


3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

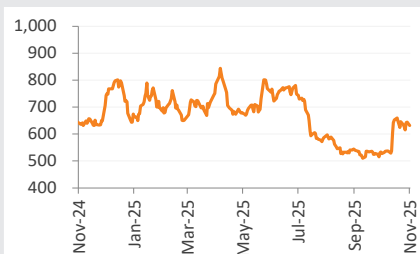
	Old		New
RS	✗	↔	✗
RQ	✗	↔	✗
RV	✗	↑	✗

Company details

Market cap:	Rs. 18,681 cr
52-week high/low:	Rs. 850/501
NSE volume: (No of shares)	15.7 lakh
BSE code:	543663
NSE code:	FIVESTAR
Free float: (No of shares)	19.0 cr

Shareholding (%)

Promoters	18.8
FII	55.8
DII	12.2
Others	13.5

Price chart


Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	20.1	8.2	-6.6	-0.8
Relative to Sensex	18.9	3.7	-9.8	-10.6

Source: Mirae Asset Sharekhan Research, Bloomberg

Five-Star Business Finance Ltd
Better outlook warrants upgrade

NBFC	Sharekhan code: FIVESTAR			
Reco/View: Positive	↑	CMP: Rs. 634	PT: Rs. 750	↑

Summary

- PAT met estimates, at Rs. 286 crore, rising 6.8% y-o-y. NIM fell 42/7 bps (y-o-y/q-o-q) to 18.47% (as a % of AUM).
- Credit cost rose 79/5 bps (y-o-y/q-o-q) to 1.6% as asset quality weakened. GS-3 rose 117/18 bps (y-o-y/q-o-q) to 2.64%.
- AUM grew 17.6% y-o-y and 3.1% q-o-q. However, disbursements fell 4.4%/7.3% (y-o-y/q-o-q) on tighter underwriting. The management expect 25% AUM growth for FY26.
- AUM and PAT CAGR of 25% and 15%, respectively, expected over FY25-FY28, with healthy RoA/RoE at 6.8%/16.8% by FY28. We upgrade stock from Neutral to Buy with a revised PT of Rs. 750 on better outlook for the medium to long term and comfortable valuations.

Net earnings met estimates at Rs. 286 crore, up by 6.8% y-o-y, driven by PPOP growth but were partially offset by higher credit costs. NII grew 14.9% y-o-y and 2.7% q-o-q, in line with estimates. NIM fell by 42/7 bps (y-o-y/q-o-q) to 18.47% (as a percentage of AUM) on a lower yield on portfolio. Opex trailed estimates by 3.8% at Rs. 194 crore, also fell by 3.8% q-o-q due to lower employee costs. Other income grew strongly at 25.6%/25.9% (y-o-y/q-o-q) led by fees income (up by 67% y-o-y and 17% q-o-q). PPOP grew by 13.9%/7.5% (y-o-y/q-o-q) to Rs. 433 crore. Credit cost in line with estimates at 1.6% (as a percentage of AUM), up by 79/5 bps (y-o-y/q-o-q) caused by deterioration in the asset quality. GS-3 rose 117/18 bps (y-o-y/q-o-q) to 2.64%. AUM grew by 17.6% y-o-y and 3.1% q-o-q. However, disbursements fell 4.4%/7.3% (y-o-y/q-o-q) to Rs. 1196 crore due to tighter credit underwriting. Thus, rejection ratio rose from 23% in Q1 to 41% in Q2. The company has launched housing loan and recorded logins in Sep-25 and is expected to contribute meaningfully from FY27 onwards.

Key positives

- Other income grew 25.6%/25.9% (y-o-y/q-o-q) led by fees income (up by 67% y-o-y and 17% q-o-q).
- Opex came in at 6.03% (% of AUM), down by 43 bps q-o-q

Key negatives

- NIM fell 42/7 bps (y-o-y/q-o-q) at 18.47%.
- Asset quality weakened. GS-3 rose by 117/18 bps (y-o-y/q-o-q) to 2.64%. Thus, Credit cost was up by 79/5 bps (y-o-y/q-o-q).
- Disbursements fell by 4.4%/7.3% (y-o-y/q-o-q) to Rs. 1,196 crore.

Management Commentary

- AUM growth guidance maintained at ~25% for FY26, pick-up in disbursements eyed in H2FY26. Most geographies have stabilised and likely to contribute in H2FY26.
- Credit cost guidance at 1.25-1.3% of total assets (1.5%-1.6% of AUM) for FY26 with focus on 30+ DPD buckets. The management sees overall improvement in asset quality led by tighter underwriting, higher collection efforts, and robust legal recovery measures.
- Company has launched housing loans with first few logins recorded in September 2025. It has been rolled out to 175-200 branches (ATS of Rs. 6-8 lakh). The management expects that the segment is expected to contribute meaningfully from FY27.
- Company remains confident of sustaining spreads of 13-13.5% in steady state.
- Guidance for opex to assets of 5-5.5% of AUM in the short to medium term, as continued investments in technology, collections, and manpower offset near-term scale benefits.

Our Call

Q2 results were in-line, but asset quality deterioration remains a concern, impacting bottom-line growth. Though, management is taking proactive steps, including tightening underwriting standards and focusing on collection management to address these challenges. The management expects a 25% AUM growth for FY26 and a better performance in H2FY26. We expect AUM and PAT CAGR of 25% and 15% respectively over FY25-FY28, translating into healthy return ratios, with RoA/RoE of 6.8%/16.8% by FY28. Hence, we upgrade our rating from Neutral to Buy with revised PT of Rs. 750 on expectations of a better H2FY26, better medium to long-term outlook and comfortable valuations. Currently, the stock trades at 2.1x and 1.8x FY27E and FY28E BV.

Key Risks

- Deterioration of the asset quality, continued lower AUM growth

Valuation

Particulars	FY24	FY25	FY26E	FY27E	FY28E
NII	1,648	2,098	2,443	2,857	3,449
PAT	836	1,072	1,184	1,348	1,618
EPS (Rs.)	28	37	40	46	55
P/E (x)	22.6	17.6	16.0	14.0	11.7
P/BV (x)	3.6	3.0	2.5	2.1	1.8
RoA (%)	8.2	8.2	7.5	7.0	6.8
RoE (%)	17.5	18.7	17.2	16.5	16.8

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- ♦ **NII Growth and NIM:** NII grew 14.9% y-o-y and 2.7% q-o-q, in line with estimates. NIM fell by 42/7 bps (y-o-y/q-o-q) to 18.47% (as a percentage of AUM) attributed to lower yield on portfolio. Yield dropped by 79/48 bps (y-o-y/q-o-q) at 24.1%.
- ♦ **Credit cost and asset quality outlook:** Credit cost was in line with estimates at 1.6% (as a % of AUM), up by 79/5 bps (y-o-y/q-o-q) caused by deterioration in the asset quality. GS-3 was up by 117/18 bps (y-o-y/q-o-q) to 2.64%. Credit cost guidance stayed at 1.25-1.3% (% of total assets) for FY26 with focus on 30+ DPD buckets. The management sees overall improvement in asset quality led by tightening underwriting process, enhanced collection efforts, and recovery measures.
- ♦ **Loan growth outlook:** AUM grew 17.6% y-o-y and 3.1% q-o-q. However, disbursement dropped by 4.4%/7.3% (y-o-y/q-o-q) to Rs. 1196 crore due to tightening credit underwriting. Thus, rejection ratio increased from 23% in Q1 to 41% in Q2. The company has launched housing loan and recorded logins in September 2025. Management has maintained AUM growth guidance of ~25% for FY26, expecting strong pick up in the disbursement in H2FY26. Most of the geographies have stabilized and likely to contribute in H2FY26.

Results

Particulars	Rs cr				
	Q2FY25	Q1FY26	Q2FY26	Y-o-Y %	Q-o-Q %
Interest Earned	679	765	773	13.8%	1.1%
Interest Expended	163	187	180	10.3%	-3.9%
NII	516	577	593	14.9%	2.7%
Other Income	27	27	33	25.6%	25.9%
Total Income	543	604	627	15.4%	3.7%
Operating Expenditures	163	201	194	18.9%	-3.8%
PPOP	380	403	433	13.9%	7.5%
P&C	22	48	51	134.4%	6.8%
PBT	358	355	382	6.6%	7.6%
Tax	90	89	96	6.1%	8.1%
Net Profit	268	266	286	6.8%	7.5%
AUM	10,927	12,457	12,847	17.6%	3.1%
Disbursements	1,251	1,290	1,196	-4.4%	-7.3%

Source: Company; Mirae Asset Sharekhan Research

Actual/Estimates

Particulars	Rs cr		
	Q2FY26E	Q2FY26A	Var (%)
NII	600	593	-1.20%
PPOP	427	433	1.46%
PAT	281	286	1.94%

Source: Company; Mirae Asset Sharekhan Research

Asset quality Trend (%)

Particulars	Q2FY25	Q1FY26	Q2FY26	bps Y-o-Y	bps Q-o-Q
GS-3	1.47	2.46	2.64	117.0	18.0
NS-3	0.71	1.25	1.46	75.0	21.0

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

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

The long-term growth potential for NBFC sector is intact, besides receding headwinds would be positive for the sector. In the last one year, 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 lakh crore. 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 – Healthy performance expected in H2FY26 and FY27

Growth has slowed over the past 2-3 quarters on deterioration of macros and regulatory headwinds (sectoral). Besides, disruption in its key markets of Karnataka and Tamil Nadu cause for temporarily disturbance. However, most of the geographies have stabilised and likely to contribute in H2FY26. MFI issues in the sector has also been easing off. We believe the company is uniquely positioned with strong 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

Q2 results were in-line, but asset quality deterioration remains a concern, impacting bottom-line growth. Though, management is taking proactive steps, including tightening underwriting standards and focusing on collection management to address these challenges. The management expects a 25% AUM growth for FY26 and a better performance in H2FY26. We expect AUM and PAT CAGR of 25% and 15% respectively over FY25–FY28, translating into healthy return ratios, with RoA/RoE of 6.8%/16.8% by FY28. Hence, we upgrade our rating from Neutral to Buy with revised PT of Rs. 750 on expectations of a better H2FY26, better medium to long-term outlook and comfortable valuations. Currently, the stock trades at 2.1x and 1.8x FY27E and FY28E BV.

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	634	18,681	15.8	13.9	2.5	2.1	7.5	7.0	17.2	16.5
Cholamandalam Investment and Finance Company	1,698	142,850	28.4	21.8	4.9	4.0	2.4	2.7	19.3	20.2

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

- ♦ Deterioration of the asset quality, continued lower AUM growth.

Additional Data

Key management personnel

Name	Designation
Lakshmiathy D	Chairman and MD
S. Gopalkrishnan	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Lakshmiathy Deenadayalan	10.45
2	WASATCH ADVISORS LP	9.24
3	L Hema	7.20
4	FIL Ltd	6.55
5	Sirius II Pte Ltd	5.97
6	HDFC Asset Management Co Ltd	5.61
7	Peak XV Partners Investments IV	2.90
8	Vanguard Group Inc/The	2.65
9	Fidelity Funds SICAV	2.61
10	Wasatch Advisors Inc	2.54

Source: Bloomberg

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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 deteriorating 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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