans are largely given for a ticket size below Rs. 5 lakh, which constituted about 78% of the AUM as of June 2026. In response to the asset quality pressure witnessed recently, the company has started reducing the share of loans with a ticket size of less than Rs. 3 lakh by focussing on loans with a ticket size of Rs. 3-5 lakh and Rs. 5-10 lakh. It also added housing loans to its product mix recently, though the share of the same is negligible at present. Moreover, FSBFL is expected to diversify into new product segments in the near term. While this provides comfort from a diversification perspective, the performance of the newer asset segments would be a monitorable.

FSBFL relies on its internal assessment of cash flows to arrive at the borrower-level eligibility though it verifies credit bureau reports for all cases. Considering the target segment, the tenors are relatively longer with 81% of the loans having a sanctioned tenor of seven years. This is expected to keep the loan instalments at manageable levels for the borrowers. All loans are sourced in-house. The business team, which sources loans, is also responsible for collections during the initial three years, though this is subsequently transferred to the collections team. Further, softer bucket and harder bucket delinquencies are managed by dedicated collections and legal recovery teams, respectively. ICRA also notes the steady increase in the share of digital collections (86% of collections in Q1 FY2027 vis-à-vis 81% in Q1 FY2026 and 65% in Q1 FY2025), strengthening the risk management further.

Credit challenges

Modest credit profile of target customer segment; delinquencies increased in FY2026 – 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 typically has a modest credit profile, especially for ticket sizes below Rs. 3 lakh, and has sizeable overlap with the microfinance segment.

In the backdrop of overleveraging concerns, FSBFL's collections witnessed some moderation in the past financial year. The 30+ dpd increased to 12.4% in June 2026 (12.7% in March 2026) from 9.7% in March 2025. The GS-3 rose to 3.5% in June 2026 (3.4% in March 2026) from 1.8% as of March 2025. The company also increased its provisions on the overall book to 1.8% of the AUM as of June 2026 (1.8% in March 2026) from 1.6% in March 2025. The D1C1 collection efficiency (excluding NPAs) improved to 97.9% and 98.1% in Q1 FY2027 and Q4 FY2026, respectively, from 97.3% and 96.9% in Q3 FY2026 and Q2 FY2026, respectively. Correspondingly, slippages[1] stabilised at 0.7% in Q1 FY2027 (0.7% in Q4 FY2026) vis-à-vis 0.7-1.1% in the previous three quarters. ICRA expects delinquencies to stabilise and improve gradually, which would support the asset quality performance over the near-to-medium term.

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 had slowed down its growth over the last one year, with the portfolio rising by 11% in FY2026. The AUM grew by 10% year-on-year (YoY) in Q1 FY2027 (4% quarter-on-quarter) and stood at Rs. 13,722 crore as of June 2026 (Rs. 11,877 crore as of March 2025); going forward, it is expected to increase at a CAGR of around 20%-25% during FY2027-FY2029. The four southern states, i.e. AP, TN, Telangana and Karnataka, accounted for about 87% (100% as of March 2018) of the overall portfolio as of June 2026. The southern states are expected to continue to account for a sizeable share of the portfolio in the medium term. A few of these states, especially AP and Karnataka, have recently witnessed some asset quality challenges. The impact of these factors on FSBFL's asset quality performance would be a key monitorable in the near term.

With the slowdown in AUM growth, loans with a vintage of less than one year declined to 34% of the AUM as of June 2026 from 37% as of June 2025. Nevertheless, ICRA notes that portfolio seasoning remains modest, considering the average tenor of the loans (5-7 years).

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 non-banking finance companies (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 its key policies, processes, and

[1] *Slippages = Increase in GS-3 + Write-offs as % of opening standard AUM*

investments 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 unencumbered cash and cash equivalents of ~Rs. 1,847 crore as on June 30, 2026 against debt-servicing obligations of ~Rs. 590 crore during the next three months. The asset-liability management profile, as of June 2026, had no negative cumulative mismatches in any of the buckets. The funding mix comprises bank term loans (57% of the total borrowings as of June 2026), securitisation (15%), term loans from financial institutions and NBFCs (14%), non-convertible debentures (NCDs; 7%), and external commercial borrowings (ECBs; 7%).

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 RoMA to less than 4.0% on sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs) Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

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, 2026, the company had 856 branches across 11 states/Union Territories.

FSBFL was listed on the NSE and BSE in November 2022. As of June 2026, the individual promoters & promoter group (Mr. Lakshmipathy Deenadayalan and his family) held 18.4% in the company, being the single largest shareholder.

Key financial indicators (audited)

Five-Star Business Finance Limited	FY2025	FY2026	Q1 FY2027*
Total income	2,855	3,229	832
Profit after tax	1,072	1,099	271
Total managed assets	14,614	16,033	16,075
Return on managed assets	8.1%	7.2%	6.8%

Five-Star Business Finance Limited	FY2025	FY2026	Q1 FY2027*
Gearing (managed; times)	1.3	1.1	1.0
Gross stage 3	1.8%	3.4%	3.5%
CRAR	50.1%	51.9%	51.3%

*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

Current (FY2027)				Chronology of rating history for the past 3 years					
				FY2026		FY2025		FY2024	
Instrument	Type	Amount rated (Rs. crore)	Sep 01, 2026	Date	Rating	Date	Rating	Date	Rating
Fund based – Bank Facilities	Long term	6,500.00	[ICRA]AA- (Stable)	Sep-02-25	[ICRA]AA- (Stable)	Sep-04-24	[ICRA]AA- (Stable)	Jun-09-23	[ICRA]AA- (Stable)
				-	-	-	-	Jul-24-23	[ICRA]AA- (Stable)
				-	-	-	-	Jan-05-24	[ICRA]AA- (Stable)
NCD	Long term	205.00	[ICRA]AA- (Stable)	Sep-02-25	[ICRA]AA- (Stable)	Sep-04-24	[ICRA]AA- (Stable)	Jun-09-23	[ICRA]AA- (Stable)
				-	-	-	-	Jul-24-23	[ICRA]AA- (Stable)
				-	-	-	-	Jan-05-24	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term fund based – Bank Facilities	Simple
NCD	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	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook	Financial sector regulator#
NA	**Term loans**	Nov 08, 2021 to Jun 23, 2026	-	Mar 01, 2025 to Jun 30, 2032	5,239.92	[ICRA]AA- (Stable)	RBI
NA	**Cash credit**	Nov 15, 2012 to Aug 14, 2025	-	-	59.40	[ICRA]AA- (Stable)	RBI
NA	**Term loan – Unallocated**	-	-	-	1,200.68	[ICRA]AA- (Stable)	RBI
INE128S07424	**NCD**	May 13, 2020	12.75%	May 13, 2026	15.00	[ICRA]AA- (Stable); withdrawn	SEBI
INE128S07598	**NCD**	Jun 15, 2023	9.10%	Dec 15, 2026	100.00	[ICRA]AA- (Stable)	SEBI
Yet to be placed	**NCD**	NA	NA	NA	105.00	[ICRA]AA- (Stable)	SEBI

Source: Company

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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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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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