Viewpoint

Result Update

MIRAE ASSET Sharekhan

Five-Star Business Finance Ltd

Mixed bag Q4

NBFC	Sharekhan code: FIVESTAR

Reco/View: Neutral	↔	CMP: Rs. 704	Upside potential: 9%	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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	=	↔	=

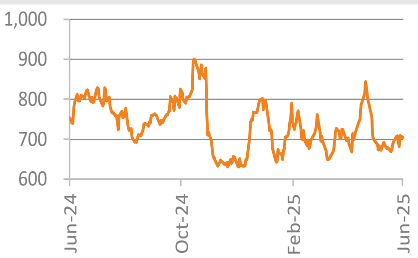
Company details

Market cap:	Rs. 20,700 cr
52-week high/low:	Rs. 943.2 / 604
NSE volume: (No of shares)	9.9 lakh
BSE code:	543663
NSE code:	FIVESTAR
Free float: (No of shares)	18.58 cr

Shareholding (%)

Promoters	21.5
FII	58.8
DII	9.1
Others	10.7

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	-7.5	10.3	-7.0
Relative to Sensex	0.1	-18.7	8.9	-17.4

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Although net earnings were in line, growth lagged guidance and asset quality deteriorated sharply.
- GS-3 assets sharply rose by 41/17 bps (y-o-y/q-o-q) to 1.79% due to lower collection efficiency in Karnataka and overleveraged borrowers. It is likely to face near-term recovery challenges in Tamil Nadu also due to an ordinance that prevents coercive recovery practices.
- We continue to monitor asset quality trends over the next two quarters. Stress has been higher in the below Rs. 3.0 lakh ticket size segment. Thus, the management has made a conscious decision to focus more between Rs. 3.0-10.0 lakh segment.
- We continue to maintain Neutral view with modest upside of 9%. The stock trades at 2.8x/2.3x its FY2026E/FY2027E BVPS.

Net earnings were in line however growth moderated and asset quality deteriorated sharply. NII, in line with estimates, grew by 21.2%/3.6% (y-o-y/q-o-q) to Rs. 584 crore. NIM (% of AUM) beat estimates by 27 bps to 18.8%. However, it was down by 31/48 bps (y-o-y/q-o-q) as the company lowered incremental yield by 200 bps (from November 2024). Other income grew 26%/26.4% (y-o-y/q-o-q) driven by fee and commission income. Opex above estimates by 15.3% to Rs. 188 crore (up by 26.3% y-o-y and 9.8% q-o-q), driven by higher employee expenses and other opex. Cost to income ratio rose 100/160 bps (y-o-y/q-o-q to 32.2%. PPOP, in line with estimates, grew by 19.2%/2.1% (y-o-y/q-o-q) to Rs. 396 crore despite higher opex which was offset by other income. Credit cost below estimates by 10 bps to 0.85% due to stable ECL coverage ratio and moderate write-offs. PAT was almost in line with estimates at Rs. 279 crore (growth of 18.2% y-o-y and 1.9% q-o-q) driven by growth in other income and beat in credit costs. AUM a tad below estimates to Rs.11,880 crore due to slow growth in Karnataka. Disbursement rose by 55.2% q-o-q to Rs.1,460 crore post a sharp decline in the previous quarter (drop of -22.2% y-o-y and 24.8% q-o-q in Q3FY25). Asset quality worsened by 41/17 bps (y-o-y/q-o-q) to 1.79% while NS-3 increased by 25/7 bps (y-o-y/q-o-q) reflecting lower collections in Karnataka due to disruption and overleveraged microfinance borrowers. This was mostly driven by a rise in stress in the early buckets.

Key positives

- Higher fee income (growth of 26.0% y-o-y and 26.4% q-o-q).

Key negatives

- AUM grew by 23.2%/6.3% (y-o-y/q-o-q). The growth was below estimate (guidance at 25% y-o-y) due to disruption in Karnataka.
- Asset quality deteriorated sharply due to disruption in Karnataka market. Stage-3 rose by 41/17 bps (y-o-y/q-o-q) to 1.79% while Stage-2 rose by 136/33 bps (y-o-y/q-o-q) to 7.87%.

Management Commentary

- AUM growth guidance at 25% for FY26 and earnings growth of 12-15% with RoA is expected between 7.5-8.0%.
- Tamil Nadu government has introduced bill against coercive recoveries. The company has the largest exposure of its AUM at ~29% as of March 2025. However, the management is confident to manage the situation, as it managed in Karnataka and has a vast experience in the home state.
- Company witnessed stress in <Rs. 3.0 lakh ticket size segment. The management has made a conscious decision to focus between Rs. 3.0-10.0 lakh segment. As Rs. 5.0-10.0 lakh micro lap faces a higher competitive intensity, hence there could be some pressure on NIM.
- Management has guided for GS-3 assets to remain below 2.0% (1.79% in March-25) and expects credit costs in the range of ~75-100 bps in FY26 (73 bps in Q4FY25 and 76 bps in FY25).
- In Q4FY25, ~70% of the incremental stress came from Karnataka, while the remaining 30% was broad-based. Overleveraging and general financial weakness, particularly among lower middle-class customers, are expected to continue over the next two quarters.
- The company had 748 branches as of March 2025, expanded a strong network with opening 228 branches in FY25, including 150 split branches. Guided that it will open 75-100 branches (included the split branches) in FY26.

Our Call

Valuation – Net earnings was almost in line with estimates. However, AUM growth was slightly weaker, and stress build up was higher due to disruption in the state of Karnataka. Tamil Nadu also introduced a bill against coercive recovery. The company has largest exposure of 29% of its total portfolio in Tamil Nadu. However, management is confident to manage it, as it recently gained experience in Karnataka, besides they have vast experience in the home state. We believe that given the ongoing tough environment (overleveraging, disruption in Karnataka and now similar bill passed by Tamil Nadu) a strong focus on qualitative underwriting and collection mechanism is needed to avoid spillover of risk. As the company`s customer segment is at the bottom end, we continue to monitor the trend on asset quality and maintain neutral view with modest upside of 8%. AUM and PAT CAGR is expected at 25.8% and 13.9% over FY25-27 along with RoA/RoE >7.0%/17%. The stock trades at 2.8x/2.3x its FY2026E/FY2027E BVPS.

Key Risks

- Managing asset quality in Tamil Nadu may lead for lower credit cost, which may drive above estimate profitability.
- Above estimate AUM growth due to improving situation in Karnataka and managing situation in Tamil Nadu.

Valuation Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
NII	1,233	1,648	2,098	2,403	2,845
PAT	603	836	1,072	1,192	1,391
EPS (Rs.)	20	28	37	40	47
P/E (x)	34.6	25.0	19.4	17.5	15.0
P/BV (x)	4.8	4.0	3.3	2.8	2.3
RoA (%)	8.0	8.2	8.2	7.4	7.0
RoE (%)	15.0	17.5	18.7	17.3	17.0

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- **NII Growth and NIM:** NII grew by 21.2%/3.6% (y-o-y/q-o-q) to Rs. 584 crore. However, the growth moderated due to lower than guided AUM growth and lower yield. NIM (% of AUM) beat estimates by 27 bps to 18.8%. However, it fell 31/48 bps (y-o-y/q-o-q). The company has reduced interest rate by 200 bps on new disbursements from November 1, 2024.
- **Credit cost outlook:** Credit cost below estimates by 10 bps to 0.85% due to stable ECL coverage ratio and moderation in write-offs. However, it rose by 5/2 bps (y-o-y/q-o-q) caused by deterioration in asset quality, added by Karnataka (impact of coercive recovery ordinance). The Management guided for credit costs in the range of 75-100 bps in FY26 (73 bps in Q4FY25 and 76 bps in FY25).
- **Asset quality worsened:** Asset quality witnessed a sharp deterioration by 41/17 bps (y-o-y/q-o-q) to 1.79% while NS-3 increased by 25/7 bps (y-o-y/q-o-q) reflecting lower collections in Karnataka and weakness in financial market (lower ticket size) due to overleveraged situation. This was mostly driven by a rise in early buckets. The management has guided for GS-3 to remain below 2.0% (1.79% in March-25) and expects credit costs of 75-100 bps in FY26 (73 bps in Q4FY25 and 76 bps in FY25). We continue to monitor the trend on asset quality.
- **Loan growth outlook:** AUM was a tad below estimates to 11,880 crore due to slow growth in Karnataka. Disbursement growth was on track, and it grew by 9.2%/55.2% y-o-y/q-o-q post a sharp decline in Q3FY25.

Results Rs cr

Particulars	Q4FY24	Q3FY25	Q4FY25	Y-o-Y (%)	Q-o-Q (%)
NII	**462**	**540**	**559**	**21.2%**	**3.6%**
Other Income	20	20	25	26.0%	26.4%
Total Income	**481**	**560**	**584**	**21.4%**	**4.4%**
Operating Expenditures	149	171	188	26.3%	9.8%
PPOP	**333**	**388**	**396**	**19.2%**	**2.1%**
P&C	19	23	25	30.7%	9.0%
PBT	**313**	**365**	**371**	**18.5%**	**1.6%**
Tax	77	91	92	19.2%	0.7%
Net Profit	**236**	**274**	**279**	**18.2%**	**1.9%**
AUM	**9,641**	**11,178**	**11,880**	**23.2%**	**6.3%**
Disbursements	1,336	941	1,460	9.2%	55.2%

Source: Company; Mirae Asset Sharekhan Research

Actual/Estimates	Q4FY25E	Q4FY25A	Var (%)
NII	**557**	**559**	**0.38%**
PPOP	394	396	0.56%
PAT	**276**	**279**	**1.21%**

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Focus on asset quality and quality underwriting, Long term opportunity is intact

Currently, the NBFC sector is facing headwinds in terms of growth, higher stress and contraction in the margins due to deteriorating macros and regulatory intervention. 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 mong 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 – Uniquely positioned amid headwinds in the short-term

Five Star's growth moderated over the last two to three quarters on deterioration of macros and regulatory headwinds (sectoral). 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 uniquely positioned with superior 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

Net earnings was almost in line with estimates. However, AUM growth was slightly weaker, and stress build up was higher due to disruption in the state of Karnataka. Tamil Nadu also introduced a bill against coercive recovery. The company has largest exposure of 29% of its total portfolio in Tamil Nadu. However, management is confident to manage it, as it recently gained experience in Karnataka, besides they have vast experience in the home state. We believe that given the ongoing tough environment (overleveraging, disruption in Karnataka and now similar bill passed by Tamil Nadu) a strong focus on qualitative underwriting and collection mechanism is needed to avoid spillover of risk. As the company`s customer segment is at the bottom end, we continue to monitor the trend on asset quality and maintain neutral view with modest upside of 8%. AUM and PAT CAGR is expected at 25.8% and 13.9% over FY25-27 along with RoA/RoE >7.0%/17%. The stock trades at 2.8x/2.3x its FY2026E/FY2027E 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	704	20,700	17.5	15.0	2.8	2.3	7.4	7.0	17.3	17.0
Cholamandalam Investment and Finance Company	1,602	1,32,900	24.4	3.4	4.4	3.4	2.4	2.4	20.8	20.7

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 Tamil Nadu may lead for lower credit cost which may drive above estimate profitability.
- Above estimate AUM growth due to improving situation in Karnataka and managing situation in Tamil Nadu.

Additional Data

Key management personnel

Name	Designation
Lakshmipathy D	Chairman and MD
R. Krishnan	CEO
S. Gopalkrishnan	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Lakshmipathy Deenadayalan	10.45
2	WASATCH ADVISORS LP	7.19
3	- Hema	7.10
4	Sirius II Pte Ltd	5.98
5	FIL Ltd	5.65
6	Wasatch Advisors LP	5.13
7	HDFC Asset Management Co Ltd	4.11
8	Fidelity Funds SICAV	3.53
9	Vanguard Group Inc/The	2.92
10	Peak XV Partners Investments IV	2.90

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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation, and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to change without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, and outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply to information/documents focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. Mirae Asset Sharekhan will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable, and Mirae Asset Sharekhan has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on a reasonable basis, Mirae Asset Sharekhan, its subsidiaries and associated companies, their directors, and employees ("Mirae Asset Sharekhan and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent Mirae Asset Sharekhan and its affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance, and the value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Mirae Asset Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Mirae Asset Sharekhan and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restrictions.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in the securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of Mirae Asset Sharekhan. The analyst and Mirae Asset Sharekhan further certifies that either he or his relatives or Mirae Asset Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and Mirae Asset Sharekhan encourage independence in research report/ material preparation and strive to minimize conflict in the preparation of the research report. The analyst and Mirae Asset Sharekhan do not have any material conflict of interest or have not served as officers, directors or employees or engaged in market-making activity of the company. The analyst and Mirae Asset Sharekhan have not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd, or its associates, or analysts.

have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from a third party in the past twelve months in connection with the research report.

Either Mirae Asset Sharekhan or its affiliates or its directors or employees/representatives/clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. Mirae Asset Sharekhan may from time to time solicit from, or perform investment banking or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall Mirae Asset Sharekhan, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance, and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Sharekhan Ltd and its affiliates undertake no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change, except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgment before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Mirae Asset Sharekhan has been ranked as India's No.1 Retail Broker by Asiamoney Brokers Poll 2023. For more details, visit bit.ly/AsiamoneyPoll

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6750 2000. Fax no. 022 2432 7343.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax no. 61169699.

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited - (AMFI-registered Mutual Fund Distributor), Research Analyst Regn No.: INH000006183. CIN: U99999MH1995PLC087498.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-6226 3303; email id: complianceofficer@sharekhan.com

For any complaints/ grievances, email us at igc@sharekhan.com, or you may even call the Customer Service desk on 022-41523200/ 022-61151111.