FIVE-STAR BUSINESS FINANCE

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	651
12 month price target (INR)	760
52 Week High/Low	943/592
Market cap (INR bn/USD bn)	191/2.2
Free float (%)	63.1
Avg. daily value traded (INR mn)	706.5

SHAREHOLDING PATTERN

	Jun-25	Mar-25	Dec-24
Promoter	21.5%	21.5%	21.6%
FII	58.1%	58.8%	57.8%
DII	9.5%	9.1%	10.1%
Pledge	0%	0%	0%

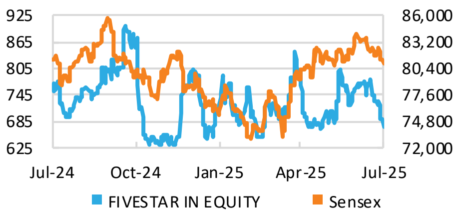
FINANCIALS (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	17266	21980	25903	31148
PPoP	11713	15196	17746	21185
Adjusted profit	8359	10725	11890	14524
Diluted EPS (INR)	28.6	36.4	40.4	49.3
EPS growth (%)	38.0	27.4	10.9	22.1
RoAE (%)	17.5	18.7	17.5	18.3
P/E (x)	22.8	17.9	16.1	13.2
P/BV (x)	3.7	3.0	2.6	2.2

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	25,903	31,148	-0.4%	-2.6%
PPOP	17,746	21,185	0.5%	-2.8%
Adjusted profit	11,890	14,524	-2.8%	-3.5%
Diluted EPS (INR)	40.4	49.3	-2.8%	-3.5%

PRICE PERFORMANCE



Borrower leverage affects with lag

Five-Star reported a soft quarter in Q1FY26 with a sharp rise in credit cost and stressed loans. Credit cost rose to 1.6% of AUM from 0.9% QoQ. The 30+DPD rose to 11.3% from 9.65% QoQ. The rise in stress is due to rising borrower leverage, which has increased post-Dec'24 in the low-income borrowers that adversely impacted Five-Star with a lag to MFI lenders. Disbursals decreased 2% YoY/12% QoQ.

Management expect credit cost to stay stable at current elevated levels in Q2FY26 and then improve in H2FY26E with corrective actions. Five-Star is reducing exposure to the stressed below INR0.3mn segment. We are cutting TP to INR760/3x BV FY26E (from INR820). Credit cost guidance has been hiked to 1–1.2% of assets; retain 'BUY'.

Sharp increase in stress and credit cost

The 30+DPD rose sharply from 9.65% to 11.3%. CE fell to 96.3% from 97.7% QoQ. GS3 rose to 2.46% from 1.79% QoQ. Net stage 3 was 1.25% from 0.88% QoQ. GS3 with a 2Y lag rose to 2.97% from 2.92% QoQ. GS2-ECL remained broadly stable at 5.05%. Stage-3 ECL was 50% versus 51% QoQ. Credit cost rose sharply to 1.6% of AUM from 88bp QoQ. Geographically Karnataka (due to ordinance) and AP have seen deterioration. Asset quality deteriorated due to rising leverage of borrowers in the sub-INR300,000 segment and higher stress from risky localities. The recent bureau scrub shows leverage of non-MFI borrowers of Five Star is up from 15% to 20–25%. Similarly, Five-Star's overlap from MFI borrowers has also risen from 30% earlier. It has taken corrective actions to address rising stress. It is de-focusing on the < INR300,000 segment and raising exposure to INR500,000–10,00,000 segment. The INR300,000–500,000 stays the sweet spot for the company. The aim is to lower the proportion of sub-INR300,000 segment by 5% to 25%. It has ramped up collection efforts by adding 200 officers in collections. RoA was 7.25% from 8.05% QoQ.

Deliberate slowdown in disbursals given stress

Disbursements decreased 2% YoY/12% QoQ. AUM rose 20% YoY/5% QoQ from 23% in Q4FY25. CoF fell 9bp QoQ to 9.54%. Yield declined 21bp QoQ. Spread fell 7bp QoQ, lower than expected. NII grew 20% YoY/3% QoQ. Non-interest income decreased 12% YoY/grew 25% QoQ. Opex grew 29% YoY/7% QoQ. Credit cost surged 88% QoQ. PAT grew 6% YoY/fell 4% QoQ. Management retained growth guidance of 25%, PAT guidance of 12–15%, but hiked credit cost guidance from 0.8–1% to 1.2–1.25% of assets from 1.3% in Q1FY26. After the resignation of the Deputy MD and CEO, the company discussed succession at the recent Board meeting. However, in the interim, the Chairman would be completely in charge of operations.

Financials

Year to March	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	6,039	5,112	18%	5,844	3%
Pre-provisioning Profits	4,027	3,547	14%	3,964	2%
Reported Profits	2,663	2,516	6%	2,791	-5%
EPS	9.0	8.6	5%	9.5	-5%

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest income	16,481	20,983	24,649	29,722
Non interest income	785	997	1,254	1,426
Fee and forex income	219	322	434	586
Misc. income	123	182	170	190
Investment profits	443	494	650	650
Net revenues	17,266	21,980	25,903	31,148
Operating expense	5,553	6,785	8,157	9,963
Employee exp	4,286	5,211	6,253	7,629
Other opex	1,267	1,574	1,904	2,334
Preprovision profit	11,713	15,196	17,746	21,185
Provisions	554	890	1,892	1,768
PBT	11,159	14,306	15,854	19,417
Taxes	2,800	3,581	3,963	4,893
PAT	8,359	10,725	11,890	14,524
Extraordinaries	0	0	0	0
Reported PAT	8,359	10,725	11,890	14,524
Diluted EPS (INR)	28.6	36.4	40.4	49.3

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Equity capital	292	294	294	294
Reserves	51,669	62,752	72,854	85,199
Net worth	51,962	63,046	73,148	85,494
Borrowings	63,158	79,220	96,648	1,19,844
Other liabilities	1,768	1,940	2,213	2,471
Total	1,16,888	1,44,206	1,72,009	2,07,808
Assets				
Loans	96,851	1,16,868	1,42,579	1,76,798
Investments	1,077	2,122	3,055	2,994
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	1,72,009	2,07,808
BV/share (INR)	177.7	214.1	248.4	290.4

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest margins	19.9	19.5	18.7	18.4
Cost-income	32.2	30.9	31.5	32.0
Tax rate	25.1	25.0	25.0	25.2

Balance Sheet Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Credit growth	42.0	20.7	22.0	24.0
Gross NPA ratio	1.4	1.8	1.4	1.4

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted PE (x)	22.8	17.9	16.1	13.2
Price/BV (x)	3.7	3.0	2.6	2.2

Source: Company and Nuvama estimates

ROA Decomposition (%)

Year to March	FY24A	FY25A	FY26E	FY27E
NII/Assets	16.2	16.1	15.6	15.7
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	16.0	16.1
Opex/Assets	(5.4)	(5.2)	(5.2)	(5.2)
Provisions/Assets	(0.5)	(0.7)	(1.2)	(0.9)
Taxes/Assets	(2.7)	(2.7)	(2.5)	(2.6)
Total costs/Assets	(8.7)	(8.6)	(8.9)	(8.8)
RoA	8.2	8.2	7.5	7.6
RoAE	17.5	18.7	17.5	18.3

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	38.0	27.4	10.9	22.1
RoAE (%)	17.5	18.7	17.5	18.3

Q1FY26 conference call: Key takeaways

Management guidance

- CEO Rangarajan Krishnan would be stepping down to pursue entrepreneurial ambitions. Chairman and MD Lakshmipathy Deenadayalan would assume full operational control backed by a strong second-line leadership team. The board would revisit succession planning after Mar-26.

- Management maintained their full-year FY26 outlook despite the subdued start to the year. The company continues to target 25% AUM growth.

- FY26 PAT growth is guided at 12–15%, aided by continued cost discipline.

- Credit cost guidance has been revised upward to 1.2–1.25% for FY26, reflecting elevated provisioning needs in Q1 from the below INR0.3mn book and geographies such as Karnataka and Andhra Pradesh.

Loan book

- The company has tweaked its disbursal strategy. Loans below INR0.3mn would be gradually wound down (currently ~30% of book), with fresh originations focused on the INR0.5–1mn segment (targeted to rise to ~20–25% of the book). However, the INR0.3–0.5mn ticket range remains the preferred segment.

- AUM growth was subdued in Q1, rising only 5% QoQ/20% YoY, largely due to a strategic slowdown in disbursements (down 2% YoY/12% QoQ) amid stress and a management-led pivot towards collection over expansion.

Yields and costs

- The yield on the portfolio decreased 19bp QoQ to 23.51%, following a 200bp drop in incremental lending rates since November last year, reflecting the company's move toward better-rated borrowers and risk-based pricing aligned with customer financial literacy.

- The incremental cost of borrowing dropped 70bp QoQ to 8.59%, aided by the RBI's repo rate cut and lower quantum of borrowings in Q1. The full-year cost of funds is likely to hover around 8.75%.

Credit cost and asset quality

- Notable stress was reported during Q1FY26, particularly in the below INR0.3mn loan segment and in geographies exposed to microfinance and personal loans. The company attributed this pressure to systemic over-leverage among low-income borrowers, compounded by limited financial literacy.

- Karnataka was specifically affected by the ordinance passed earlier in the year while Andhra Pradesh showed stress in small-ticket segments due to riskier customer cohorts and prior exposure to unsecured lending.

- Credit costs for the quarter rose to 1.3% (up from 0.7%), prompting the company to revise full-year credit cost guidance to 1.2–1.25%. Management does not expect this number to rise further and anticipates a reduction in H2FY26 driven by improved collection efforts and MFIN guardrails.

- Five-Star has bolstered its legal recovery infrastructure. Over 100 advocates are on the payroll and it aims to recover INR700–800mn in NPAs this fiscal. Collections in July were reported to be stronger than April, suggesting early signs of stabilisation.

- The company has strengthened its collections apparatus by hiring 200 new officers in stressed geographies such as Karnataka and Andhra Pradesh, bringing total field collection strength to ~2,000 officers. A clear division has been implemented: business teams now only handle current accounts while a dedicated recovery team manages DPD accounts.
- Underwriting norms have been tightened with lower emphasis on income from volatile sources such as agriculture and seasonal labour and greater scrutiny of households in the same occupation. Higher-quality and financially aware customers are now being targeted with ongoing data scrubs to filter out over-leveraged profiles.

Branches

- Despite asset quality issues, the company has not decelerated investment in physical infrastructure and splitting of branches. Total 19 branches have been opened in Q1, bringing the total up to 767 branches.

Exhibit 1: Change in estimates

	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
	Old	**Old**	**New**	**New**	**% Change**	**% Change**
NII, INR M	24,798	30,555	24,649	29,722	-0.6%	-2.7%
PAT, INR M	12,229	15,055	11,890	14,524	-2.8%	-3.5%
EPS, INR	41.5	51.1	40.4	49.3	-2.8%	-3.5%
Target price, INR		**820**		**760**	**-7.3%**	
CMP				651		
% Upside				17%		
Rating		**BUY**		**BUY**		

Source: Company, Nuvama Research

Exhibit 2: Breakdown of stressed assets

INR mn	Q1FY26	Q4FY25	Q1FY25	YoY %	QoQ %
Bucket					
Current Stage (Stage - 1)	1,02,704	1,00,097	89,696	14.5%	2.6%
1-30 (Stage-1)	7,783	7,209	5,351	45.4%	8.0%
31-60 (Stage-2)	5,532	4,874	3,815	45.0%	13.5%
61-90 (Stage-2)	5,489	4,468	3,122	75.8%	22.9%
90+ (Stage-3)	3,070	2,123	1,454	111.1%	44.6%
Total	**1,24,578**	**1,18,771**	**1,03,438**	**20.4%**	**4.9%**
Stage 1 Assets	1,10,487	1,07,306	95,047	16.2%	3.0%
Stage 2 Assets	11,021	9,342	6,938	58.8%	18.0%
Stage 3 Assets	3,070	2,123	1,454	111.1%	44.6%
Gross Stage 3 %	**2.24%**	**1.79%**	**1.41%**		

Source: Company, Nuvama Research

Exhibit 3: Asset quality indicators

INR Mn	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25
Loan Outstanding (Gross)					
Stage 1	1,10,487	1,07,306	1,01,542	1,00,045	95,047
Stage 2	11,021	9,342	8,431	7,623	6,938
Stage 3	3,070	2,123	1,808	1,604	1,454
Total	**1,24,578**	**1,18,771**	**1,11,781**	**1,09,272**	**1,03,439**
ECL Provision					
Stage 1	319	367	384	399	380
Stage 2	557	477	562	569	552
Stage 3	1,536	1,089	907	831	757
Total	**2,411**	**1,933**	**1,853**	**1,799**	**1,689**
Loan Outstanding (Net)					
Stage 1	1,10,168	1,06,939	1,01,158	99,646	94,667
Stage 2	10,464	8,865	7,869	7,054	6,386
Stage 3	1,534	1,034	901	773	697
Total	**1,22,166**	**1,16,838**	**1,09,928**	**1,07,473**	**1,01,750**
ECL Provision (%)					
Stage 1	0.3%	0.3%	0.4%	0.4%	0.4%
Stage 2	5.1%	5.1%	6.7%	7.5%	8.0%
Stage 3	50.0%	51.3%	50.2%	51.8%	52.1%
Total	**1.9%**	**1.6%**	**1.7%**	**1.7%**	**1.6%**

Source: Company, Nuvama Research

Exhibit 4: Movement in yields, costs and margins

%	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25
Yield on loans	23.5%	23.7%	24.0%	24.2%	24.2%
Average CoF - cumulative	9.5%	9.6%	9.6%	9.7%	9.7%
Spread	14.0%	14.1%	14.4%	14.5%	14.6%
NIM	16.4%	16.9%	16.6%	16.9%	16.7%

Source: Company, Nuvama Research

Exhibit 5: Borrowing mix

%	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25
Bank term loans	58%	56%	56%	60%	62%
NCD	10%	10%	11%	12%	12%
Securitisation	15%	17%	20%	18%	14%
ECB	1%	1%	1%	1%	1%
Other term loans	17%	17%	12%	10%	11%
Total borrowings	**100%**	**100%**	**100%**	**101%**	**100%**

Source: Company, Nuvama Research

Exhibit 6: Financial snapshot

INR mn	Q1FY26	Q4FY25	Q1FY25	YoY %	QoQ %
Interest Income	7,647	7,347	6,411	19%	4%
Less: Interest expense	1,873	1,753	1,582	18%	7%
Net Interest Income	**5,774**	**5,594**	**4,829**	**20%**	**3%**
Fee Income	96	109	65	48%	-12%
Net gain	124	66	185	-33%	86%
Non - Interest Income	220	176	251	-12%	25%
Other Income	45	75	32	39%	-40%
Total Income	**6,039**	**5,844**	**5,112**	**18%**	**3%**
Employee Expenses	1,561	1,442	1,228	27%	8%
Depreciation	82	90	64	29%	-9%
Other Expenses	369	348	273	35%	6%
Total Operating expenses	2,012	1,880	1,565	29%	7%
Operating profit (PPOP)	**4,027**	**3,964**	**3,547**	**14%**	**2%**
Less: Impairment on financial instrument	478	254	185	158%	88%
Profit before tax	**3,550**	**3,711**	**3,362**	**6%**	**-4%**
Less: Current tax	1,011	922	919	10%	10%
Less: Deferred tax	-125	-3	-73	72%	4513%
Total Tax expense	886	919	846	5%	-4%
Profit after tax	**2,663**	**2,791**	**2,516**	**6%**	**-5%**

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

Management expects credit cost to stay stable at the current elevated level in Q2FY26 and then improve in H2FY26E with corrective measures. The company is reducing exposure to the stressed below INR0.3mn segment. We cut TP to INR 760/3x BV FY26 from INR820. Credit cost guidance hiked to 1.2-1.25% of assets. Maintain BUY.

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.
- Slower than expected improvement in CE

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	Peak XV Partner	1.75
HDFC MF	4.12	Government P.F.	1.69
Fidelity Funds	2.47	Sequoia Capital	1.61
Norwest Venture	2.39	Atma Ram Builders	1.59
Nomura India	2.06	Wasatch Emerging	1.57

Latest public data

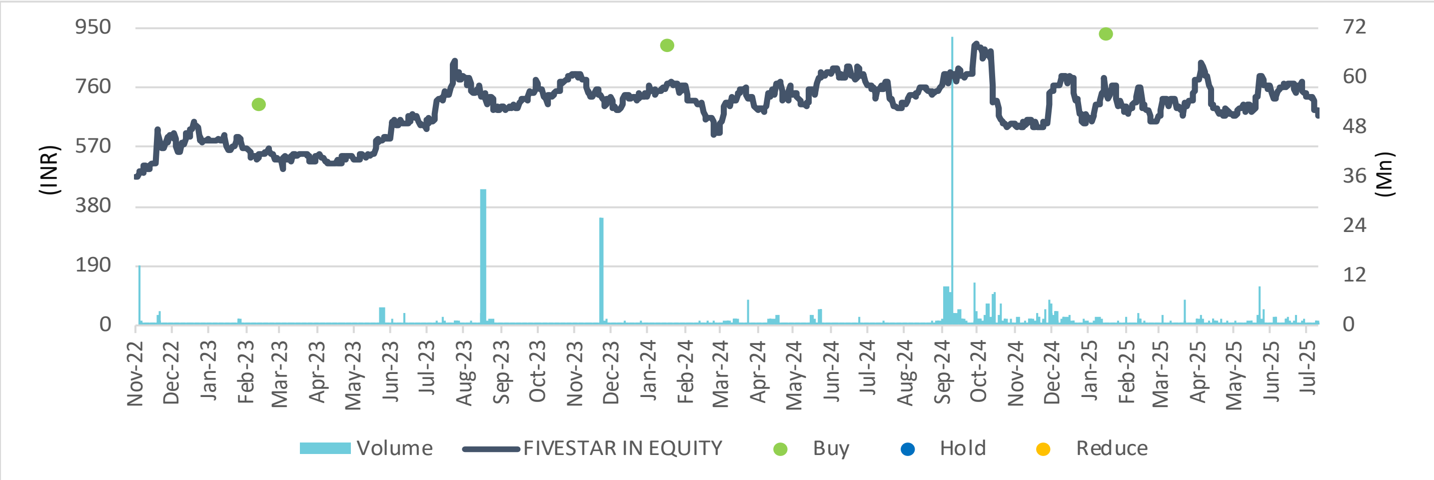
Recent Company Research

Date	Title	Price	Reco
30-Apr-25	Slower EPS growth in FY26E; *Result Update*	706	Buy
01-Feb-25	Q3FY25 — in-line quarter; *Result Update*	735	Buy
29-Oct-24	Strong earnings and asset quality; *Result Update*	877	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
07-Jul-25	Banking & Finance	Q1FY26E – A weak quarter; *Sector Update*
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*

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%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36

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