



“Five-Star Business Finance Limited  
Q4 FY24 Earnings Conference Call”

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**MODERATOR: MR RENISH BHUVA – ICICI SECURITIES**

**Moderator:**

Ladies and gentlemen, good day and welcome to the Five-Star Business Finance Limited Earnings Conference Call hosted by ICICI Securities.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr Renish Bhuva from ICICI Securities. Thank you and over to you, sir.

**Renish Bhuva:**

Good afternoon, everyone. Welcome to Five-Star Business Finance Q4 FY24 Earnings Conference Call.

On behalf of ICICI Securities, I would like to thank the Five-Star management team for giving us the opportunity to host this call.

Today, we have with us the entire top Management Team of Five-Star represented by Mr Lakshmi pathy Deenadayalan - Chairman and Managing Director; Mr Rangarajan Krishnan - CEO, and Mr Srikanth Gopalakrishnan - CFO.

I will now hand over the call to Mr Pathy for his opening remarks and then we will open the floor for Q&A. Over to you, sir.

**Lakshmi pathy Deenadayalan:** Thank you, Renish. Welcome all for this Five-Star’s Earning Call for the full year and for the Quarter Ending Financial ‘24.

We are happy and very satisfactory the way in which we came in, we brought in the growth combined with the quality and the profitability. As usual, let me start with the branch opening and employee addition. We have opened close to 147 branches for the full year and 40 branches in the Q4. As we have been saying in the last few quarters about the cluster branch approach where branch becomes bigger in size say above 2,500 accounts close to INR 50 crores of AUM, we bring in the clusters approach where we split that branch into two or three depending upon the area. And this has been done purely de-risking the branches having more number of accounts and more on a bigger team. So, equally the account gets split, and the team also gets split to the newer location. Out of 147, one-third will be on the cluster approach basis and two-third will be on the new branches basis which we have guided close to 80 to 100 branches will be opening year-on-year from a new branch basis.

We have added close to 975 employees in business and collection compared to 825 employees in business and collection last year. Last year, we opened 73 branches, so the employee addition is not much, it is related to that 80 to 100 branches which we have opened new. And interestingly, our opex has kept intact. In fact, it has reduced both for the full year and for the quarter. So, this shows keeping productivity at the top and derisking the bigger branches is the right model and right structure for Five-Star going forward. We will be repeating this for this year also.

Now taking you to the disbursement, branch opening, and addition of business employees has contributed to the increase in disbursement. We have done INR 1,336 crores of disbursement in last quarter. This is 20% growth year-on-year and 11% growth Q-on-Q and for the full year, we have done a disbursement of close to INR 4,881 crores which is 44% growth in disbursement. That has resulted in robust AUM, which has moved to INR 9,640 crores, registering at 39% year-on-year and 8% Q-on-Q and for the full year we have grown close to 39% for the financial year 24.

Now, let me take you towards quality, which is a very important metric:

The collection efficiency was good and stable. We stayed at 99% between last quarter and this quarter. And the unique customer collection was also at good levels. We were at 97.5%, the same as last quarter, a bit of improvement, but broadly at 97.5%. Due to our good collection efforts and strategy what we have adopted, our 30+ has shown a good drop. From 10.5% in March of last year, it has dropped down to 7.9% for March of this year. This is a good drop compared to 30+ accounts. We will be in the same range of close to 7.5% to 8% for this financial year; and addition of branches, increase in AUM and in good quality, that has brought in good profitability for your company. Our profitability for the quarter rose to INR 236 crores, which is a 40% year-on-year and 9% Q-on-Q. And for the full year, it has moved to INR 835 crores from INR 603 crores, giving a 30% jump in PAT.

From the liability side, Srikanth will deal it in depth. The incremental cost was at 9.58% compared to 9.57% last quarter and the cost on the book stands at 9.71%. With this kind of branch addition, disbursement and growth will continue for this financial year too. As we have moved from COVID, we have been giving a 30% above growth year-on-year. That will continue for this year too.

So, with this, let me hand over to Srikanth to go in depth. Thank you.

**Srikanth Gopalakrishnan:**

Very good afternoon to all of you. As Mr Pathy had outlined in his remarks, Q4 was yet another strong quarter for us; across the various operational and financial parameters we had fared very well. As on March '24, we had a borrower base of about 3.9 lakhs, the loans. So, this has grown by about 31% on a year-on-year basis. So, the portfolio continues to be well diversified and not concentrated in pockets. From a branch count of 373, we ended with 520, which is the combination of new branches and branches opened under the success strategy. Disbursements again, they are already touched upon. It grew 20% year-on-year and 8% quarter-on-quarter. AUM growth for the year was about 39% from around INR 6,915 crores, we had touched INR 9,641 crores.

On the financial metrics, our yields continue to remain consistent at around 24% to 24.25%. Our cost of funds for the quarter dropped to about 9.64%. So, this has resulted in a spread of 14.55% as against the spread of about 14.1% for Q4 FY23. With increasing leverage, there is a drop in NIM. It has dropped from 18.47% in Q4 of last year to 17.19%, like I said primarily on account of increased leverage. For the full year, we had a net interest margin of 17.4% as against 18% for the last financial year.

Our cost to income continues to remain very stable. For the quarter, it was at about 35.06% as compared to a little over 38% for Q4 FY23. We expect our cost of income to remain stable at around

35% to 37% level, even in the steady state. All this has resulted in a ROA of 8.43% for the quarter and for the quarter the ROE for the first time has gone beyond 18%, we were at about 18.65%, but if you look at the full year, we had registered a ROA of 8.42%, which is a drop of 20 basis points comparing to last year and ROE of 17.6%, which is almost 2.6% higher as compared to last financial year.

From a borrowing perspective, we continue to be attractive from our lenders' side. We have about 45 lenders who have lent to us. While the bank loans continue to be the major portion of our debt, I think one of the very important phases that we have guided you last quarter and what we have done during this quarter is the effort to diversify our liability franchise. We have made quite good progress on that front. In March, we received the sanction of INR 450 crores from NABARD, one of the largest developmental institutions in the country, and the other news, which is also public information is IFC has subscribed to our NCDs for INR 500 crores. All these are at very attractive pricing. So, in Q4, we had received sanctions for about INR 900 crores. We availed about INR 950 crores, some of it coming from the past sanctions. The weighted average rate continued to be very attractive at 9.58%. For the full year, we had drawn slightly less than INR 4,000 crores, though our sanctions were at about INR 4,350 crores at an all-inclusive cost of about 9.54%. We continue to maintain a good liquidity buffer at about close to INR 1,880 crores and an additional INR 425 crores of sanction lines which are yet to be drawn.

We have already touched upon the collection efficiency, but I think very impressive numbers across 1+, 30+ and the stage 3 assets. We are maintaining a very good provision coverage ratio both on the overall AUM and on the stage 3 assets. Our provision coverage on stage 3 continues to be at about 54.27% and on an overall basis, we are at about 1.64%. The restructured book is almost at an immaterial level as we speak. It is at 0.52% of our overall AUM, but even there we maintain a provision coverage of about 55%. So, all of this has given us a very good profitability of INR 236 crores for the quarter and INR 836 crores for the year, which is a roughly 39% to 40% growth both for the quarter as well as for the full year. Our net worth is slightly shy of INR 5,200 crores as of March. So, the last couple of years, after COVID, has been very good years for us, very strong in terms of quality, profitability and growth and we expect that this momentum will be carried forward in the current financial year as well. On that note, we will open up for any questions that any of you may have. Thank you.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Viral Shah from IIFL Securities. Please go ahead.

**Viral Shah:**

My first two questions are for you; Mr Pathy and the third one would be for Srikanth. So, sir, basically if we look at the business model that you have successfully scaled up, it is a process intensive model, right, and this is demonstrated by even your better asset quality outcomes ultimately on your write-offs, etc., but I wanted to check how are you able to scale up this business model successfully in the new geographies where you are growing in a non-contiguous manner because it requires your employees on the ground, you are recruiting right from the ground level up, so if you can throw more light over there?

**Lakshmipathy Deenadayalan:** Yes, this is a very niche business model. As I have been saying, these customers for the business needs and for any other housing or personal needs, they have to depend on the local money lending market. That is where Five-Star goes and caters and moves them from informal to formal. This demand is always robust, what I have seen in the last 20 years, and it continues to be robust. From a South perspective, we are South players. If you look at the four bigger states in South, we have a good presence, but we don't have a deep presence in the South. So, for a foreseeable future, if I am going to focus more on South, that will deliver the growth that we have been guiding to the market very comfortably. Having said that, we have also said that we want to have a reasonable presence in the rest of the country. That is where the new states have been put in place. We have a strong presence in MP and we have a very lighter presence in other 4-5 states that we have in the rest of the country. So, for sustainable long growth, I think today South contributes close to 93% of our entire disbursement in AUM, even in 3 years down the line South will continue to contribute close to 85% of the growth and disbursement. So, I think our business model on the growth what we have created is purely based on the South and whatever comes in the rest of the country is going to be addition to our growth.

**Viral Shah:** Sir, follow up, so right now if I look at it, we have a INR 10,000 crores of AUM and the employee base is around INR 9,000, so basically when we scale up right, I understand from a geographical perspective, it will be still South heavy, but I think directionally we are also going to expand our presence in the newer states, the Gujarat, Maharashtra, Rajasthan of the world and in those geographies because, say for example, we have to build a loan book of say, INR 5,000 crores, right over the next few years, it will also require 5000 employees. That is like 50% of the current employee base. So, how are we able to manage because that is one thing that I think comes up in terms of the ability to scale the business?

**Lakshmipathy Deenadayalan:** Yes, since it is a small ticket, close to 3 lakhs to 5 lakhs ticket size per file and operationally intense business it needs more manpower than a bigger ticket size product. A few things here is, when we put up our branches in the existing locality, we recruit the officers from the locality. So, we don't have any constraint that officers who is coming from other NBFCs has to be in the similar space. As long as they are from NBFC space, we are happy to take them in and the business head who is in charge of the branch really matters for moving our business and collections. Having said that, that is our business model, we have to scale up with the people. As we have been doing in the past, we will be doing it very successfully in the future also. That is not the constraint from a Five-Star perspective.

**Viral Shah:** Sir, the second question was from the perspective of the cash collections component. So, I see that number has actually reduced dramatically from 62% to 47% now, can you explain like what is of course driving this on the ground and is there any intention of further bringing this down?

**Lakshmipathy Deenadayalan:** Yes, as we have been saying in the past, there is no push from the company side that the customer has to pay in non-cash, but having said that in last few quarters maybe in two years gradually when the UPA transaction is gaining momentum across Tier-3 to Tier-6 towns, our customers have also started to repay their EMI's through NACH and UPI mode. That is why, if you see our non-cash portion has crossed 50 and it is close to 55 in the month of March, March month alone. And if this trend continues, maybe we will be close to 70% or 65% to 70% by this financial year end.

- Viral Shah:** And will this mean any savings in terms of opex, cash ending charges etc., no?
- Lakshmipathy Deenadayalan:** Not much in place really.
- Srikanth Gopalakrishnan:** Viral, if at all it has to only be better Viral and at this point of time we are not guiding you for any betterment that will come in terms of opex. We will take it as it comes along. The intention is to get the customers, move from cash to non-cash which is obviously perceived to be a lot more risk free, so for now we are not guiding on any opex increases or saves to come in because of this.
- Viral Shah:** And the last question Srikanth for you is, right now, we have 14 basis points of spread between the incremental cost of funds and the back book and now that we have two quarters of track record in terms of tapping the capital markets, can we say that there is scope for the spreads to expand from here on by anywhere between 5-10 basis points, it is not material, but in FY25?
- Srikanth Gopalakrishnan:** Viral, you are looking at the full year number, but if I look at Q4 number alone, the difference between incremental cost and the book cost is just 6 basis points. And while we have tapped into capital markets, we have not really gone deep there, especially in terms of getting mutual funds and all that where we believe that there could be some premium that we will have to end up paying. So, I would probably say, the ability to get the spread expansion is not there. At this point of time, we will not guide you for any of the spread expansion. In fact, what we have been saying is, there can be a slight increase in the cost of funds as well. It depends on what kind of rates we are able to get from banks and what kind of proportion we are raising from mutual funds where the cost could be slightly higher, could be offset a little bit of it with some priority sector lending some banks. So, at this point of time, don't factor in any spread increase to come in. We will see over the next couple of quarters in terms of where this spread sort of normalizes once we get more into the mutual funds side of things.
- Moderator:** Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.
- Sameer Bhise:** My question is for disbursal growth for FY25 and maybe a couple of years down below because say if we look at Q4, it is at say 20% on a Y-o-Y basis, how does one think about disbursements and AUM over the next couple of years?
- Srikanth Gopalakrishnan:** Sameer, I think the way you will probably have to look at it is, see these are long term loans. So, while you look at above 30% growth that we are looking at for on the portfolio, the disbursal will not see a 30% growth. It can even come in a little lesser. So, our point is so for example, this year we have done close to INR 4,500-INR 4,600 crores of disbursements. That number next year probably would be around INR 6,300 to INR 6,500. So, roughly the disbursal growth we are talking about will be more like 25% kind of a growth that we are looking at for 25% to 27% growth. It will be slightly lower than the AUM growth that we are projecting given that we do a little bit of a long-term lending, so I will say maybe about 3 to 5 percentage points lower than the AUM growth is where the disbursal growth would be.
- Sameer Bhise:** Secondly, Srikanthji, the coverage has been going up gradually, which is a good thing, where do you see this stabilize?

**Srikanth Gopalakrishnan:** Yes, I think where we are is a stable number. I would not really give too much of an emphasis on 1-2 basis points this way that way, like last quarter we were at 1.62%, we are at 1.64% as we speak. So, I think broadly anywhere between 1.5% and 1.6%, 1.65% is where we would like this to settle, at least in the short term, when I mean short term, at least the next one to two years kind of scenario and thereafter depending on how the portfolio performs, how our PDs and LGDs stack up. This number may even come down given that we are fully secured and secured against one of the strongest assets, we don't really see the need to create anything beyond 1.6%-1.65%.

**Moderator:** Thank you. The next question is from the line of Chandrasekhar from Fidelity. Please go ahead.

**Chandrasekhar:** Few questions, maybe you can help us on the cost of the IFC money on a fully hedged basis and given that I think raising external money at this point in time is a little cheaper, how do you just think in terms of funding between domestic and externally, the share sort of changing?

**Srikanth Gopalakrishnan:** Chandra, the money that we took from IFC is rupee loan. So, we did not take it in dollars. So, there is no question of hedging there.

**Srikanth Gopalakrishnan:** Yes, the 9.40% is the rupee NCD that we issued to IFC. They did not bring in dollars and so there is no hedging cost. The cost is at about what we took at was about 9.41 including the little bit of a fee that we paid to them. So, it is a per month basis of 9.41% as against 9.58% cost that we raised money in Q4.

**Chandrasekhar:** Maybe given that by the end of the June quarter, we would cross about INR 10,000 crores, just typically the point where we start looking, approaching the rating agencies for an upgrade, just I don't understand some conversations and if the possibility of a rating upgrade sometimes?

**Lakshmi pathy Deenadayalan:** Yes, surely we are optimistic on that, Chandra. As you rightly said, we are moving from a 4 digit to 5-digit company very soon in this quarter. We will keep approaching them. We will see how does they see, especially the regulatory environment that that has been kicked in for last three quarters for the banks and NBFC's. We have to see how they are poised. From our performance onwards, we are improving on quarter-to-quarter basis. So, we have to wait and watch.

**Srikanth Gopalakrishnan:** Chandra, I just want to add, while Mr Pathy has guided that we will reach out to them, I would still think that Q1 of this financial may be a little early because our first rating upgrade came in December of 2022. So, that is just like about 15 to 18 months, when we would go back to them. While the INR 10,000 crores is definitely a good metric to go back, I don't know from a vintage perspective whether they would like to look at it in Q1. I would probably think it maybe two to three quarters down the line rather than June, but having said that, we will keep making our efforts.

**Chandrasekhar:** And then lastly, just on the disbursement ticket size is more up to about INR 3.5 lakhs, I think directionally this eventually heads towards INR 4 lakhs to 5 lakhs, 4.5 lakhs by the end of this year or how should you think of that?

**Lakshmi pathy Deenadayalan:** Chandra, we have been saying that our sweet spot is between INR 3 lakh and INR 5 lakh. That is where we come in. Neither a small ticket or a microfinance nor a affordable of INR 10 lakhs and

above. So, we want to be in the range of INR 3 lakhs to INR 5 lakhs. That is our endeavor, but taking this inflation into account, from 3.5, we will probably be around INR 4 lakhs for this financial year. You are right.

**Moderator:** Thank you. The next question is from the line of Dinesh Kulkarni from RDST. Please go ahead.

**Dinesh Kulkarni:** I have a very straight forward simple question here. I see we have added close to 2000 employees in the previous fiscal ending FY24, what sort of number we expect going forward especially for FY25, can we expect it in the same range, or it will be lower than what we have seen in the last two years?

**Lakshmipathy Deenadayalan:** Thumb rule what we have been guiding is for every employee, the AUM will be around INR 1.25 crores. That is our thumb rule. We are now more than Re. 1 crore per employee. So, we will be in the same range around Re. 1.25 crore per employee. That is our range. So, depending on our growth, what we have guided is above 30%. Keeping that in mind, we will be adding that much of employees. Predominantly, more employees will be added in the business and collection purpose.

**Dinesh Kulkarni:** Just one more question, I think I missed out on the loan disbursal, can you just explain it more why it will be lower, you would expect it to be lower than the previous year, I think it was 25% or something you said?

**Srikanth Gopalakrishnan:** No, Dinesh, the question is not about the amount being lower. What I meant was, if the AUM grows by, let us say 32%, which is above 30% that we are talking about 30 to 33, you don't need 33% growth in disbursals to come in because there is also the portfolio effect that will kick in. So, the disbursal growth will probably be more like 27%-28% rather than being at 32%-33%. So, that is the number that I was talking about. It will definitely be more than 20% that we grew year-on-year.

**Dinesh Kulkarni:** Just the last question from my end. What kind of expenses, in terms of operating expenses, we would expect going forward, they would lower as a percentage of AUM or assets or they would remain in the same range?

**Srikanth Gopalakrishnan:** For the coming year, for this year, the number is at about 5.6%. This came down from about 6.2%, which was in FY23. So, there has been a sharp drop of about 60 basis points. This is also on account of the productivity increases, the efficiencies that we have brought in technology improvements and all that. So, I would probably think the ability to reduce this further would be a lot more gradual than what you saw between FY23 and FY24. So, like we had even guided in the steady state also we would probably be at about closer to 5% of opex ex-credit cost. So, we are talking about another 60 basis points of benefit to come in over the next three years. So, don't expect a very sharp increase, but you will see some benefits coming through.

**Moderator:** Thank you. The next question is from the line of Aditya from MSA Capital Partners. Please go ahead.

**Aditya:** So, I just wanted to quickly understand from the management that how are we looking for the for the next 3 years, what would be our strategy, I understand that the growth strategy that we are looking at will be completely in South India, but wanted to get a color on what is the AUM per branch and disbursement per branch that we are looking at? And now moving closer to three years, there will be



more three-to-five-year vintage branches that we will be having, so if you can just quickly explain that to me?

**Rangarajan Krishnan:**

So, Aditya, I just explained a couple of points. Firstly, I think we are targeting a CAGR of at least 30% plus growth. So, which means conservatively on a three-year basis, we will be able to double our balance sheet. So, we will be close to INR 20,000 crores in three years. That is the first point. Now, of this, what constitutes this INR 20,000 crores, it will largely be from the South. So, today South contributes 94% of the portfolio roughly, we believe the composition of central India and North India will at least keep improving over the next three years. But I think probably about 90% of the portfolio will continue to be contributed by South. Now, from a branch expansion perspective, we are already at about 520 branches at this point of time, we will very easily be able to double the points of presence in about the next three years, which means we will have close to 1000 branches in a period of three years from now. Like Mr Pathy explained in the beginning of the call, this will be through a combination of new branches that we are opening, standalone new branches that we are opening and a split branch, and a split branch that sort of emanates from larger branches. The split branch is part of the core strategy, which means we don't want any single branch to become too big and become too risky for any reason, whether it is business, whether it is collections or whether it is people dependencies, we want to make sure that the risks and the operational metrics are contained at a reasonable level. We could also fairly clearly say that I think over the next three years we are not deviating from the core business focus which is we will continue to be targeting small businesses and self-employed individuals. At this point of time, from a core perspective, we don't have any new product additions. The ticket sizes will be guided more in the nature of inflationary increases. So, maybe in about a three-year period we will be close to INR 5 lakhs at this point of time from about INR 3.5 lakhs. We have been very consistent with respect to both profitability and quality that will continue to drive whatever that we are doing. So, the growth is definitely not going to come at the cost of either profitability or quality.

**Aditya:**

Sir, just a couple of questions also, in the previous participants question where he had highlighted, where he had asked you about disbursement, so just looking this doing simple math, we should be doing easily a 30%-32% disbursement growth even if we take our INR 13.5 crores of disbursement for branch what we did this year and we have added close to 147 branches, is my understanding correct?

**Srikanth Gopalakrishnan:**

So, there will also be newer branches that will come in which may not do the INR 13-INR 14 crores disbursal that we are talking about, so you will always have a little bit of a lag there.

**Aditya:**

If you can help me understand, say for example how you show vintage wise AUM, what would be the vintage wise disbursement track record of less than one year, one to three, three to five and more than 7 years?

**Rangarajan Krishnan:**

No, I think from a branch perspective, it is not driven by vintage. It is driven by the number of people at the branch. So, there could be branches where we have only about four officers when we are starting, but there also could be branches where we have close to 10 officers. So, it is not really dependent on vintage, it is dependent on the number of people because what we are talking about is

incremental business during a month and that is not dependent by vintage. That is more based on how many logins each officer is doing and how many officers are there in a particular branch.

**Aditya:** And in our presentation, we are showing that we want to come down to 8 to 9 days of TAT compared to what we are at 10 today, so this reduction that we are planning to do, will it be more tech oriented that is like we are expecting our productivity per employee to go up or we are planning to add more employees to reach this TAT?

**Rangarajan Krishnan:** No, I think this will be through a combination of tech plus some process optimizations that we will do. The 8 to 9 is also today driven largely by many external factors because we are dealing with properties, we take an external legal opinion for every property and that is like a pre-disbursement or a pre-sanction condition. So, there are dependencies, so I don't think it can come down by compromising on something which is core to the company, but we still have some tech initiatives, we went live with Salesforce only last year. And we have a lot of optimizations to do on the Salesforce. In addition, we will also be able to do some process optimizations that should get us another 15% to 20% reduction in overall TAT.

**Aditya:** So, in the presentation, we highlight that the market size is 22 trillion, wanted to get a color at our ROI of 23%-24%, what would be the actual market because you would have a clear understanding of how on the ground the picture looks like?

**Lakshmi pathy Deenadayalan:** See, what we have given that INR 22,00,000 crores market opportunity is based on a study done by CRISIL based on Five-Star business model. This is not based on generic point. It was based on Five-Star business model, those people who have shops, who are self-employed and who can afford to give a property as a security. So, that is where this number has been brought in. So, it is not a broad number, it is a specific number. If you are going to be in a Pan India player, this is a market that it is available to go and pick it up. So, it is Five-Star specific.

**Rangarajan Krishnan:** But Aditya, just to add another angle to this whole thing, we have always sort of maintained that this segment, which is graduating from informal to formal, they are not that sensitive to pricing. I think what they are more sensitive is whether they are able to get a loan and what is the quantum of loan that they are able to get and will that quantum helps them stand on their own legs, whether it is setting up a business or whether it is putting up a new asset in their family. So, with this, we believe that it is not about more of interest rate sensitivities in this segment. It is more about pulling people from informal to formal into the game.

**Moderator:** Thank you. The next question is from the line of Ajit Kumar from Nomura. Please go ahead.

**Ajit Kumar:** My first question would be, what is the need to keep 55% provision on your restructured book because I guess most of the restructured book would be classified under Stage-2 and now we already have 55% provision on GS3, so what is the requirement of keeping this 55% provision on as the restructured book?

**Srikanth Gopalakrishnan:** So, Ajit, about 20%-25% of our restructured book is in stage 3, so which automatically has a 55% provision that we are holding. The other part is also that see in the restructured book what has also

happened is there has been a capitalization of interest that we did during the 6 months, when the customer did not pay, when we had given a moratorium period to the customer, now that accrues interest on a month-on-month basis. Now, if at all there is a request from the customer towards the rear end of his loan in terms of any discount that he may need on his settlement, there may be some haircuts that we will have to take on this accrued interest not on the original principle. So, from that perspective, the need is that we want to carry, given that the portfolio is also accruing interest and growing because of the accrued interest on a month-on-month and a quarter-on-quarter basis. We believe that having a slightly higher provision on this book will be a little more prudent as compared to because it is also finding its way to the topline every month. So, that is the intent of keeping a slightly higher provision.

**Ajit Kumar:** And second question would be, how is balance transfer out trending as of now versus historical level be the out rate?

**Srikanth Gopalakrishnan:** So, nothing material, just like what we keep telling. Very few of our customers actually graduate to the next level, so even if you look at BT outs today, I think it is more like 2%-3% that we are talking about, so nothing to be really worried about or alarmed about. It is a very immaterial number, pretty much in line with historical averages.

**Ajit Kumar:** And lastly, if you can give a sense on balance transfer in rate, I mean people who are coming from other lenders to Five-Star, I remember it used to be roughly 6% to 8%, 1 to 1-1/2 years back. So, what is this number right now?

**Srikanth Gopalakrishnan:** Formally, what you are saying, it is about 5% or so, but these are from formal lenders. Our basic business model is to graduate these customers from unorganized financial institutions or money lenders to institutions like Five-Star. There, the number can be significantly higher, which obviously we don't track straight also because you don't really lend money to the money lender, and it does not give you the ability to track as we can track a BT in from a formal lender. BT in from formal lenders continue to be around the 5%-6% levels.

**Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

**Deepak Poddar:** Sir, I just wanted to understand something on the ROE and ROA profile over next 2-3 years because we do intend to increase our leverage, right, currently it is at 1.1-1.2x odd and as we increase your leverage, ROA would tend to go down and ROE would tend to go up, right? So, we have to see next 2-3 years, how do we see the trajectory of ROE and ROA profile for us our next 3 years?

**Lakshmiopathy Deenadayalan:** Yes, as you said, 1.25% is debt to equity. The leverage is at close to 2.2%. What we have been guiding to the market is we will not come to the market for the next 5 years. So, the game plan is to increase our leverage to close to 3.5% in the next 3 years or so. As you keep increasing your leverage, your ROA will come down because you borrow more money, and you pay interest on it. So, our guidance for the next 3 years ROA will be around 6.5% to 7% and if you multiply that with the leverage of 3.5%, our guidance for next 3 years on so ROE will be around 20% plus. Good thing is we have made a good progress in both increasing our leverage and profitability. So, that is you have seen that in this

year and especially in this quarter our ROE has moved up 18% plus for the quarter and for the full year we are at 17.6%. So, that shows a very strong momentum that has been coupled with the leverage and the profitability.

**Deepak Poddar:** And this 3 year that we have seen, we would see a steady increase in a steady decrease in both ROA and ROA, right?

**Lakshmi pathy Deenadayalan:** Yes, that is the game plan will be constantly focusing to increase our leverage under the same business model. So, that will bring down our ROA slightly on a quarterly and yearly basis and increase our ROE to that extent.

**Deepak Poddar:** And 100% of our loan book is secured, right?

**Lakshmi pathy Deenadayalan:** Yes, 100%, no doubt about it. Out of 100%, 95% are self-occupied residential property and 5% is either shop or the vacant lands.

**Deepak Poddar:** So, 95% is self-occupied residential property?

**Lakshmi pathy Deenadayalan:** Yes, and balance 5% is also secured, secured by shops or vacant lands.

**Moderator:** Thank you. The next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

**Raghav Garg:** I just have one question. So, I think at some point in time in the past, you mentioned that one business officer can handle about 120 accounts and when I look at that ratio today, that is about 81 implying that a typical business officer is handling about 80 accounts, so what stops us from increasing the workload on a business officer rather than actually going for newer employees as that would help improve efficiency for you, that is my only question?

**Rangarajan Krishnan:** So, rather, it is a combination of having some cushion because of attritions potentially, so let us say if every officer is full up on this capacity and there is some addition which occurs, let us say in the middle of the month or during the quarter, it is very difficult for you to rearrange that officer's account to the others because they are already full up on their capacity. So, you can't really optimally operate at exact full capacity in every officer. So, that is the first part. And second when you are opening a new branch, it always takes time for this build up to happen, so it is not going to happen on day one. So, when you are starting, each officer, let us say logs in about 5 files and about 4 files get approved, it typically takes at least 2 years for that officer to accumulate close to 100 accounts. So, because of the timeline and because of operational reasons such as attrition, you can't really fully load it up. I think there will always be some lag and cushion which is there in the model.

**Raghav Garg:** So, if say, we were to look at this number on a 2-year lag basis, say number of accounts today on a base of employee base, say 1 year ago or 2 years ago, this number would be higher. Is that the correct way to look at it, what would that be?

**Srikanth Gopalakrishnan:** If you look at it one year lag, that number is more like about 100 accounts per officer, 3.8-3.9 lakhs on about 4000 employees. So, yes that is probably one of the ways to look at it. I wouldn't say that is

the most ideal way. The most ideal way would probably when we get to a lot more steady state scenario where we are not opening so many branches or when we are not growing at very high level. I think that is when we will probably reach about 120 or so. Till that point of time, if you look at the one year lag, you are right where if you are operating at about 100 to 110 that would be an appropriate number.

**Raghav Garg:**

And one more thing, I think you had mentioned at some point that you would double the branches from here on, right? I think the base is about 590. If it is the right number, which I am looking at, and then you will take it to, sorry 520 going to 1000 in the next 3 years, is that right? And this would be because of new branches as well as the splitting of some of the existing large branches, correct?

**Lakshmi pathy Deenadayalan:** Yes, Raghav, you are right. There was a question from an investor. For that we gave a reply that in next 3-4 years, how does this business look like? So, we have said we will be doubling our branches from 500 to 1000. This includes two things. We will be opening 80 to 100 branches year-on-year. That is the guidance that we have been saying to the market. Even last year we said we will be opening 80 to 100. We have done more than 100 branches. Balance is the split, two-third is the new branches and one-third is the split, so that will get continued, and the split branches will take its way this year and maybe next year too. So, that can be even added. So, both put together is what we have said will be close to 1000 branches in next 3-4 years.

**Raghav Garg:**

So, just a follow up on that. When I have looked at historically your business, what you seem to have done is that while the branch expansion has been there, you deployed more people in the same branch and that is why your number of people per branch has almost doubled in last, I think 5-6 years. Will that continue? Will you continue to deploy more people in the same branch, or will you cap it at say 18-20, which is the current run rate right now?

**Lakshmi pathy Deenadayalan:** So, Raghav, that was the strategy that what we have been adopting in last 6 to 9 months which is a cluster strategy. We don't want any branch to cross more than 2000 accounts that is INR 50 crores of AUM and we want that to be split into 2-3 branches. So, ideally going forward, Five-Star will operate in the smaller branches where the accounts are around 1000 accounts per branch that is INR 25 crores per branch. That is ideal. If a branch crosses 1000 accounts, a split will be made and a new branch around 5 to 10 kilometers vicinity will be put in and we will be transferring some accounts there. So, both the branches keep growing, so that is the strategy of cluster. Just to recall, there is one unforeseen incident, which has happened in another NBFC where huge amount of fraud has been done in a single branch. So, I think keeping too much of accounts and too much of AUM in a single branch really is a risk from a retail perspective. That is where we thought ahead, and we started to put in this cluster approach and splitting branches within the bigger branches. So, going forward, we will ideally want to be 8 to 10 members in a branch looking after close to less than 1000 accounts. That will be ideal. That is proven in Five-Star in last 6 to 9 months the smaller branches are productive, effective and their collections and attrition levels and poaching levels are far lesser.

**Raghav Garg:**

So, those 8 to 10 number that you are referring to employees, those are just the business officers, right?

**Lakshmiathy Deenadayalan:** No, it is a combination of business collection and the support team. We give three support team for every branch, which is one guy will be credit, one will be cashier and one will be operations. All put together, I said 10.

**Raghav Garg:** And you will cap the branch handling capacity at 1000 accounts, right? Is that the number ?

**Lakshmiathy Deenadayalan:** Yes that is ideal. That is what 800 to 1000 is the ideal that what we are thinking right now.

**Moderator:** Thank you. The next question is on the line of Arvind from Sundaram Alternatives. Please go ahead.

**Arvind:** Sir, like our growth continues to be very strong, but when I started into geographies, I can see that AP and Telangana is like pretty very much strong and these are the two regions are primarily contributed to the AUM growth in FY24 and there have been some moderation and growth in Tamil Nadu and Karnataka regions. Any particular reasons the growth has slowed down a bit in comparison to like even the overall growth, can it improve in the subsequent years? That is my first question and branch additions when we talk about like is it safer to assume that it will be again in the Southern region whereas the other regions would be minimal like 80-20 something like that?

**Lakshmiathy Deenadayalan:** Yes. On the first point, Tamil Nadu and Karnataka have not slowed down, whereas Andhra and Telangana have moved up. So, Telangana, Tamil Nadu and Karnataka, if you see standalone comparing to last year, they have also grown pretty, very well. And one more point to add, I have been guiding to you people that Karnataka was little over after, when the state was coming out of COVID for last few quarters, their performance has done extremely very well, the collection efficiency and the quality of asset that we are able to demonstrate in that state. So, that state will also be looking up for this financial year. So, if you look at this financial year, we will invest a lot in Tamil Nadu and Karnataka together that puts both the states competing with AP and Telangana which is really doing well. From the second question, on the branch addition, we have been always guiding 80 to 100 new branches will be put up for Five-Star excluding the split concept what I said. Out of that close to 80% will be in South and as I said, Karnataka and Tamil Nadu will take a lion share in this financial year with Andhra and Telangana doing really well. So, out of 80% putting South and balance, 20% will be in the rest of the country. That too predominantly will be in MP and Maharashtra where we have, MP we have very strong presence and Maharashtra we have a very reasonable presence and both the states have been with us for the last 5 years. So, we have a reasonable experience in that state. So, that 20% predominantly will go to these two states.

**Arvind:** And then my next question is on the cost of funds front since incremental cost of funds is lower than the book, is it safer to assume that like the cost of funds would be unlikely to move further from this quarter the exit quarter? And also, to get the PSL benefit in terms of bank borrowing like we needed to do this Udyam registrations of our customers, has it been done?

**Srikanth Gopalakrishnan:** So, on the first point, I think one of the others had a similar question and I clarified. Today, there is no big delta between our cost of funds on the book and the cost of incremental debt. And given that we are looking to diversify our borrowing sources, hopefully we will have some more mutual funds and all getting into this where we may have to pay a little bit of a premium. We will not see any big benefit coming through in terms of the increase in spreads and all that. If at all there could be a slight

compression that may come through because we may want to pay a little higher to onboard the right kind of lenders to the company. So, there is not much scope for reduction going forward both on the cost of funds on the book as well as cost of incremental debt. In terms of the PSL, yes what we guided, yes, we have made significant strides in terms of getting Udyam assist registration for our customers. Almost 8,000 to 10,000 customers have already been registered on the portal. So, during this year, we are confident that we will be able to onboard lenders who will be lending against the PSL assets. So, our belief is that out of the overall disbursements of, let us say, INR 6,500 crores that we are envisaging for the next year at least about 25% to 30% of that would be PSL compliant assets and we should be able to get benefit on those assets from lenders perspective. The quantum of benefit requires to be seen whether it is going to be translating into a benefit on the cost of funds or people are going to be newer lenders who have been a little reticent to the company would come in to lend to us and all that, but definitely we will see at least above INR 1,000 to INR 1,500 crores of incremental debt that will be onboarded using the PSL assets.

**Arvind:**

And we talk about, borrowings, like in fixed rate is 31%, so remaining, should it be like in repo linked or EMCLR linked or any mix on that? And then another question is on credit cost, like credit cost in this quarter is slightly higher than the previous quarters despite our improving Stage-2 and stage 3 ratios, is it to fortify the PCR or any other indicators which is showing like?

**Srikanth Gopalakrishnan:**

So, on your first question, yes, this will primarily be repo linked or external benchmark rate link facilities because some of the banks their one year MCLR or six-month MCLR or even 3 months MCLR are higher than the overall cost that we are willing to give to those banks. So, if you have to borrow from them we have to go with an external benchmark rate. So, the 29%-30% will be external benchmark linked primarily around the repo rate. See the credit cost increase for this quarter is primarily on account of a technical write-off that we have taken. So, the last couple of quarters, we have not taken any write-offs and given that we do get some tax arbitrage because of the write-off. This quarter we did take about INR 6 crores of write-off. So, if you really break up the credit cost of 69 basis points, it is roughly 39 basis points on account of ECL provisions and about 29 to 30 basis points because of the write-off. So, if you remove the write-offs, the provision is in line with last quarter and last quarter we did not have any write-offs. So, broadly there is no increase in the credit cost assets. It is more on account of the technical write-off that we took during this quarter.

**Moderator:**

Thank you. The next question is from the line of Chirag Fialoke from Ratna Traya Capital. Please go ahead.

**Chirag Fialoke:**

Just one question, sir, on the liquidity side or just the cash in hand, could you just help us understand how do you guys think of that? Is it just in terms of number of months of disbursement and opex and even from a future perspective, when you do increase the debt, what kind of cash in hand would you want to keep?

**Srikanth Gopalakrishnan:**

Chirag, broadly, our liquidity policy is to maintain three months of operational expenses, three months of projected lender repayments and one month of projected disbursements in the form of cash. This number will work anywhere around INR 1,500 to INR 1,600 crores given that our disbursements are also fairly strong. We are slightly higher as we speak. We were at about INR 1,875 crores. I think we want to continue this policy as we go forward at least for the next financial year. We will try and see how

we can align a lot closer to the policy than keep more money beyond the policy. But in terms of being a prudent lender and to ensure that we don't face any hiccups from a liquidity perspective, we would like to continue this. I think another thumb rule that you could probably look at is we will probably have around 15% to 18% of our AUM in the form of liquidity even in the steady state scenario.

**Chirag Fialoke:** So, you could just repeat the last number, 15, how much did you say?

**Srikanth Gopalakrishnan:** 15% to 18% of our AUM will be in the form of liquidity.

**Moderator:** Thank you. The next question is from the line of Nischint from Kotak Mutual Funds. Please go ahead.

**Nischint:** This is Nischint from Kotak Securities. Just one clarification, you mentioned that your write-off is a technical write-off, but it is actually hitting your P&L right, it cannot be technical write-off?

**Srikanth Gopalakrishnan:** No, so Nischint, what we mean as technical write-off is not in the strict legal sense of the term. It has more to do with the fact that these are cases which are recoverable where we have the property with us. Necessary legal actions have been instituted against the borrower, but because these are a little delinquent cases and we don't want to continually keep showing them as 90+ assets, we have written off. So, what I meant by technical write-off is there is not too much of doubt on the recoverability of these assets, but it will take time to get the money back from these customers. So, that is the difference between practical and technical write-off that we mind.

**Nischint:** And in terms of credit costs, would you be, because it is something which probably can hiccup, so in terms of credit cost as per your math, would you be closer to where we are at this quarter which is sort of around 80 basis points or probably the last 2 quarters where we are closer to 50 basis points?

**Srikanth Gopalakrishnan:** I think we will be more closer to where we are this quarter, Nischint. I think we have been guiding even in the past for about 75 to 100 basis points of credit cost. So, I think it would be a lot more closer to where we are this quarter rather than what we were in the last year or in the last couple of quarters. So, yes, about 70 to 80 basis points is probably the number that we would like to carry on our P&L.

**Nischint:** And just clarification in the same point that you mentioned earlier, you will probably need to kind of keep something like 20% of your balance sheet in cash and liquid investment, is there a scope of reducing it?

**Srikanth Gopalakrishnan:** We will reduce it, so as we speak, it is at about roughly around a little less than 20% of our AUM, not the balance sheet, but we believe that the right number would be more around 15% to 17%. So, there is definitely scope for reduction, but March being the quarter where a lot of people also want to lend moneys to you, and especially the fact that we got sanctions from institutions like NABARDs, we are okay to maintain a little higher liquidity, but our ideal number will be somewhere around 15% to 17% of AUM in the form of liquidity.

**Nischint:** So, there was actually an improvement right between December and March. So, if I actually look at it this quarter, you sort of benefited from maybe lower average cash for the quarter.



**Srikanth Gopalakrishnan:** We will keep bringing it down. So, March will, most likely March will always be a little bit of aberration, but the focus is to be closer to 15%-17% and not 20%.

**Moderator:** Thank you. The next question is from the line of Dinesh Kulkarni from RDST. Please go ahead.

**Dinesh Kulkarni:** My question is you mentioned that most of our branch growth would come from the South with 90% focus on the South, the question is why are we not focusing much on the North or Northwest part of India? Are we experiencing any competitive pressures there from MFI or any other competitors?

**Lakshmi pathy Deenadayalan:** Not like that. We have been here in South for the last 20 years, so we know this market. We know these customers, their behavioral aspect, everything we can able to read it very well and we are happy to say the regional player, we don't want to be seen as a Pan India player right now. That is why our focus are more towards South and South is more stable and especially in collections, South is more stable in collection. And the four big states where we have been present, we have not even made a 25% reach in the respective states. So, a lot to be done in the South itself. That is point number one. So, we don't want to leave opportunity in a known market and go and search opportunity in an unknown market. So, that is logic number one. Second, having said that, we don't want to see as in North unknown market three years down the line. That is why we have been putting our branches in safer zones like MP where we have close to 60+ branches there. We have been investing this 60+ branches in MP for the last 5 years. So, we are doing it very well. Since we are breaking MP very well, we are now getting into the Rajasthan, maybe, probably Gujarat later part of this year and we have gone into Maharashtra and we have been in Chhattisgarh, so these are states where we are learning our experience slowly, steadily. So, it will be very useful when we look back ourselves three years down the line where our predominant growth will come from even in the rest of the country. That is our strategy.

**Moderator:** Thank you. The next question is from the line of Sagar Dua, an Individual Investor. Please go ahead.

**Sagar Dua:** Sir, I am an individual investor. Sir, I want to know as we are earning consistently why we are not paying dividends to shareholders?

**Lakshmi pathy Deenadayalan:** Yes, that is a good point that board is considering it. We will be coming out with the different thought process very soon. You will be hearing this good news from Five-Star very soon.

**Moderator:** Thank you. As there are no further questions, I would like to hand the conference over to Mr Lakshmi pathy for closing comments. Thank you.

**Lakshmi pathy Deenadayalan:** Thank you. Thank you all. As we have been saying, we are very robust and very optimistic in the product and the profile of the customers whom we lend, and this optimism will continue and see you very soon. Thank you.

**Moderator:** On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.