MIRAE ASSET Sharekhan

Five Star Business Finance

NPA stress; high credit costs impacted Q1

NBFC		Sharekhan code: FIVESTAR	
Reco/View: Neutral	↔	CMP: Rs. 650 (as on Jul 29, 2025)	Upside potential: 12% ↓

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

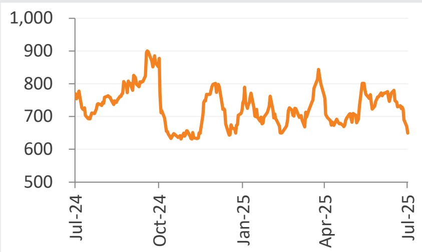
Company details

Market cap:	Rs. 19,000 cr
52-week high/low:	Rs. 943/592
NSE volume: (No of shares)	8.8 lakh
BSE code:	543663
NSE code:	FIVESTAR
Free float: (No of shares)	18.58 cr

Shareholding (%)

Promoters	21.7
FII	58.1
DII	9.5
Others	10.7

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-14.5	-13.8	-12.3	-13.8
Relative to Sensex	-11.2	-15.1	-18.6	-13.8

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Credit costs surged 82/68 bps (y-o-y/q-o-q) to 1.53% of AUM; it's seen at 1.20-1.25% for FY26 versus 0.8-1% earlier.
- GS-3 assets rose 105/67bps (y-o-y/q-o-q) to 2.46%, with greater stress in 'below Rs. 3-lakh loan' category; Management is sharpening focus on Rs. 3-10 lakh loans.
- Disbursements fell 2.1% and 11.6% (y-o-y/q-o-q); NIM plunged on lower lending rates.
- AUM and PAT are eyed at 25% and 12-15% for FY26 and RoA/RoE at 7.3%/17.3% in FY27. Hence, we maintain a Neutral view and expect a modest 12% upside. Stock trades at 25x/2.1x its FY2026E/FY2027E BVPS. We continue to monitor asset quality trends in the coming quarters.

Net earnings lagged estimates by 2.1% (up 5.9% y-o-y and down 4.6% q-o-q) to Rs. 266 crore on higher credit costs, elevated opex and deterioration of asset quality. NII met expectations at Rs. 577 crore, marking a growth of 19.6% y-o-y and 3.2% q-o-q. However, NIMs came in at 18.54% (as a percentage of AUM) which was 86 bps below estimates due to a lower yield on AUM. It was also down 13 bps y-o-y and 30 bps q-o-q. Opex at Rs. 201 crore were slightly (0.9%) above estimates, reflecting a 28.6% y-o-y and 7.0% q-o-q increase. Despite this, PPOP beat estimates by 2.2%, reaching Rs. 403 crore (up 13.5% y-o-y and 1.6% q-o-q). Credit cost rose above estimates by 53 bps at 1.53% (as a percentage of AUM), primarily as asset quality worsened sharply. This also represented an 82-bps y-o-y and 68-bps q-o-q increase, that hit net earnings. With overall weak performance, RoA declined by 99 bps y-o-y and 88 bps q-o-q at 7.24%, while RoE fell by 238 bps y-o-y and 179 bps q-o-q to 16.57%. On the growth front, AUM expanded by 20.4% y-o-y and 4.9% q-o-q, reaching Rs. 12,458 crore, which was 4% above estimates. Disbursements fell 2.1% q-o-y and 11.6% q-o-q, coming in 11.6% below estimates as focus on managing stress. Asset quality significantly deteriorated, particularly in below 3.0 lakh ticket size. GNPA rose to 2.46% (up 105 bps y-o-y and 67 bps q-o-q), while NNPA increased by 46 bps y-o-y and 37 bps q-o-q owing to overleveraging in the MFI space, higher stress in Karnataka and Tamil Nadu. The 30+ DPD has risen to 11.31% (as a percentage of AUM), up 320 and 166 bps y-o-y and q-o-q.

Key positives

- AUM grew by 20.4% and 4.9% y-o-y and q-o-q.

Key negatives

- NIMs (as a percentage of AUM) came in at 18.54%, down 13 and 30 bps (y-o-y and q-o-q) due to lower yield on AUMs.
- Disbursement de-grew 2.1% and 11.6% (y-o-y and q-o-q) to Rs. 1,290 crore.
- GNPA sharply rose 105 and 67 bps (y-o-y and q-o-q) to 2.46%. Thus, credit cost sharply rose 82 and 68 bps (y-o-y and q-o-q) at 1.53% (as a percentage of AUM).
- Opex above estimates by 0.9% to Rs. 201 crore (up 28.6% y-o-y and 7.0% q-o-q).

Management Commentary

- AUM growth guidance at 25% for FY26 and earnings growth of 12-15%. For the medium term, AUM growth is expected at 25% (CAGR) over the next three years. Net earnings growth at 15-18%, RoA at ~7.0% and RoE at 18-20%.
- Due to the current market conditions, credit costs are now expected to be significantly higher, at 1.2-1.25%, a notable increase from the previous expectation of 0.8% to 1.0%. Besides, they also expects that credit costs in Q2FY26 will be slightly lower than or similar to Q1FY26 levels, with a reduction anticipated thereafter.
- The company has observed higher stress below Rs. 3.0 lakh ticket size and targeting to reduce the exposure of proportion by 5-25% over the next couple of years. In response, management has made a deliberate decision to concentrate on the Rs. 3-10 lakh ticket size moving forward. Further, they states Rs. 3-5 lakh ticket size is in a sweet spot.
- Operating expenses guidance remains at 5% of (AUM).
- After the resignation of Mr. Rangarajan, Deputy MD & CEO, the company discussed succession at the recent Board meeting. However, in the interim, the Chairman would be completely in charge of operations.

Our Call

Valuation - Q1FY26 numbers were weak primarily as asset quality worsened, lower loan yields, increased credit costs, and higher opex. Acknowledging widespread overleveraging in the microfinance industry and higher stress in Karnataka and Andhra Pradesh, hence management is intently focused on improving asset quality. Strategies include expanded their collection & recovery team and focusing on the ticket size of Rs. 3-10 lakh in the LAP segment, as smaller loans (below Rs. 3 lakh) are experiencing greater stress. Overall, credit cost guidance has been raised to 1.20-1.25% of average AUM, up from 0.8-1.0%. For Q2FY26, it is expected to mirror Q1FY26 and gradually will see a decline. We expect the company would come out stronger over the current challenges as the management has strong experience in the business. However, our view remains neutral, with a modest 12% upside potential on CMP and we continue to monitor asset quality trend. AUM and PAT CAGR is expected at 24% and 15% respectively over FY25-27, along with RoA at 7.3% and RoE at 17.3%. The stock trades at 2.5.x and 2.1.x its FY26 and FY27 BVPS.

Valuation

Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
NII	1,233	1,648	2,098	2,504	2,988
PAT	603	836	1,072	1,218	1,422
EPS (Rs.)	20	28	37	41	48
P/E (x)	31.7	22.9	17.8	15.7	13.5
P/BV (x)	4.4	3.7	3.0	2.5	2.1
RoA (%)	8.0	8.2	8.2	7.6	7.3
RoE (%)	15.0	17.5	18.7	17.6	17.3

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- **NII Growth and NIM:** NII grew 19.6% y-o-y and 3.2% q-o-q to Rs. 577 crore. NIM was down 13 bps y-o-y and 30 bps Q-o-q to 18.54% (as percentage of AUM) due to a lower yield on AUM. The company has reduced interest rate by 200 bps on new disbursements from November 1, 2024, hence impacting NIM.
- **Credit cost outlook:** it sharply rose by 82 and 68 bps y-o-y and q-o-q at 1.53% (as a percentage of AUM) primarily due to a sharp deterioration in asset quality. Due to the current market conditions, credit costs are now expected to be significantly higher, at 1.2-1.25% (as an average of AUM), a notable increase from the previous expectation of 0.8-1.0%. Besides, it is expected slightly lower or similar in Q2FY26 to Q1FY26 levels, with a reduction anticipated thereafter.
- **Asset quality worsened:** GNPA rose to 2.46% (up 105 bps y-o-y and 67 bps q-o-q), while NNPA increased by 46 bps y-o-y and 37 bps q-o-q due to sharply deterioration of the asset quality caused by overleveraging in the MFI space, higher stress in Karnataka and Andhra Pradesh. The asset quality is expected to be on elevated level however it will reduce from Q3FY26. The 30+ DPD has risen to 11.31% (as a percentage of AUM), higher by 320 and 166 bps y-o-y and q-o-q.
- **Loan growth outlook:** AUM expanded by 20.4% y-o-y and 4.9% Q-o-q, reaching Rs. 12,458 crore, which was 4% above estimates. Disbursements fell 2.1% y-o-y and 11.6% Q-o-q, coming in 11.6% below estimates due to focus on asset quality improvement. AUM growth guidance at 25% for FY26 and earnings growth of 12-15%. For the medium term, AUM growth is expected at 25% (CAGR) over the next three years. Net earnings growth at 15-18%, RoA at ~7.0% and RoE at 18-20%.

Results Rs cr

Particulars	Q1FY25	Q4FY25	Q1FY26	Y-o-Y %	Q-o-Q %
Interest Earned	641	735	765	19.3%	4.1%
Interest Expended	158	175	187	18.4%	6.8%
NII	**483**	**559**	**577**	**19.6%**	**3.2%**
Other Income	28	25	27	-6.3%	5.8%
Total Income	511	584	604	18.1%	3.3%
Operating Expenditures	156	188	201	28.6%	7.0%
PPOP	**355**	**396**	**403**	**13.5%**	**1.6%**
P&C	19	25	48	157.9%	88.3%
PBT	336	371	355	5.6%	-4.3%
Tax	85	92	89	4.8%	-3.6%
Net Profit	**252**	**279**	**266**	**5.9%**	**-4.6%**
AUM	**10,344**	**11,877**	**12,458**	**20.4%**	**4.9%**
Disbursements	1,318	1,460	1,290	-2.1%	-11.6%

Source: Company; Mirae Asset Sharekhan Research

Actual/Estimates (Rs cr)

Particulars	Q1FY26E	Q1FY26A	Var (%)
NII	577	577	0.1%
PPOP	394	403	2.2%
PAT	272	266	-2.1%

Source: Company; Mirae Asset Sharekhan Research

Key Ratios

As a % of AUM	Q1FY25	Q4FY25	Q1FY26	bps Y-o-Y	bps Q-o-Q
NII	18.67%	18.84%	18.54%	-13	-30
Fee & Other Income	1.09%	0.84%	0.85%	-24	1
Opex	6.05%	6.33%	6.46%	41	13
Prov	0.72%	0.85%	1.53%	82	68
Tax Rate	3.27%	3.10%	2.85%	-43	-25

Source: Company; Mirae Asset Sharekhan Research

Asset quality

Particulars	Q1FY25	Q4FY25	Q1FY26	bps Y-o-Y	bps Q-o-Q
Gross NPA	1.41%	1.79%	2.46%	105.0	67.0
Net NPA	0.79%	0.88%	1.25%	46.0	37.0

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Asset quality, underwriting in focus, long-term opportunity intact

Currently, the NBFC sector is facing headwinds in terms of growth and higher stress due to deteriorating macros. However, the long-term potential is intact and receding headwinds would be positive for the sector. In the last 6-8 months, the regulator has also taken supportive steps for the sector as reduction in the repo rate, enhancing liquidity, reduction in the risk weights, and among others which will help to improve the NBFCs. Overall MSME credit stood at Rs. 22 trillion as of FY2023, reflecting the significant under-penetration in the total addressable market of ~Rs. 110 trillion. The share of small business loans to overall MSME loans was just ~9% in FY2023. Challenges in accessing traditional sources of finance in the absence of documented cash flows provide a latent opportunity for non-bank lenders. High yields in this segment drive margins, while RoA has been volatile, contingent on asset-quality behaviour. NBFCs can carve out a niche by focusing on customer needs, improving turnaround time, and expanding geographically.

■ Company Outlook – Short-term headwinds to persist, asset quality will improve, hence lower credit cost from Q2

Growth has moderated over the past 2-3 quarters as macros weakened. Besides, disruption in its key markets Karnataka and Tamil Nadu cause for temporarily disturbance. Along with overleveraging issue in MFI space is expected to continue over the next two-three quarters. However, we believe the company is still in better positioned with healthy growth and best-in-class on return ratio. Five Star's key strength is in its strong underwriting practices, which have led to a superior asset-quality performance through cycles. We are confident about the franchise's longevity.

■ Valuation

Q1FY26 numbers were weak primarily as asset quality worsened, lower loan yields, increased credit costs, and higher opex. Acknowledging widespread overleveraging in the microfinance industry and higher stress in Karnataka and Andhra Pradesh, hence management is intently focused on improving asset quality. Strategies include expanded their collection & recovery team and focusing on the ticket size of Rs. 3-10 lakh in the LAP segment, as smaller loans (below Rs. 3 lakh) are experiencing greater stress. Overall, credit cost guidance has been raised to 1.20-1.25% of average AUM, up from 0.8-1.0%. For Q2FY26, it is expected to mirror Q1FY26 and gradually will see a decline. We expect the company would come out stronger over the current challenges as the management has strong experience in the business. However, our view remains neutral, with a modest 12% upside potential on CMP and we continue to monitor asset quality trend. AUM and PAT CAGR is expected at 24% and 15% respectively over FY25-27, along with RoA at 7.3% and RoE at 17.3%. The stock trades at 2.5.x and 2.1.x its FY26 and FY27 BVPS.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY26E
Five Star Business Finance	650	19,125	15.7	13.5	2.5	2.1	7.6	7.3	17.6	17.3
Cholamandalam Investment and Finance Company	1,485	125000	23.2	18.0	4.3	3.5	2.4	2.6	20.5	21.6

Source: Company; Mirae Asset Sharekhan Research

About company

Five Star is a small, fast-growing Chennai-based NBFC set up in 1984. Five Star offers business loans to meet the working capital requirements of micro-entrepreneurs and small businesses and loans for asset creation such as home renovation or improvement or meeting expenses for significant economic events such as marriage, healthcare, and education. The company targets borrowers who derive income from 'everyday' cash-and-carry businesses focusing on providing services to their clients.

Investment theme

There is a strong runway for loan growth in the untapped, niche, and fast-growing small business segment of MSME in India. New customer additions led by new branch expansion and improvement in branch vintage, along with strong risk filters and framework, would help the company gain exposure to India's financial inclusion story. Five Star's key strength is its strong underwriting practices, which have led to superior asset-quality performance through cycles.

Key Risks

- Managing asset quality well in Karnataka and Andhra Pradesh may lead for lower credit cost which may drive above estimate profitability.
- Above estimate AUM growth due to improving situation in Karnataka.

Additional Data

Key management personnel

Name	Designation
Lakshmipathy D	Chairman and MD
S. Gopalkrishnan	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Lakshmipathy Deenadayalan	10.45
2	WASATCH ADVISORS LP	9.24
3	- Hema	7.2
4	Sirius II Pte Ltd	5.98
5	FIL Ltd	5.67
6	HDFC Asset Management Co Ltd	4.12
7	Fidelity Funds SICAV	3.57
8	Peak XV Partners Investments IV	2.9
9	Vanguard Group Inc/The	2.62
10	Wasatch Advisors Inc	2.61

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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