FIVE-STAR BUSINESS FINANCE

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	706
12 month price target (INR)	820
52 Week High/Low	944/595
Market cap (INR bn/USD bn)	208/2.5
Free float (%)	62.0
Avg. daily value traded (INR mn)	585.3

SHAREHOLDING PATTERN

	Mar-25	Sep-24	Dec-24
Promoter	21.50%	21.60%	21.60%
FII	58.80%	57.80%	56.70%
DII	9.10%	10.10%	9.00%
Pledge	0.00%	0.00%	0.00%

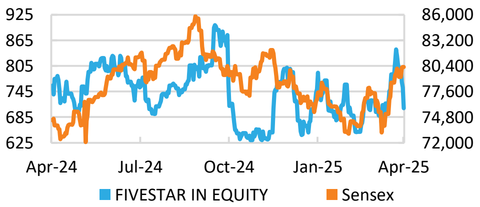
FINANCIALS (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	17266	21980	26003	31981
PPoP	11713	15196	17664	21796
Adjusted profit	8359	10725	12229	15055
Diluted EPS (INR)	28.6	36.4	41.5	51.1
EPS growth (%)	38.0	27.4	14.0	23.1
RoAE (%)	17.5	18.7	17.9	18.8
P/E (x)	24.7	19.4	17.0	13.8
P/BV (x)	4.0	3.3	2.8	2.4

CHANGE IN ESTIMATES

	Revised estimates	% Revision
Year to March	FY26E	FY26E
Revenue	26,003	-2.8%
PPoP	17,664	-4.2%
Adjusted profit	12,229	-5.8%

PRICE PERFORMANCE



Slower EPS growth in FY26E

Five Star's Q4FY25 PAT grew 18% YoY /2% QoQ, in line with consensus. AUM/disbursals rose QoQ after the recalibration in Q3. The share of INR0.5–1mn ATS rose 2% QoQ while less than INR0.3mn fell 5% QoQ. CE deteriorated QoQ driven mainly by the Karnataka (KT) ordinance and partly by the overleverage of small borrowers. The spread dipped 28bp QoQ with stable CoF and lower yield (Five-Star cut disbursal yield by 200bp six months ago). GS3 rose 17% QoQ but remains low at 1.8%.

We are cutting EPS, and the TP to INR820/3.3x BV FY26E (from INR935). We maintain 'BUY' on strong growth and healthy asset quality. In near term, concerns on the TN ordinance, slower earnings growth in FY26E and the impact of moving to higher ATS would prevail.

Disbursals pick up, spread declines in line with guidance

AUM and disbursal growth revived after the recalibration in Q3, which involved moderating growth and lowering disbursal yield. AUM increased 23% YoY/6% QoQ. Disbursals shot up 55% QoQ (9% YoY) after the 25% QoQ dip in Q3. Marginal CoF fell 27bp QoQ and average CoF remained stable while yield declined 28bp. Spread declined 28bp QoQ. The company is moving towards higher-ticket size borrowers with the share of INR0.5–1mn ATS moving up 2% QoQ while the share of borrowers under ATS of INR0.3mn declining 5% QoQ. The increase in ATS has been possible with a dip of 200bp in disbursal yield initiated six months ago. Management guided that most of the yield decline from moving to better-rated/higher ATS borrowers is captured. NII grew 21% YoY/4% QoQ. Opex grew sharply by 10% QoQ/26% YoY due to year-end bonus. PPOP grew 19% YoY/2% QoQ. Credit cost rose 9% QoQ from 84bp to 88bp of AUM. PAT grew 26% YoY/2% QoQ. RoA fell 5bp QoQ to 8.05%.

CE declines QoQ due to Karnataka

30+DPD rose 49bp QoQ to 9.6% as CE fell 50bp QoQ. CE was lower QoQ mainly due to Karnataka and partly due to overleverage of small borrowers, which should be fully addressed by Q1FY26 with new MFIN guardrails. GS3 rose 11% QoQ to 1.8%. GS3 with a two-year lag at 3.07% was 45bp higher YoY, but within the tolerable range. GS2-ECL fell 23bp QoQ while ECL-GS3 improved 1% QoQ. The LGD on key segments is below 20% and PD is also low. But the company has increased overlay in GS2. Credit cost stood at 88bp from 84bp QoQ. TN's share in total AUM is 21%, and the CEO is confident of managing growth/asset quality in the state.

Guidance

For FY26E, the guidance is for 25% AUM growth, lower CoF, credit cost of 75–100bp and EPS growth of 12–15% against EPS growth of 18% in Q4FY25.

Financials

Year to March	Q4FY25	Q4FY24	% Change	Q3FY25	% Change
Net Revenue	5,844	4,814	21%	5,597	4%
Pre-provisioning Profits	3,964	3,326	19%	3,884	2%
Reported Profits	2,791	2,361	18%	2,739	2%
EPS	9.5	8.1	18%	9.4	2%

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest income	16,481	20,983	24,798	30,555
Non-interest income	785	997	1,204	1,426
Fee and forex income	219	322	434	586
Misc. income	123	182	170	190
Investment profits	443	494	600	650
Net revenues	17,266	21,980	26,003	31,981
Operating expense	5,553	6,785	8,339	10,185
Employee exp	4,286	5,211	6,410	7,820
Other opex	1,267	1,574	1,929	2,365
Pre provision profit	11,713	15,196	17,664	21,796
Provisions	554	890	1,315	1,670
PBT	11,159	14,306	16,349	20,126
Taxes	2,800	3,581	4,120	5,072
PAT	8,359	10,725	12,229	15,055
Extraordinaries	0	0	0	0
Reported PAT	8,359	10,725	12,229	15,055
Diluted EPS (INR)	28.6	36.4	41.5	51.1

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Equity capital	292	294	294	294
Reserves	51,669	62,752	73,481	86,295
Net worth	51,962	63,046	73,776	86,589
Borrowings	63,158	79,220	99,025	1,26,752
Other liabilities	1,768	1,940	2,213	2,471
Total	1,16,888	1,44,206	1,75,013	2,15,812
Assets				
Loans	96,851	1,16,868	1,46,085	1,85,528
Investments	1,077	2,122	2,553	2,268
Cash & equi	16,717	21,551	22,198	23,308
Fixed assets	643	1,488	1,785	2,142
Other assets	1,599	2,176	2,391	2,565
Total	1,16,888	1,44,206	1,75,013	2,15,812
BV/share (INR)	177.7	214.1	250.6	294.1

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest margins	19.9	19.5	18.6	18.2
Cost-income	32.2	30.9	32.1	31.8
Tax rate	25.1	25.0	25.2	25.2

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted PE (x)	24.7	19.4	17.0	13.8
Price/BV (x)	4.0	3.3	2.8	2.4

Source: Company and Nuvama estimates

Balance Sheet Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Credit growth	42.0	20.7	25.0	27.0
Gross NPA ratio	1.4	1.8	1.9	1.9

ROA Decomposition (%)

Year to March	FY24A	FY25A	FY26E	FY27E
NII/Assets	16.2	16.1	15.5	15.6
Fees/Assets	0.2	0.2	0.3	0.3
Inv profits/Assets	0.4	0.4	0.4	0.3
Net revenues/assets	16.5	16.5	15.9	16.0
Opex/Assets	(5.4)	(5.2)	(5.2)	(5.2)
Provisions/Assets	(0.5)	(0.7)	(0.8)	(0.9)
Taxes/Assets	(2.7)	(2.7)	(2.6)	(2.6)
Total costs/Assets	(8.7)	(8.6)	(8.6)	(8.7)
RoA	8.2	8.2	7.7	7.7
RoAE	17.5	18.7	17.9	18.8

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	38.0	27.4	14.0	23.1
RoAE (%)	17.5	18.7	17.9	18.8

Q4FY25 conference call: Key takeaways

Management guidance

- For FY26, management guided for AUM growth of 25% driven by ~5% from productivity gains, 5% from higher ticket sizes, and the remaining 15% from acquiring incremental customers.
- The aim is to reduce the share of <INR 0.3mn ticket size loans from the current 32% to 20–25% by FY27. The share of >INR 1mn ticket size loans, currently at 1%, could increase to 7–8% by FY27.
- Lending rates were proactively reduced in Nov'24 to attract a better customer profile. No further lending rate cuts are planned at this stage. With a lower incremental cost of borrowings, the board and management will assess how much of the benefit can be passed on to customers.
- Credit cost (to total assets) for FY26 is projected to remain below 1%.

Loans and disbursement

- In line with the conscious strategy, ATS is expected to increase to INR0.4–0.5mn. The customer profile is expected to remain largely unchanged, but selection will focus on better-quality borrowers within the existing segment.
- Greater emphasis will be placed on the INR0.5–1mn and >INR1mn ticket size segments.
- A new product in affordable housing is likely to be launched post-H2FY26. The plan is to grow the book organically through the current branch and employee network, although the target segment would differ from the existing base.
- Among the customer base, ~60% are shopkeepers, ~25% are self-employed, and ~15% are salaried individuals.
- Login-to-sanction rate stands at 75–80%, while sanction-to-disbursement conversion is around 95%.

Asset quality and credit cost

- Overall collection efficiency for the quarter stood at 97.7%, versus 98% in Q3FY25. Unique loan collection efficiency was at 96.2%, compared to 96.7% in Q3FY25.
- The dip in collections was mainly due to disruptions in Karnataka between Jan'25 and Mar'25. There was also a marginal impact from customer overleveraging, which is expected to ease post H2FY26 as MFIs have curtailed lending and implemented new guardrails.
- Following the Karnataka ordinance in Feb'25, collections were impacted until 15th March 2025, but have since rebounded and improved further in April 2025.
- The new Tamil Nadu ordinance is not applicable to regulated entities, so no impact is foreseen on disbursements, although a slight disruption in collection efficiency is anticipated.
- Provisions on stage 3 assets stood at 51.31% in Q4FY25, with overall provisions at 1.63%. Overlays have been created for stage 2 assets across certain customer segments. However, due to lower PD and LGD, there are constraints in building high overlays for stage 1 and 2 assets.

Yields, cost and margins

- Incremental cost of borrowing declined to 9.29% versus 9.56% QoQ, while the overall cost of borrowings on the book remained steady at 9.63%. The full impact of lower incremental CoF will start reflecting from Q1FY26.
- After the first repo rate cut, banks did not reduce rates via MCLR. However, post the second cut, banks have started lowering deposit rates, which is expected to translate into lower MCLR and thus reduced borrowing costs.

Funding and liquidity

- Excluding the undrawn sanctions, the liquidity buffer held was INR22.95bn.
- Of the total borrowings, ~65% are from banks, split evenly between MCLR- and EBLR-linked borrowings. For FY26, 25–30bp of benefit is anticipated from rate cuts.
- The share of bank borrowings is expected to remain stable in the 65–70% range, given their cost advantage in a falling rate environment.

Others

- In FY25, the company launched 228 branches, with 150 being split branches and the rest in new locations. The company has maintained its guidance to open 75–100 branches in FY26, largely through split branches. The focus will remain on improving productivity at existing locations.
- In Q4FY25, a branch was opened in Ahmedabad, Gujarat. Over the next 18–24 months, only 4–5 more branches are planned, mainly to test the market.
- Out of 6,689 relationship managers, 4,899 are business officers, with the remainder handling collections. With an AUM of INR120bn, the target is to reach INR12.5mn AUM per employee by FY26E or mid-FY27E.
- In terms of monthly disbursements, the focus is on increasing loans per officer from 2.6 to 3.
- Dividend payouts are expected to remain in the 5–8% range going forward.

Exhibit 1: Changes in estimates

	FY26E	FY26E	FY27E	FY26E
	Old	New	Introduced	% Change
NII, INR M	25,584	24,798	30,555	-3.1%
PAT, INR M	12,975	12,229	15,055	-5.8%
EPS, INR	44.4	41.5	51.1	-6.4%
BVPS, INR	252.3	250.6	294.1	-0.7%
Target price, INR	**935**	**820**		**14%**
CMP		708		
% upside to CMP		16%		
Rating	**BUY**	**BUY**		

Source: Company, Nuvama Research

Exhibit 2: Breakdown of stressed assets

INR Mn	Q4FY25	Q3FY25	Q4FY24	YoY %	QoQ %
Bucket					
Current Stage (Stage - 1)	1,00,097	94,922	84,247	18.8%	5.5%
1-30 (Stage-1)	7,209	6,620	4,555	58.3%	8.9%
31-60 (Stage-2)	4,874	4,518	3,462	40.8%	7.9%
61-90 (Stage-2)	4,468	3,913	2,814	58.8%	14.2%
90+ (Stage-3)	2,123	1,808	1,328	59.9%	17.4%
Total	**1,18,771**	**1,11,781**	**96,406**	**23.2%**	**6.3%**
Stage 1 Assets	1,07,306	1,01,542	88,802	20.8%	5.7%
Stage 2 Assets	9,342	8,431	6,276	48.9%	10.8%
Stage 3 Assets	2,123	1,808	1,328	59.9%	17.4%
Gross Stage 3 %	**1.79%**	**1.62%**	**1.38%**		

Source: Company, Nuvama Research

Exhibit 3: Asset quality indicators

INR Mn	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24
Loan Outstanding (Gross)					
Stage 1	1,07,306	1,01,542	1,00,045	95,047	88,802
Stage 2	9,342	8,431	7,623	6,938	6,276
Stage 3	2,123	1,808	1,604	1,454	1,328
Total	**1,18,771**	**1,11,781**	**1,09,272**	**1,03,439**	**96,406**
ECL Provision					
Stage 1	367	384	399	380	350
Stage 2	477	562	569	552	507
Stage 3	1,089	907	831	757	721
Total	**1,933**	**1,853**	**1,799**	**1,689**	**1,578**
Loan Outstanding (Net)					
Stage 1	1,06,939	1,01,158	99,646	94,667	88,452
Stage 2	8,865	7,869	7,054	6,386	5,769
Stage 3	1,034	901	773	697	607
Total	**1,16,838**	**1,09,928**	**1,07,473**	**1,01,750**	**94,828**
ECL Provision (%)					
Stage 1	0.3%	0.4%	0.4%	0.4%	0.4%
Stage 2	5.1%	6.7%	7.5%	8.0%	8.1%
Stage 3	51.3%	50.2%	51.8%	52.1%	54.3%
Total	**1.6%**	**1.7%**	**1.7%**	**1.6%**	**1.6%**

Source: Company, Nuvama Research

Exhibit 4: Movement in yields, cost and margins

%	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24
Yield on loans	23.7%	24.0%	24.2%	24.2%	24.2%
Average CoF - cumulative	9.6%	9.6%	9.7%	9.7%	9.6%
Spread	14.1%	14.4%	14.5%	14.6%	14.6%
NIM	16.9%	16.6%	16.9%	16.7%	17.2%

Source: Company, Nuvama Research

Exhibit 5: Borrowing mix

%	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24
Bank term loans	56%	56%	60%	62%	65%
NCD	10%	11%	12%	12%	5%
Securitisation	17%	20%	18%	14%	17%
ECB	1%	1%	1%	1%	1%
Other term loans	17%	12%	10%	11%	12%
Total borrowings	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company, Nuvama Research

Exhibit 6: Financial snapshot

INR mn	Q4FY25	Q3FY25	Q4FY24	YoY %	QoQ %
Interest Income	7,347	7,112	5,992	23%	3%
Less: Interest expense	1,753	1,714	1,377	27%	2%
Net Interest Income	**5,594**	**5,399**	**4,615**	**21%**	**4%**
Fee Income	109	80	84	30%	37%
Net gain	66	81	86	-23%	-18%
Non - Interest Income	176	161	170	3%	9%
Other Income	75	37	29	162%	103%
Total Income	**5,844**	**5,597**	**4,814**	**21%**	**4%**
Employee Expenses	1,442	1,292	1,143	26%	12%
Depreciation	90	83	74	22%	8%
Other Expenses	348	337	271	28%	3%
Total Operating expenses	1,880	1,713	1,488	26%	10%
Operating profit (PPOP)	**3,964**	**3,884**	**3,326**	**19%**	**2%**
Less: Impairment on financial instrument	254	233	194	31%	9%
Profit before tax	**3,711**	**3,651**	**3,132**	**18%**	**2%**
Less: Current tax	922	888	838	10%	4%
Less: Deferred tax	-3	25	-66	-96%	-111%
Total Tax expense	919	913	771	19%	1%
Profit After tax	**2,791**	**2,739**	**2,361**	**18%**	**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 cut EPS and TP to INR 820/3.3x BV FY26 from INR 935. We maintain BUY on strong growth and healthy asset quality. Near-term, concerns on the TN ordinance, slower earnings growth in FY26E and the impact of moving to higher ATS will prevail.

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.
- Sustained pressure on yield.
- Potential impact of the TN ordinance

Additional Data

Management

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

Holdings – Top 10*

	% Holding		% Holding
Sirius II PTE	5.98	Wasatch Emerging India	1.78
HDFC MF	4.11	Peak XV Partner	1.75
Norwest Venture	2.40	Saudi central b	1.66
Fidelity Funds	2.34	Sequoia Capital	1.61
Nomura India	2.07	Government P.F.	1.61

**Latest public data*

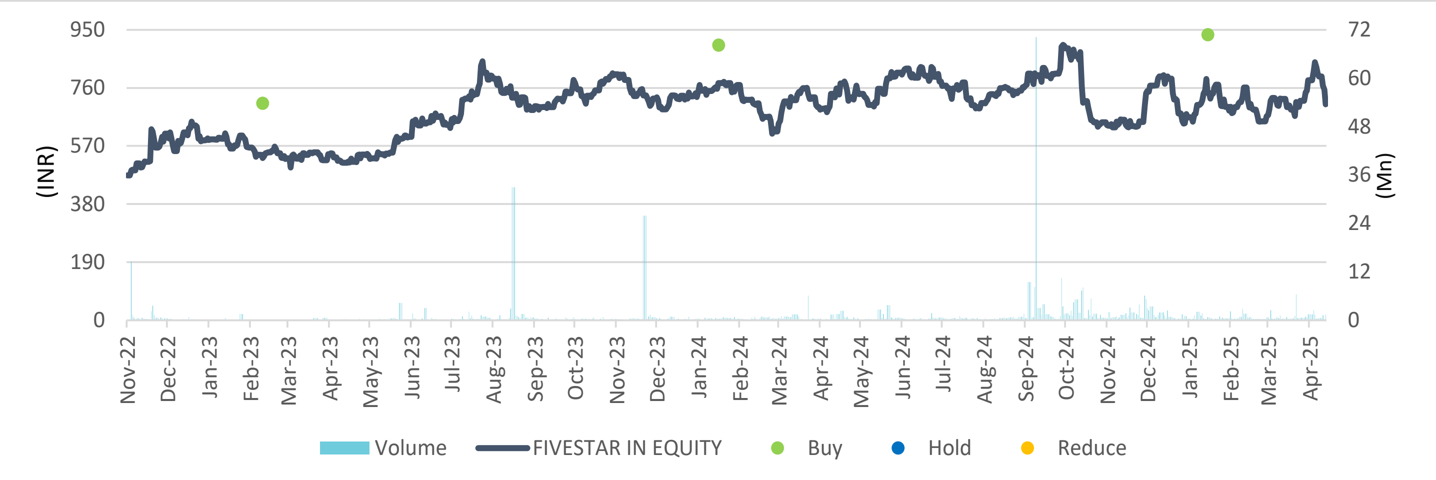
Recent Company Research

Date	Title	Price	Reco
01-Feb-25	Q3FY25 — in-line quarter; *Result Update*	735	Buy
29-Oct-24	Strong earnings and asset quality; *Result Update*	877	Buy
01-Aug-24	Strong earnings in tough quarter; *Result Update*	765	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
21-Apr-25	Banking & Finance	Positive final LCR norms a big relief; *Sector Update*
09-Apr-25	Banking & Finance	New gold norms to take sheen off growth; *Sector Update*
03-Apr-25	Banking & Finance	Some seasonal improvement; *Sector Update*

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%	209
Hold	<15% and >-5%	59
Reduce	<-5%	34

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