



भारतीय प्रतिभूति  
और विनिमय बोर्ड  
Securities and Exchange  
Board of India

Assistant General Manager  
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SEBI/HO/CFD/DIL-1/P/OW/2021/36735/1  
December 10, 2021

ICICI Securities Limited  
ICICI Venture House,  
Appasaheb Marathe Marg,  
Prabhadevi,  
Mumbai - 400025

Kind Attn: Shri Rupesh Khant

Dear Sir

**Sub: Clarifications on the Draft Red Herring Prospectus (DRHP) of Five-Star Business Finance Limited**

With reference to the Draft Red Herring Prospectus of Five-Star Business Finance Limited (Issuer Company) filed with SEBI, you are advised to clarify on the following issues:

- A. LM is advised to submit whether there has been any instance of issuance of equity shares in the past by the issuer Company, the Group Companies or entities forming part of the Promoter Group to more than 49 investors in violation of:
- Section 67(3) of Companies Act, 1956; or
  - relevant section(s) of Companies Act, 2013, including Section 42 and the rules notified thereunder; or
  - the SEBI Regulations; or
  - the SEBI (Disclosure and Investor Protection) Guidelines, 2000, as applicable.
- B. It has been observed that in various instances disclosures have been made in the offer document stating 'we believe...' LM is advised to provide the basis for making such disclosures in the offer document while also explaining compliance with Regulation 24 (1) and Regulation 25 (2) (b) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations").

**C. FORWARD LOOKING STATEMENTS**

It is disclosed that this Draft Red Herring Prospectus contains certain "forward-looking statements". It may be noted that point (e) under Instructions of Part A of Schedule VI of ICDR Regulations, 2018, states that the offer document should not make any forward looking statements that cannot be substantiated. In view of the same, you are advised to confirm and explain compliance with aforesaid provision with respect to all such forward looking statements made in the DRHP.

सेबी भवन, प्लॉट सं. सी 4-ए, "जी" ब्लॉक, बान्द्रा कुर्जा कॉम्प्लेक्स, बान्द्रा (पूर्व), मुंबई - 400 051  
दूरभाष : 2644 9950 / 4045 9950 (आई.वी.आर. एस.), 2644 9000 / 4045 9000 फैक्स : 2644 9019 से 2644 9022 वेब : www.sebi.gov.in



अनुवर्ती :  
Continuation :

भारतीय प्रतिभूति  
और विनियम बोर्ड  
Securities and Exchange  
Board of India

**D. OFFER DOCUMENT SUMMARY**

LM is advised to provide weighted average price of acquisition by each of the promoters, selling shareholders, promoter group and entity holding shares with rights, in last one year and three year.

**E. RISK FACTORS**

1. LM is advised to rearrange the risk factors based on materiality the severity of the risks involved.
2. Risk Factor 1: LM is advised that the impact of COVID-19 on the business of the company may be more specific, including the impact on financials and also include the:
  - a. Impact of granting moratorium to borrowers, maybe provided in absolute number and percentage terms to total borrowings.
  - b. Amount of Loans (moratorium) not classified as NPA, may be provided in absolute number and percentage terms to total borrowings.
  - c. Provide current and past year's data in absolute and percentage terms for Resolution plan granted.
3. Risk Factor 2: LM is advised to provide details of securitized loans/assets for past 3 years also explain working capital facilities for the company financial requirements.
4. Risk Factor 3: LM is advised to disclose the past instances of delays and defaults of borrowers during past 3years, in percentage and numbers for self-employed, specific group (earning of Rs. 25000 per/month), etc. and also disclose NPA for borrower group of entities earning Rs. 25,000 per month, self-employed, etc. LM is advised to provide steps taken by the issuer company to avoid repetition.
5. Risk Factor 4: LM is advised to disclose the past instances of non-payment and defaults for past 3years.
6. Risk Factor 5: LM is advised to disclose default in maintaining financial ratios and covenants and impact on financials for past 3years.
7. Risk Factor 6: LM is advised to provide in table for asset securitizations and impact on financials.
8. Risk Factor 7: LM is advised to provide average daily disbursement and average daily collection for past 3years.
9. Risk Factor 8: LM is advised to provide category wise borrowings for fixed and floating interest rate and its impact on financials.

5



अनुवर्ती :  
Continuation :

**भारतीय प्रतिभूति  
और विनियम बोर्ड  
Securities and Exchange  
Board of India**

11. Risk Factor 10: LM is advised to provide instances of assets liability mismatch for past 3years and its impact on the revenue of the company. LM shall also disclosed and explain the arrangement / alternate arrangement has been made to reduce its impact on the financials. LM is advised to move this risk factor to top 15 risk factor.
12. Risk Factor 12: LM is advised to provide past experience for non-recoverability of collaterals for during pat 3years and impact on financials.
13. Risk Factor 13: LM is advised to provide peer group comparison and explain how company will remain complaint with statutory norms i.e. Tier I or Tier II capital norms.
14. Risk Factor 15: LM shall disclosed that the reason for negative cash flow.
15. Risk Factor 18: LM is advised to move this risk factor to top 10 risk factor.
16. Risk Factor 20: LM shall ensure that the direction of RBI has been complied with. LM is advised to disclose regulatory actions / Inspection observations or any non-compliances and including penalty or warning, if any and status thereof. LM is advised to move this risk factor to top 10 risk factor.
17. LM is advised to include the details of whether provisioning has been done by the Company for the probable liabilities, if any arising out of outstanding litigations and also quantify of the same. Further, the LM is also advised to mention the amount reflected as Contingent Liabilities with respect to the outstanding litigations, if any.
18. Risk Factor 25: LM shall disclose the past instance of disruption or failures in IT systems, if any, and the impact on the operations of the issuer company. LM shall ensure disclosure of non-compliance of Regulatory directions, if any, in this regard.
19. Risk Factor 28: LM is advised to disclose all such instances of failure / delay in obtaining statuary and regulatory approvals / renewal of licenses/ registrations which may have had material impact on financials of the company. LM shall disclose the alternate arrangement in case of non-renewal of licenses, registrations, permits etc. and its impact on the revenue of the company.
20. Risk Factor 29: LM is advised to disclose litigations, if any for such misleading information / credit worthiness for past 3 years.
21. Risk Factor 32: LM is advised to disclose any past instances where claims have exceeded insurance coverage and its impact on financials. LM is advised to disclose the percentage of assets covered under insurance vis-a vis the total assets of the company.
22. Risk Factor 34: LM is advised to disclose the failure to renew lease/license agreements, if any during last 3 years.



अनुवर्ती :  
Continuation :

भारतीय प्रतिभूति  
और विनियम बोर्ड  
Securities and Exchange  
Board of India

22. Risk Factor 34: LM is advised to disclose the failure to renew lease/license agreements, if any during last 3 years.
23. Risk Factor 35: LM shall ensure all the terms and condition of pledge or covenants have been disclosed. LM shall also ensure to comply the SEBI ICDR Regulations, 2018 including lock-in provisions in this regard. LM shall move this risk factor to top 10 risk factors.
24. Risk Factor 36: LM is advised to quantify the related party transactions, in brief, that the company has entered into in tabular form and also disclose related party transactions as percentage of Revenue. LM is advised to ensure that RPT should be in compliance with the Companies Act, 2013, SEBI (LODR) Regulations, relevant Accounting Standards and other statutory compliances.
25. Risk Factor 38: LM is advised to disclose that all special rights available, shall cease to exist or expire /waived immediately before or on the date shares are allotted to public shareholders, without requiring any further action.
26. Risk Factor 39: LM is advised to disclose any past / existing dispute related to intellectual property rights, having impact on business operations and financials of the company. LM shall also ensure disclosure of the Brand owned / not owned by the company along-with brand / royalty payments made by the Company for past 3 years and any conflict, thereof. The Brand royalty paid in percentage to the revenue of the company may be disclosed for past 3 years.
27. Risk Factor 41: LM is advised to provide more specific disclosures in terms of nature of missing records, period to which it relate, etc. Further, LM is also advised to provide the details of the steps taken by the Company to retrieve such records/ documents. LM is advised to move this risk factor to top 10 risk factor.
28. Risk Factor 43: LM is advised to disclose that the industry reports issued by "CRISIL Research Report' is commissioned by the issuer company and the date of commissioned shall also be disclose. The same shall also be disclosed in other sections where data from such report has been used or disclosed.
29. Risk Factor 46: It is disclosed that the promoter provided personal guarantee, LM shall ensure that details of guarantee, terms & conditions, charges could be created over assets, if any, etc have been disclosed in details.
30. Risk Factor 47: LM is advised to move this risk factor to top 5 risk factor. LM shall also disclosed weighted average acquisition cost of the promoters, selling shareholders for past one and three years.

**F. FINANCIAL INFORMATION**

LM is advised to disclose the reasons for the following in the Management Discussion and Analysis section:

- i. Increase in Total Assets from March 2019 to March 2021





अनुवर्ती :  
Continuation :

भारतीय प्रतिभूति  
और विनियम बोर्ड  
Securities and Exchange  
Board of India

- ii. Increase in Total Income from March 2019 to March 2021
- iii. Increase in Total Expenses from March 2020 to March 2021
- iv. Increase in liability from March 2019 to March 2021.

LM is also advised to disclose the reasons / rational for the Auditors observation in their reports in the Management Discussion and Analysis section

**G. INDUSTRY OVERVIEW:**

1. LM is advised to disclose that the industry reports issued by CRISIL for purposes of this Draft Red Herring Prospectus ("Industry Reports") is commissioned and paid for by the issuer company, exclusively for the purpose of IPO. LM is advised to disclose if CRISIL, which has prepared the industry reports is in any way related to the issuer company/directors/promoters.
2. Further, LM is advised to ensure that reports by CRISIL relied upon while making disclosures in the draft offer document is included among the material contracts and documents for inspection. Furthermore, wherever (each instance) data from various reports have been used in support of disclosures made in the offer document, LM is advised to clearly qualify the source of such disclosures.
3. LM shall distinctly disclose that the third party research agency (e.g. CRISIL) has been commissioned by the issuer at all relevant places in the document where reference is drawn from the report. Further, LM shall also disclose date of appointment of Frost & Sullivan.

**H. FINANCIAL INDEBTEDNESS:**

1. LM is advised to provide cross referencing to the Risk factors with respect to the indebtedness as a part of disclosure.
2. The LM is advised to ensure that in cases where approval of a lender including debenture holders is required, such approval has been taken.
3. LM to clarify on various agreements and ensure that details of clauses / covenants pertaining to these agreements are disclosed.

**I. KEY INDUSTRY REGULATIONS AND POLICIES**

LM is advised to provide details of action taken by relevant authorities / courts on the financial business of the company including related matters during the past 3 years, shall be disclosed. Appropriate risk factor should also be incorporated.

**J. HISTORY AND CERTAIN CORPORATE MATTERS**

1. LM is advised that under section "History and Certain Corporate Matters" of the offer document, it is specifically disclosed that all special rights available to the Shareholders / Investors, shall cease to exist or expire /waived immediately before



अनुवर्ती :  
Continuation :

भारतीय प्रतिभूति  
और विनियम बोर्ड  
Securities and Exchange  
Board of India

or on the date shares are allotted to public shareholders, without requiring any further action.

2. LM is advised to make disclosures regarding whether any of the special rights available to certain shareholders would continue post listing and if yes, the details of the same may be clearly disclosed under section "History and Certain Corporate Matters". Further, LM shall specifically disclose that any special rights, post listing shall be subject to approval of the Shareholders by way of a special resolution, in a general meeting of the Company held post listing of the Equity Shares.
3. LM is advised to ensure that special rights which will continue post listing are not prejudicial or adverse to the interest of the minority / public shareholders.
4. Date of SHA Amendment Agreement may be disclosed under section "History and Certain Corporate Matters".
5. Further, a categorical statement from the Issuer Company/ promoter/ shareholders, may be provided that there are no other agreements and clauses / covenants which are material and which needs to be disclosed and that there are no other clauses / covenants which are adverse / pre-judicial to the interest of the public shareholders. Also that there are no other agreements, deed of assignments, acquisition agreements, SHA, inter-se agreements, agreements of like nature other than disclosed in the DRHP.
6. Further, the LMs also to confirm to SEBI that they have gone through the agreements / inter-se, if any, as disclosed in the DRHP and they also do not see any clauses / covenants which are material and which need to be disclosed, have not been disclosed and that there are no other clauses / covenants which are adverse / pre-judicial to the interest of the public shareholders / unit holders.
7. LM is advised to clarify special rights such as rights to nominate another director, have any implication in terms of Corporate Governance norms.
8. LM is also advised to disclose present nominee Director/s and KMPs. LM to confirm that apart from as disclosed in the DRHP, there are no other nominee directors, KMPs or other persons etc, appointed for any of the shareholders.
9. LM to clarify on various agreements and ensure that details of clauses / covenants pertaining to these agreements are disclosed.
10. LM shall ensure that the company shall be in compliance of Minimum public shareholding norms.

**K. Related Party Transactions (RPT):**

1. LM to ensure that all RPTs are done at arm's length price. LM is advised to ensure that RPT should be in compliance with the Companies Act, 2013, SEBI (LODR) Regulations, relevant Accounting Standards and other statutory compliances.





अनुवर्ती :  
Continuation :

भारतीय प्रतिभूति  
और विनियम बोर्ड  
Securities and Exchange  
Board of India

2. LM is advised to quantify the related party transactions, in brief, that the company has entered into, in tabular form. LM is advised that Related party transactions as percentage of Revenue may be disclosed in the offer document.

#### L. LEGAL AND OTHER INFORMATION

1. LM shall update the details of status of litigation with the latest/updated position of litigations against promoter/promoter group entities/company and the companies promoted by the issuer.
2. LM is advised to confirm that the existing litigations are not so major that the issuer's survival is dependent on the outcome of the pending litigation.
3. LM is advised to ensure the disclosures of all actions taken by statutory and regulatory authorities
4. LM should also provide amount of disputes and shall ensure that appropriate provisions for contingent liabilities have been made in financials. Further appropriate risk factor has also been provided.
5. LM is advised to ensure that the disclosure of details of all the criminal matters, if any, initiated by or against the company, group, directors, promoters, subsidiaries, which are at FIR stage and no/cognizance has been taken by the court. LM is also advised to specifically disclose the litigations liabilities.

#### M. MISCELLANEOUS

1. LM is advised to disclose the following, at appropriate place / section:
  - Details of all such material instances of data breach / data theft / data loss / denial of service / disruptions in the operations of the company along with their financial impact, in past three financial years.
  - Details of system wide redundancies built in to mitigate the impact of disruptions, if any.
  - Disclose litigations, if any, in this regard.
2. LM is advised to provide steps taken by the company to update / keep pace with technological development during past 3years. LM shall disclose the past instances of technology failure, if any, and steps taken by the issuer company to avoid repetition.
3. LM is advised to disclose any such instance (any unauthorized data revision, data integrity, etc.) in past three financial years having impact on business operations and financials of the company.
4. LM is advised to disclose the instances of data breach / data theft / data loss / disruptions in the operations along with their financial impact, in past three years.



अनुवर्ती :  
Continuation :

भारतीय प्रतिभूति  
और विनियम बोर्ड  
Securities and Exchange  
Board of India

5. LM shall ensure compliance of ICDR Regulations w.r.t. post issue holdings and lock-in.
6. Page 351: LM is advised to remove the following paragraph (including content of similar nature) from all section(s) of DRHP.

*"None among the Selling Shareholders shall be liable for any failure in (i) uploading the Bids due to faults in any software/ hardware system or otherwise; or (ii) the blocking of Bid Amount in the ASBA Account on receipt of instructions from the Sponsor Bank on account of any errors, omissions or non-compliance by various parties involved in, or any other fault, malfunctioning or breakdown in, or otherwise, in the UPI Mechanism."*

7. Details of any Independent Director who has resigned prior to completion of term, if any, may be disclosed along-with reasons for the same.
8. Any risk on pricing of the issue / basis of issue price, track record of BRLMs, average cost of acquisition of shares by selling shareholders etc. which is proposed to be included in the issue advertisement may be submitted.
9. LM is advised to ensure following disclosures in the Issue advertisement for announcement of Price Band and all further advertisements as a box item below the price band:

"Risks to Investors:

- a) The [to be disclosed] Merchant Bankers associated with the issue have handled [to be disclosed] public issues in the past three years out of which [to be disclosed] issues closed below the issue price on listing date."
- b) Any adverse data/ noting in the basis for issue price should be disclosed. For example:
  - "The Price/Earnings ratio based on diluted EPS for [latest full financial year] for the issuer at the upper end of the Price band is as high as [to be disclosed] as compared to the average industry peer group PE ratio of [to be disclosed]."
  - "Average cost of acquisition of equity shares for the promoter and selling shareholders in IPO is [to be disclosed] and offer price at upper end of the price band is [to be disclosed]."
  - "Weighted Average Return on Net Worth for [last three full financial years] is [to be disclosed] %."

The data on above disclosures shall be updated and disclosed prominently (in the same font size as the price band) in advertisements of Price Band and all further advertisements, website of the company and the stock exchange. Further, any adverse ratio / data in basis for issue price should also be

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अनुवर्ती :  
Continuation :

भारतीय प्रतिभूति  
और विनिमय बोर्ड  
Securities and Exchange  
Board of India

disclosed. LM shall submit the draft advertisement for announcement of Price Band with SEBI before its publication in the newspapers for our comments.

10. LM is advised to do needful with respect to the followings:

- The portion pertaining to "Risks to Investors" shall constitute at least 33% of the price band advertisement space.
- The risks to investors shall include weighted average cost of acquisition of all shares transacted in last 3 years and 1 year, from the date of RHP, in the following format :

Period	Weighted Average Cost of Acquisition (in Rs.)	Cap Price is 'X' times the Weighted Average Cost of Acquisition	Range of acquisition price: Lowest Price - Highest Price (in Rs.)
Last 1 year			
Last 3 years			

- The font size for price band and "Risk to investors" should be increased to match the font of BID/Offer Programme.
- Matters related to ASBA and UPI may be brought subsequent to Price Band, Risks to Investors, Bid/ Offer Programme and other offer details, and can be of smaller font.
- The portion pertaining to "BRLMs" shall not constitute more than 10% of the price band advertisement space

You are requested to provide the replies to the above clarification within 5 working days from the date of receipt of this letter.

Yours faithfully,

Anand Kumar Singh