

FIVE-STAR BUSINESS FINANCE

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	737
12 month price target (INR)	935
52 Week High/Low	943/601
Market cap (INR bn/USD bn)	216/2.5
Free float (%)	63.0
Avg. daily value traded (INR mn)	1,030.7

SHAREHOLDING PATTERN

	Dec-24	Sep-24	Jun-24
Promoter	21.6%	21.6%	26.5%
FII	57.8%	56.7%	57.5%
DII	10.1%	9.0%	6.1%
Pledge	0.0%	0.0%	0.0%

FINANCIALS

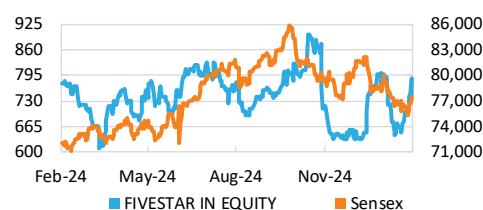
(INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Revenue	12627	17266	22080	26743
PPoP	8249	11713	15330	18432
Adjusted profit	6035	8359	10801	12975
Diluted EPS (INR)	20.7	28.6	36.9	44.4
EPS growth (%)	33.1	38.0	29.2	20.1
RoAE (%)	15.0	17.5	18.8	19.0
P/E (x)	35.6	25.8	20.0	16.6
P/BV (x)	4.9	4.1	3.4	2.9

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	22080	26743	-1.3	-5.4
PPOP	15330	18432	-1.8	-7.1
Adjusted profit	10801	12978	-2.2	-7.6
Diluted EPS (INR)	36.9	44.4	-2.2	-7.6

PRICE PERFORMANCE



Q3FY25 — in-line quarter

Five-Star announced in-line Q3FY25 earnings with the guided moderation in growth and NIM coming through. 30+ DPD moved up from 8.4% to 9.2% with current bucket CE marginally lower at 96.7% in Dec-24 versus 97.5% Dec-23. The company has slowed disbursal growth in view of sectoral issues and regulatory nudge. Disbursals slid 25% QoQ/22% YoY. AUM rose 25% YoY/2% QoQ, slower than 32% YoY in Q2FY25. NIM dipped 37bp QoQ and the spread declined 18bp QoQ.

We are reviewing earnings, and reiterating 'BUY'. We are cutting the TP to INR935/3.5x BV FY26E from INR1,010/3.6x BV earlier. Despite a near-term moderation in growth, we like Five-Star for its normalized growth prospects and stable asset quality in a challenging environment.

Strong growth and quality in a stressed sector

AUM grew 25% YoY/2% QoQ. As guided, disbursal growth slowed. Disbursals dipped 22% YoY/25% QoQ. Marginal and average CoF remained broadly stable QoQ while yield on loans declined 20bp QoQ with lower disbursal yields. Portfolio spread fell 18bp QoQ. NIM declined 37bp QoQ to 16.56%. Five-Star's liquidity buffer improved to INR27bn from INR20bn QoQ including cash of INR21bn and INR6bn of undrawn sanctions. NII grew 28% YoY/5% QoQ. CI stood at 30.7% from 30.2% QoQ. Opex grew 21% YoY/5% QoQ. PPOP rose 29% YoY/2% QoQ. Credit cost went up 7% QoQ from 79bp to 85bp of AUM. PAT grew 26% YoY/2% QoQ. The company added 69 branches QoQ. Leverage stood at 2.25x versus 2.2x QoQ. RoA stood at 8.1%, down 26bp QoQ. RoE stood at 18.5%, down 53bp QoQ. Capital adequacy remains strong at 51.2%.

Rise in 30+ DPD on marginally lower CE

30+DPD rose 80bp QoQ to 9.2% as CE fell 40bp QoQ. CE for Dec-24 at 96.7% is 30bp lower than 97% for Sep-24. CE for Q3FY25 stood at 98% lower than 98.2% in Q2FY25. GS3 loans rose from 1.47% to 1.62%. Five-Star's loans are secured by SORP. ECL cover on GS2 fell 80bp QoQ while ECL cover on GS3 fell 160bp QoQ, but remained healthy at 50.2%. Management attributed lower ECL cover to run down provisions on restructured loans. Gross stage 3 ratio with a 2-year lag at 2.92% was 30bp higher YoY, but within the tolerable range. Credit cost stood at 85bp of loans versus 79bp QoQ. Management guided steady-state credit for Five-Star would range 75–100bp.

Growth and profitability superior to peers; reiterate 'BUY'

Despite the cut in growth guidance and lower incremental yield, we believe Five-Star's growth and profitability will remain superior to peers. When many small lenders are in deep stress, Five-Star's earnings remain relatively strong.

Financials

Year to March	Q3FY25	Q3FY24	% Change	Q2FY25	% Change
Net Revenue	5597	4413	27	5427	3
Pre-provisioning Profits	3884	3001	29	3800	2
Reported Profits	2739	2168	26	2679	2
EPS	9.4	7.4	26	9.2	2

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Net interest income	12,325	16,481	21,133	25,584
Non interest income	301	785	947	1,159
Fee and forex income	138	219	299	389
Misc. income	81	123	150	170
Investment profits	83	443	498	600
Net revenues	12,627	17,266	22,080	26,743
Operating expense	4,378	5,553	6,750	8,311
Employee exp	3,464	4,286	5,143	6,326
Other opex	914	1,267	1,607	1,985
Preprovision profit	8,249	11,713	15,330	18,432
Provisions	201	554	890	1,085
PBT	8,047	11,159	14,440	17,347
Taxes	2,012	2,800	3,639	4,371
PAT	6,035	8,359	10,801	12,975
Extraordinaries	0	0	0	0
Reported PAT	6,035	8,359	10,801	12,975
Diluted EPS (INR)	20.7	28.6	36.9	44.4

Important Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
Net interest margins	20.6	19.9	19.8	18.9
Cost-income	34.7	32.2	30.6	31.1
Tax rate	(25.0)	(25.1)	(25.2)	(25.2)

Valuation Metrics

Year to March	FY23A	FY24A	FY25E	FY26E
Diluted PE (x)	35.6	25.8	20.0	16.6
Price/BV (x)	4.9	4.1	3.4	2.9

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Equity capital	291	292	292	292
Reserves	43,104	51,669	62,470	73,499
Net worth	43,395	51,962	62,763	73,791
Borrowings	42,473	63,158	78,948	1,01,054
Other liabilities	1,160	1,768	2,062	2,658
Total	87,028	1,16,888	1,43,773	1,77,503
Assets				
Loans	68,222	96,851	1,18,642	1,50,676
Investments	1,446	1,077	3,705	3,630
Cash & equi	15,809	16,717	18,200	19,000
Fixed assets	449	643	804	1,005
Other assets	1,102	1,599	2,421	3,191
Total	87,028	1,16,888	1,43,773	1,77,503
BV/share (INR)	148.9	177.7	214.6	252.3

Balance Sheet Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
Credit growth	33.7	42.0	22.5	27.0
Gross NPA ratio	1.4	1.4	1.6	1.7
Net NPA ratio	0.7	0.6	0.8	0.9

ROA Decomposition (%)

Year to March	FY23A	FY24A	FY25E	FY26E
NII/Assets	16.4	16.2	16.2	15.9
Fees/Assets	0.2	0.2	0.2	0.2
Inv profits/Assets	0.1	0.4	0.4	0.4
Net revenues/assets	16.7	16.5	16.6	16.3
Opex/Assets	(5.8)	(5.4)	(5.2)	(5.2)
Provisions/Assets	(0.3)	(0.5)	(0.7)	(0.7)
Taxes/Assets	(2.7)	(2.7)	(2.8)	(2.7)
Total costs/Assets	(8.8)	(8.7)	(8.7)	(8.6)
RoA	8.0	8.2	8.3	8.1
Equity/Assets	53.5	46.8	44.0	42.5
RoAE	15.0	17.5	18.8	19.0

Valuation Drivers

Year to March	FY23A	FY24A	FY25E	FY26E
EPS growth (%)	33.1	38.0	29.2	20.1
RoAE (%)	15.0	17.5	18.8	19.0

Q3FY25 conference call: Key takeaways

Management guidance for FY25

- AUM growth for FY25 is maintained at 25% versus 25% YoY in Q3FY25.
- Disbursements for the quarter were INR9.40bn (down 22% YoY/25% QoQ). Management explained that they took a hit in Q3 as the focus was on collections rather than incremental business and guided for Q4 disbursements to pick up and return to business as usual.
- Credit cost (to total assets) guidance for FY25 is maintained at 75-100 basis points vs. 69 basis points for Q3FY25.
- Cost-to-income (including credit cost) is maintained at 33–36% for FY25 versus 34.87% for Q3FY25.
- Out of the 69 branches added during the quarter, 41 branches were split, while 28 branches were newly opened. Management maintained guidance to open 70–80 branches in total for FY25.
- Management expects the MFIN 2.0 guardrails (effective from 01.04.2025) to create demand for the secured lending segment, in which the company operates.

Asset quality and credit cost

- FIVESTAR wrote off INR360mn in 9MFY25 (INR70mn, INR180mn, and INR180mn in Q1, Q2, and Q3FY25, respectively). Management highlighted that even after including these write-offs, GNPA remains below 2%.
- The PCR drop in Stage 2 and Stage 3 was primarily due to the overlay created for the restructured portfolio, which has now run down. Overall, PCR stood at 1.66% versus 1.65% QoQ.
- The 30-90 DPD increased by 57 basis points during the quarter, but management indicated that this should improve going forward.
- Customer incomes remain stable. Customers perceive secured lending differently from unsecured lending.
- While policy requires NPA to be written off after four years, management mentioned that they take a more conservative stance and execute write-offs two years after a loan becomes non-performing.

Yields, cost and margins

- Incremental borrowing cost remained stable at 9.56% versus 9.57% QoQ even in the midst of tight liquidity.

Funding & liquidity

- During the quarter, FIVESTAR received sanctions of INR14bn, of which INR10.45bn was drawn.
- SBI, the largest lender to the company, provided an additional fresh sanction of INR5bn, bringing undrawn sanctions (including this) to INR6bn.
- Excluding the undrawn sanctions, the liquidity buffer held was INR21.45bn.
- Reliance on banks continues to moderate. Bank borrowings now comprise 56% versus 60% QoQ.

Others

- Out of 6,092 relationship managers, 4,500 are business officers, and the remaining are collection officers.
- The company charges a prepayment penalty only if the prepayment is made within one year; beyond that, there is no penalty.
- The proportion of BT out is currently insignificant at 2–3%, and is expected to remain fairly muted in the short to medium term.

Exhibit 1: Changes in estimates

	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
	Old	Old	New	New	% Change	% Change
NII, INR M	21,257	27,047	21,133	25,584	-0.6%	-5.4%
PAT, INR M	11,047	14,050	10,801	12,975	-2.2%	-7.6%
EPS, INR	37.8	48.0	36.9	44.4	-2.2%	-7.6%
BVPS, INR	209.8	250.6	214.6	252.3	2.3%	0.7%
Target price, INR		1,010		935	-7.4%	
CMP				737		
% Change to CMP				27%		
Rating		BUY		BUY		

Source: Company, Nuvama Research

Exhibit 2: Breakdown of stressed assets

INR Mn	Q3FY25	Q2FY25	Q3FY24	YoY %	QoQ %
Bucket					
Current Stage (Stage - 1)	94,922	93,974	77,434	22.6%	1.0%
1-30 (Stage-1)	6,620	6,071	4,415	49.9%	9.0%
31-60 (Stage-2)	4,518	4,165	3,311	36.5%	8.5%
61-90 (Stage-2)	3,913	3,458	2,897	35.1%	13.2%
90+ (Stage-3)	1,808	1,604	1,251	44.5%	12.7%
Total	1,11,781	1,09,272	89,308	25.2%	2.3%
Stage 1 Assets	1,01,542	1,00,045	81,849	24.1%	1.5%
Stage 2 Assets	8,431	7,623	6,208	35.8%	10.6%
Stage 3 Assets	1,808	1,604	1,251	44.5%	12.7%
Gross Stage 3 %	1.62%	1.47%	1.40%		

Source: Company, Nuvama Research

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Exhibit 3: Asset quality indicators

INR Mn	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24
Loan Outstanding (Gross)					
Stage 1	1,01,542	1,00,045	95,047	88,802	81,849
Stage 2	8,431	7,623	6,938	6,276	6,208
Stage 3	1,808	1,604	1,454	1,328	1,251
Total	1,11,781	1,09,272	1,03,439	96,406	89,308
ECL Provision					
Stage 1	384	399	380	350	293
Stage 2	562	569	552	507	476
Stage 3	907	831	757	721	679
Total	1,853	1,799	1,689	1,578	1,448
Loan Outstanding (Net)					
Stage 1	1,01,158	99,646	94,667	88,452	81,556
Stage 2	7,869	7,054	6,386	5,769	5,732
Stage 3	901	773	697	607	572
Total	1,09,928	1,07,473	1,01,750	94,828	87,860
ECL Provision(%)					
Stage 1	0.4%	0.4%	0.4%	0.4%	0.4%
Stage 2	6.7%	7.5%	8.0%	8.1%	7.7%
Stage 3	50.2%	51.8%	52.1%	54.3%	54.3%
Total	1.7%	1.7%	1.6%	1.6%	1.6%

Source: Company, Nuvama Research

Exhibit 4: Movement in yields, cost and margin

%	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24
Yield on loans	24.0%	24.2%	24.2%	24.2%	24.2%
Average CoF - cumulative	9.6%	9.7%	9.7%	9.6%	9.6%
Spread	14.4%	14.5%	14.6%	14.6%	14.6%
NIM	16.6%	16.9%	16.7%	17.2%	16.8%

Source: Company, Nuvama Research

Exhibit 5: Borrowing mix

%	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24
Bank term loans	56%	60%	62%	65%	66%
NCD	11%	12%	12%	5%	5%
Securitisation	20%	18%	14%	17%	21%
ECB	1%	1%	1%	1%	1%
Other term loans	12%	10%	11%	12%	6%
Total borrowings	100%	100%	100%	100%	100%

Source: Company, Nuvama Research

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Exhibit 6: Financial snapshot

INR mn	Q3FY25	Q2FY25	Q3FY24	YoY %	QoQ %
Interest Income	7,112	6,793	5,495	29%	5%
Less: Interest expense	1,714	1,631	1,287	33%	5%
Net Interest Income	5,399	5,161	4,208	28%	5%
Fee Income	80	67	39	103%	19%
Net gain	81	161	139	-42%	-49%
Non - Interest Income	161	228	179	-10%	-29%
Other Income	37	38	27	39%	-3%
Total Income	5,597	5,427	4,413	27%	3%
Employee Expenses	1,292	1,248	1,098	18%	3%
Depreciation	83	67	66	26%	25%
Other Expenses	337	312	248	36%	8%
Total Operating expenses	1,713	1,627	1,412	21%	5%
Operating profit (PPOP)	3,884	3,800	3,001	29%	2%
Less: Impairment on financial instrument	233	218	102	129%	7%
Profit before tax	3,651	3,582	2,899	26%	2%
Less: Current tax	888	987	750	18%	-10%
Less: Deferred tax	25	-84	-18	-237%	-129%
Total Tax expense	913	903	731	25%	1%
Profit After tax	2,739	2,679	2,168	26%	2%

Source: Company, Nuvama Research

Company Description

Five-Star extends, secured, small ticket loans, to the unorganised small and medium entrepreneurs who are at the bottom of the pyramid (sub-prime) and do not have access to formal sources of finance. Given that Five-Star's target segment is the bottom of the pyramid with very low-ticket size, it faces less competition. The company describes its own business model as "lending to the unlent". A large portion of Five-Star's loans and branches are in the Southern states.

Investment Theme

We review earnings and reiterate '**BUY**'. We cut TP to INR935/3.5x BV FY26E from INR1,010/3.6x BV earlier. Despite a near term moderation in growth we like Five-Star for its normalised growth prospects and stable asset quality in a challenging environment.

Key Risks

- Limited ability of its low-income, borrowers to absorb economic shocks.
- Risk of increasing competition from banks who may lend at lower yields.
- Lower seasoning of the portfolio.

Additional Data

Management

Chairman & MD	Lakshmiopathy Deenadayalan
CEO	Rangarajan Krishnan
COO	Vishnuram Jagannathan
CFO	Srikanth Gopalakrishnan

Holdings – Top 10*

	% Holding		% Holding
Sirius II PTE	6.00	Saudi central b	2.05
HDFC MF	4.31	Wasatch Emergin	1.79
Norwest Venture	2.40	Peak XV Partner	1.76
Fidelity Funds	2.35	Sequoia Capital	1.62
Nomura India	2.17	Max Life	1.29

*Latest public data

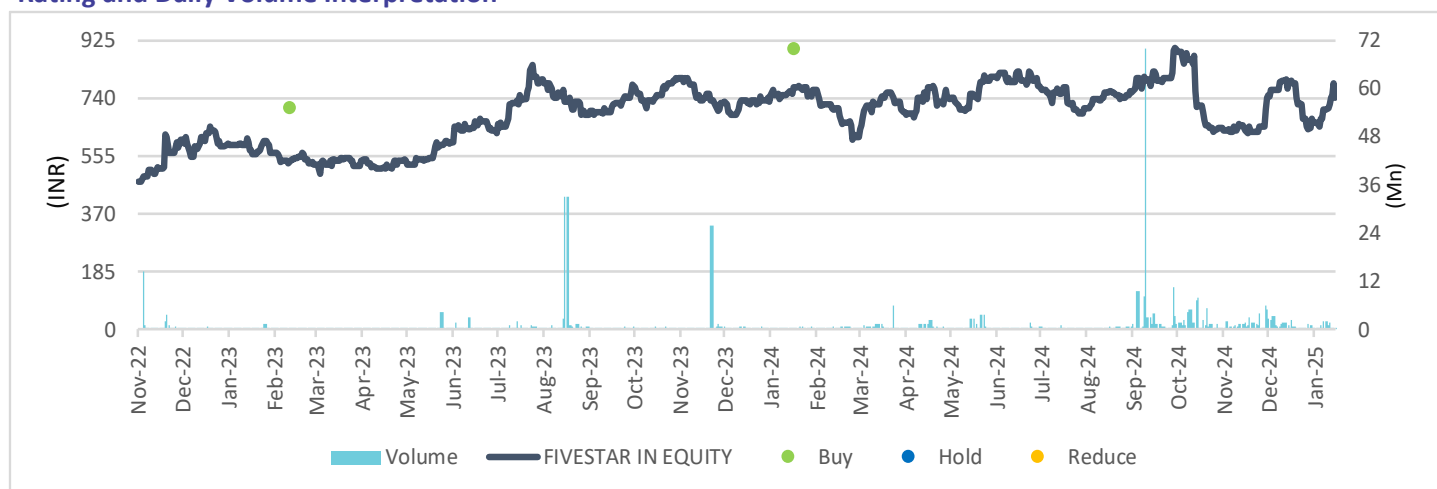
Recent Company Research

Date	Title	Price	Reco
29-Oct-24	Strong earnings and asset quality; <i>Result Update</i>	877	Buy
01-Aug-24	Strong earnings in tough quarter; <i>Result Update</i>	765	Buy
01-May-24	Strength in every parameter; <i>Result Update</i>	758	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
03-Jan-25	Banking & Finance	Q3FY25 – A challenging quarter; <i>Sector Update</i>
13-Dec-24	Banking & Finance	Banking & Finance – Deposit growth still; <i>Sector Update</i>
19-Sep-24	Banking & Finance	Sensitivity to rise in credit cost; <i>Sector Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	226
Hold	<15% and >-5%	64
Reduce	<-5%	27

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