FIVE STAR
Business Finance Limited

Date: August 07,2024

The National Stock Exchange of India Limited,
Exchange Plaza,
Bandra-Kurla Complex,
Bandra (E), Mumbai 400 051
Symbol: FIVESTAR

BSE Limited
Listing department,
First floor, PJ Towers,
Dalal Street, Fort Mumbai 400 001
Scrip code: 543663

Sub: Transcript of the Earnings Conference Call for the quarter ended June 30, 2024

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings Conference Call held on Thursday, August 01, 2024.

The transcript can also be accessed from the link: https://fivestargroup.in/investors/

Kindly take the above on record.

For Five-Star Business Finance Limited

BASKARAN SHALINI

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Shalini Baskaran
Company Secretary & Compliance Officer

"Five-Star Business Finance Limited Q1 FY25 Earnings Conference Call"

August 01, 2024

MANAGEMENT: **MR LAKSHMIPATHY DEENADAYALAN – CHAIRMAN & MANAGING DIRECTOR, FIVE-STAR BUSINESS FINANCE LIMITED**
MR RANGARAJAN KRISHNAN - CHIEF EXECUTIVE OFFICER, FIVE-STAR BUSINESS FINANCE LIMITED
MR SRIKANTH GOPALAKRISHNAN - CHIEF FINANCIAL OFFICER, FIVE-STAR BUSINESS FINANCE LIMITED

MODERATOR: **MR SAMEER BHISE – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day, and welcome to Five-Star Business Finance Limited Q1 FY '25 Earnings Conference Call hosted by JM Financial.

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. Sameer Bhise. Thank you, and over to you, sir.

Sameer Bhise: Good morning, everyone, and welcome to the Five-Star Business Finance Limited's 1Q FY '25 Earnings Conference Call. First of all, I would like to thank the management of Five-Star Business Finance for giving us the opportunity to host this call.

From the management side, we have Mr. Lakshmipathy Deenadayalan - Chairman and Managing Director; Mr. Rangarajan Krishnan - Chief Executive Officer, and Mr. Srikanth Gopalakrishnan - Chief Financial Officer of the company.

As always, we will have opening comments from the Management, post which we will open the floor for Q&A.

With that, I would now like to hand over to Mr. Lakshmipathy Deenadayalan for his opening comments. Over to you, sir.

Lakshmipathy Deenadayalan: Thank you, Sameer. Good morning. I welcome everyone for this Q1 Earning Call for the Financial year '24-'25. This is our eighth earning call. You have seen us in the last 8 quarters of performance, what we say and what we do and what we have delivered in last 2 full cycles.

Before getting into the numbers of the June Quarter, let me give you some highlights:

Generally, June quarter is a muted quarter for all lenders. For Five-Star, we have done extremely well and did highest ever numbers in this quarter.

To highlight a few, I am happy to say that our asset under management has crossed 10,000 crores in June quarter. Very emotional, being the Chairman and Managing Director of the Five-Star. When I joined 20 years back, we were at 10 crores. Today, when I look back and see the growth what we have done in the last two decades, we have reached at 10,000 crores, which is 1,000 times in last 20 years. Thank you for all the support that shareholders have been offering to me and my management team to run it in a steady and a stable way.

The second highlight is our profitability, which has crossed 252 crores in June quarter, which is our ever-highest quarter of PAT recorded in the history of Five-Star.

Third highlight, our ROE, which is the return on equity, which is a very important metric for a shareholder, is at all-time high of 18.95% in a quarter and we will comfortably cross 19% for the full year.

So, with these positive highlights, what we have done in the June quarter, let me get into the numbers. Starting from branches, we have opened 27 branches in the June quarter, which keeps our total branch strength at 547 branches.

Disbursement which saw 1,318 crores in June quarter comparing to 1,336 crores in March quarter, which is almost flat, it is a good sign when a lender was able to deliver the disbursement equal to the best quarter of March. That gives a very good kickoff for this full financial year.

When we compare with June of last year, we did a disbursement of 1,132 crores, which is 16% higher than year-on-year. That has reflected in increase in our AUM, as I said, we have crossed 10,000 crores. We are at 10,344 crores as of June end, versus 7,583 crores in last June, registering a 36% year-on-year growth, and from March, 9,641 crores registering a 7% growth on Q-on-Q.

Now, taking you to the collections, which is the most important part, our collection efficiency in June was a bit lower comparing with March. That is the usual effect of the June quarter. Adding to that was the election heat and heat wave across entire country that had an impact on the collection efficiency. Nevertheless, it was only a small blip. We were at 99.5% in March. We are at 98.5% in June.

The unique customer collection efficiency, which we normally call collecting a due from all live customer was almost equal with March. It was at 97.8% in March versus 97.2% in June. So, that shows the slowdown is very, very small. This has reflected in cross Stage-3 assets moving from 1.38% in March to 1.41% in June, a small blip increase of 3 bps, whereas it was stable comparing with last June, it was 1.41% versus 1.41% in this June too.

Now, moving towards the cost of funds:

Our cost of funds on book was 9.6% in June quarter, which was same in March quarter as well, but the good news is the incremental cost of borrowing is coming down from 9.58% in March to 9.47% in June. So, this shows the interest from lenders' perspective and the risk premium, what was added to Five-Star is coming down.

The increase in AUM and good collections has resulted in one of the good profitability for Five-Star. Our total income has gone up to 669 crores in the June quarter, comparing to 483 crores last June year-on-year, registering a 38% year-on-year growth. And from March, it moved up from 619 crores to 669 crores, which is a growth of 8%, translating into good profit, as I said earlier, highest ever profit that we have made in a single quarter. We have done 252 crores of PAT comparing to 236 crores in March and 184 crores in June last year, registering a 37% year-on-year growth and 7% Q-on-Q growth.

And finally, moving towards the returns, the return on assets is stable at above 8% comparing to March. And as I said, the return on equity is an all-time high at 18.95% comparing to 18.65% in March quarter. And as I commented earlier, we will be comfortably crossing 19% plus for the full year in this financial year.

So, with these numbers, I will hand over to Srikanth – our CFO, to give detailed commentaries on all the numbers.

Srikanth Gopalakrishnan: Good morning to all of you. As Mr. Pathy said, this is a very, very memorable quarter for us. We crossed the 10,000-crore mark in our AUM. So, this is a progress that has been built over the last many years and it's a moment of real joy for all of us. I will touch upon some aspects which Mr. Pathy has not covered. I don't want to repeat whatever he has already stated.

Our active loans have gone up from about, it has gone up to about 4.1 lakhs, which is a 29% growth on a year-on-year basis. This clearly shows that the growth is still led by an increase in borrower base rather than increase in ticket size. The ticket size remains almost flat at about 3.5 lakhs.

Our yields continue to remain consistent at around 24%, 24.25%. Cost of funds is at 9.65%. So, the spreads are flat as compared to the previous quarter and similar to June '23 as well.

There is a compression in NIMs on account of increased debt and increased leverage. The NIMs dropped to 16.72% as against 17.74% in Quarter 1 of last financial year.

Our cost-to-income continues to be very attractive. Inclusive of credit cost, this number was at about 34.34% for this quarter as compared to 36.6% for the June quarter of last year. Again, as we have guided in the past, we expect our cost-to-income to be around 35%-36% levels in a steady state scenario. So, there is not very great room available for continuous reductions in the quarters to come. This has resulted in an ROA of about 8.23% for the quarter and a return on equity of 18.95%, very close to 19%.

From a borrowing perspective, we have about 42 lenders who have lent to us. One other encouraging fact, in line with our stated strategy, we have started the process of diversification of our borrowings. Our borrowings from banks, the proportion of borrowings from banks reduced from 79% in March to about 74% as of now. If you compare it on a year-on-year basis, it has dropped from 84% to 74%.

During this quarter, we received incremental sanctions of about 850 crores. We availed 825 crores at an all-inclusive cost of 9.47%. The company continues to be conservative in terms of maintaining good liquidity buffers and unavailed sanction lines. So, we had a liquidity buffer of about close to 1,900 crores, 1,891 crores and unavailed sanction line of about 400 crores. We will also see more non-banks, capital-market transactions and DFI getting added in this quarter and the quarters to come.

We have seen a marginal dip in the collection efficiency. Mr. Pathy has already talked about that. But for those marginal increases which has also impacted the current and the delinquency buckets a little bit, from a provision coverage perspective, we are still very healthy and robust. We have a Stage-3 provision coverage of 52% and then overall provision coverage of 1.63%. So, we will continue to remain optimistic as well as cautious. We will maintain a good level of provision buffer to protect us against any unforeseen risks.

One of the other encouraging facts during this quarter is the penetration of digital payments. If you recall, we had highlighted in the last earnings call that we would end this year with about 70% non-cash and 30% cash payments. We were at about 57-43 as of last quarter.

But this quarter, we have actually made a very significant improvement on that. We are at about 65% of non-cash payments and 35% of cash payments. So, to achieve the number of 70-30 that we had guided you seems a very, very comfortable position for us. At this point of time, we don't want to revisit our guidance, but 70-30 is extremely achievable for us. So, that is another positive that we have achieved during this quarter.

So, given all of these things, we had one of the best quarters in terms of profit after tax at 252 crores, a growth of 37% year-on-year and 7% on a sequential quarter-on-quarter basis.

Our net worth stands at about close to 5,500 crores. It is at 5,450 crores. So, again, we have demonstrated good performance across profitability, quality and growth, which will continue in the quarters to come.

With these opening remarks, we will open out 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 Mahrukh Adajania from Nuvama Capital. Please go ahead.

Mahrukh Adajania: Congratulations on the results and on the 10,000-crore mark. I just had a couple of questions. Firstly, on your liquidity. So, now, do you see yourself maintaining such excess liquidity for a long period of time? Because I guess the liquidity buffer has kind of increased over the last 3-4 quarters, right, as in the level of liquidity buffer. Would that continue for some more time?

And then the other question is that there is varied feedback from lenders on how heat wave has impacted collections. Yours don't seem to be impacted in any big way. So, any comments you would offer on how you could have good collections in an otherwise bad quarter for others?

Lakshmipathy Deenadayalan: Thank you, Mahrukh. Let me take up the second question. Then Srikanth can come in for the first question. Yes, Mahrukh, it was a tough quarter for all lenders. Generally, after pulling back everything from customers in March, generally there will be a muted quarter for June. Let it be banks or non-banks, the trend is the same.

But what happened in this June was a prolonged elections and prolonged heat wave had an impact on the cash flows of the customers. Adding to it, June was the school season. So, people have to pay their kids' school fees. So, there were three challenges for every lender. I am not talking about Five-Star. For each and every lender at retail level, where they have one or two loans to repay, it was not easy for the customers to repay the EMIs on time.

But as I said, we have a very strong collection infrastructure at the ground level. This helps during these kinds of things, and we are able to monitor this very well because we know that May and June is going to be the difficult one. So, we had a good strategy, collection strategy, put in place in May and June that has really had a good effect. There was a small blip, as I said in the opening remarks from the collection efficiency and you see DPD, there is a small dip in each of the buckets. That will get corrected in due course of time.

So, I can even give you the update of July, which closed yesterday. It gives an encouraging sign, and it is better than the June month collections. We have to wait and see how August and September turn out for Five-Star. But yes, because of expected, one, and because of the strategy put in place, our impact was a bit lesser compared to other lenders. Yes, I also saw other lenders' numbers, Five-Star is fortunate to have lesser impact comparing to them.

Srikanth Gopalakrishnan: So, Mahrukh, your question on the liquidity buffer that we are maintaining, our intention is to maintain around 15% to 17% of our AUM in the form of liquidity. This is broadly the thumb rule that even bigger NBFCs are actually following. And we would like to maintain at about 15% to 17%. We are probably 1% to 2% higher than that.

But if you look at from a trajectory perspective, this number has been coming down. We were at about 20% of our AUM that we had as liquidity in December. That has actually dropped to about 18% as we speak. See, it is not a question of the fact that we want to have a higher liquidity buffer. It is also a question of the kind of sanctions that we get, what are the sanctions that can be accommodated, and what are the sanctions that can be pushed out a little bit.

So, there is a little bit of balancing act that we play on this. But we will definitely ensure that we maintain about 15% to 17% liquidity. And a percentage or two higher will be because of specific names that we have been looking at onboarding. If they come in, like, for example, IFC could not have been tranched out. But we needed IFC and hence we had to take the entire 500 crores. There are still 400 crores of untranched sanctions that we have as we speak. So, it is a balancing act that we do. But about 15% to 17% is what we would like to maintain in a steady state scenario.

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

Raghav Garg: I have a few questions. So, one is, you know, on the business officers side, I see that the addition to business officers is nearly flat this quarter whereas in the last several quarters, you seem to have beat it up. So, what's the thought process here behind no addition of these officers? Is it that you hired a lot in the last four, five, six quarters and you want to utilize that capacity first? That's my first question.

Rangarajan Krishnan: Raghav, in the last earnings call, we explained to all of you that the strategy from a branch expansion perspective is divided into two parts. One part is what we call as a split branch or a cluster approach wherein one bigger branch is getting broken, and it is from the bigger branch, we are opening another new branch. So, when this happens, there is a set of officers who get transferred from an existing branch to the newly opened split branch. So, this constituted about 50% of the branch openings last year and the balance 50% is all completely branches that have started from scratch.

So, if you look at in the first quarter of this year, we opened about 27 branches. Again, the split is very similar. So, wherein a number of new branches have been opened which is just split from an existing previously big branch and when this happens, officers get transferred from the bigger branch to the newly opened smaller branches.

So, it is not a linear addition of officers with respect to the branch openings. This is what is also giving us the leg up in terms of a little bit of lower operational cost that you can see reflected in our financials.

Raghav Garg: So, that is why it is leading to say higher number of accounts being handled for and you got impact, right, just the segregation of branches in terms of new branches and the cluster expansion.

Rangarajan Krishnan: Correct.

Lakshmipathy Deenadayalan: Raghav, just to clarify it further, it is not a higher number of accounts given to an officer. Where an officer had a lower number of accounts, it has been adjusted in last quarter.

Raghav Garg: Just out of that 27, how much of that would have been because of the cluster expansion and how much of those branches are completely new?

Rangarajan Krishnan: Raghav, roughly, it is 50-50.

Raghav Garg: And just one last question on, you know, in terms of the number of loan accounts or loans disbursed. The growth is about 11%. There is quite a bit of moderation. Where do you see this number in terms of growth for FY '25 on a sustainable basis for say the next 3-4 years?

Srikanth Gopalakrishnan: Raghav, are you talking about the AUM growth?

Raghav Garg: No, I am talking about the number of new loans disbursed in this quarter.

Srikanth Gopalakrishnan: Number of new loans disbursed? See, the point that we are saying is that is linked to the overall disbursal quantum that we are looking at. So, for example, between last year and this year, our disbursals are expected to go up by about 25%-27% and with a little bit of push up in the ticket size, which will come because of inflationary increases, you will probably see the number of loans growth by about 20%-22% rather than getting to 25%-27% kind of a number. So, I would say, broadly, anywhere around 18% to 20% is the number of loans that you will keep going up, that will be the disbursal number on a quarter on quarter basis.

Lakshmipathy Deenadayalan: So, Raghav, there are three things for the growth to kick in for Five-Star. The first one is the branch addition. I will restate that even in this year, we will be adding close to 80-90 new branches and close to 100 split branches. So, the numbers will be close to 200 branch count, whereas new branches will be 80 to 90 and the rest will be the split branches as Ranga explained to handle the risk better. That's the first lever.

The second lever is the addition of officers. That will also be done in this year.

Third is the increase in ticket size. We have been doing it at 3.5. This year it will be close to 4. So, all 3 levers put together, I am very confident that we will be growing at 30% plus for the full financial year.

Moderator: Thank you. The next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Sir, just two things. One on the disbursement growth run rate side, which has been falling since Q2, which has been now accelerated to 16% Y-o-Y. I can understand that it is a seasonally but still we are looking at the Y-o-Y growth and not the sequential growth. And also, when I look at the disbursement per branch on a two quarters like this, just to eliminate the impact of new branch opening, the run rate is now fallen to 2.7 crore in Q1 FY '25 from the peak of 3 crore in FY '24. So, how one should read this data, I mean, a fall in disbursement per branch also, this is decrease in the disbursement growth run rate.

Lakshmipathy Deenadayalan: Renish, let me clarify to all shareholders who are there in the call, don't go run rate per branch for next to at least for 18 months because as Ranga said, there is a clear-cut strategy for Five-Star to make all super branches into split branches and bring the number of officers which were close to 15 officers in the branch, close to 8 officers in the branch. That addresses a lot of risk and that also spreads our wings across the geographies wherever we are present.

So, you have to only look at the AUM growth metric for at least the next three to four quarters because if you go by branch count, it will be looking like as if the business done in a branch is come down. It's not like that. For example, if a super branch would have been done 2 crores business in a month, when the super branch is being split into two ideal branches, the run rate still be at 1.25, but it will be read as 1.25 per branch.

So, that is not the right metric is what I think Ranga and Srikanth can clarify on that too. But you have to see the AUM growth quarter-on-quarter, year-on-year where Five-Star wants to put up. That is what I gave the commitment that even for this financial year, there is no change in our guidance. We will be at 30% plus growth for the full year. For the first quarter, we have grown more than 7% and we will be comfortably crossing 30% for this full year. And yes, June being a seasonal one, and we have pulled out a lot of business in March month, there will be a slight drop in the June month, which will get corrected in the September, December, March month. That is how every lender will look at that annual growth.

Renish Bhuva: My question is on the disbursement growth side. It has been running at some 40%-50% Y-o-Y growth. Then it fell to 33% in Q3. Then it fell to 20% in Q4 and now it is at 16%. So, I can totally understand the branch metrics, which you just highlighted. But then the deceleration in disbursement growth rate, what it explains that?

Lakshmipathy Deenadayalan: Yes, Renish, the disbursement slowdown is here to stay, not only for Five-Star but for every lender in this country. Well, you will see the slowdown in disbursement. It's not because the opportunity is coming down, we have to also take into account what is the regulatory thought process and what is the regulatory commentary which we are hearing on a day-to-day, on a quarter-on-quarter basis. So, we should also be mindful of that. I said in the last quarter itself, let the dust all get settled, let our asset quality speak for ourselves. I think then the growth will be back on the same numbers what you have been referring to.

Srikanth Gopalakrishnan: So, Renish, it is also a question of a little bit of muted disbursements during COVID. So, if you are comparing, let us say, '22 to '23 where the disbursement number was much higher, it is not because '23 was significantly higher. It was because '22 was muted and '24 saw some bit of pent-up demand as well. So, you will see some moderation happening. I think those two are a little bit of years where you had some aberrations because of the base effect.

But otherwise, like I said, if we are looking at a 32% kind of a growth on our AUM, the disbursal growth will be more around 25% to 27% because there will be some bit of ticket size increases and we are lending for a 7-year tenor. So, it won't go tandem hand-to-hand with the AUM growth. There will be about 4-5 percentage points difference between the AUM growth and the disbursement growth.

Renish Bhuva: In fact, my last question was on this repayment rate side, right? So, we have always been highlighting that our behavioral tenor for loans is 7 years. But when we look at the repayment rate, it is hovering around 22% to 25%, which means the behavioral tenor is much less, of course, including prepayments, BT out etc. And when we look at last 3 quarters, it actually turns out to be some 7% sequentially, which is on an annualized basis upwards of 25%. So, how one should look at the actual tenure of your loans? Because then eventually it will start impacting the growth if disbursement doesn't come.

Srikanth Gopalakrishnan: So, you are right. I think one point that I want to correct in what you said is we always say that the origination tenor is about 6 to 6.5 years, while the behavior is more like 4, 4.5 years. So, you are right to the extent that you will see about 22% to 23% kind of a run-off every year, which will translate roughly to about 4.5 years of behavioral tenure.

So, I think that's a number that's broadly remained range-bound for the last 4-5 years and we don't see that number significantly changing in the coming years as well. So, there will be normal repayments and there will be some level of repayments, which is also largely remained range-bound between 9% to 12% on a year-on-year basis.

Renish Bhuva: And sir, just last question, if I may. Sir, what is the reason for moderation in credit costs, which is again a reflection of Stage-2, Stage-3 provision, despite the fact that collection and 1% DPD is up sequentially?

Srikanth Gopalakrishnan: So, Renish, I think we have been building this credit cost over the last couple of years and it sort of has reached a stage where we are comfortable with these numbers. So, if you look at the PDs and LGDs, if we don't build some overlays, our PDs and LGDs will result in a credit cost that will be much lower than the ECL provision that we are carrying today. So, our thought process is, there is something that gets thrown by the model. There are specific overlay factors that we use to build the management overlays on ECL and we are comfortable around the number that we are carrying. So, it is not a question of the credit cost decreasing because we wanted to decrease it. It is a question of the model and the factors that we use for overlays, which gives us a number and we are comfortable around that number. Like I said, the Stage-2 provision of around...

Renish Bhuva: I just wanted to reconfirm that we have not changed PD-LGDs. This might be a little lower overlay this quarter, might have led to the sequential decline rate. Is that the fair conclusion?

Srikanth Gopalakrishnan: PDs and LGDs are getting a little better. For example, last year you saw the current proportion going up significantly from about 83% to 87%. So, that obviously brings down the PDs and the fact that we are able to recover well is also reflecting on a lower LGD. So, there is some improvement in PDs and LGDs as we keep increasing the data, and it is also a question of using the last five years' data, right?

So, you have the earlier quarters going out and the later quarters coming in. Five years back, our DPDs were not as good as this. So, you will always see improvement in PDs and LGDs. But we sort of ensure that we build some management overlays to get to a number that the company, the board, the management and the auditors feel comfortable with.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Congratulations on again a good quarter and crossing that important milestone of 10,000 crores in AUM. Sir, first things first, I wanted to understand this very good improvement in the cash proportion in collections which has declined to 35% now. For the full year, you are still waiting for cash collections to decline to 30%. Just trying to understand what are those efforts that have gone into this to kind of get here?

Because like you recall, right, this was also something which was very widely debated cash proportion being high in the past. Sometime last year this used to be as high as 60%. So, just trying to understand what changes have you done? And do you now expect these things to be permanent and structural in terms of change in employee, in terms of changing customer behavior?

Rangarajan Krishnan: So, Abhijit, over the last two years, I would say that we have consistently been increasing the modes in which the customer can make a payment and most of it that we have introduced is all digital modes of payment. So, we first introduced a payment app wherein the customer can login into the app and then make a payment at any point of time. We have a tie up with Razorpay for this. So, a customer can make an app payment or a payment through our website.

But I think the next big game changer started for us when we tied up with the BBPS. So, today, our customer can login to any of the popular BBPS apps which is Google Pay or PhonePe and then make a payment to us through the UPI. And I think that's a very big game changer for us.

I think the next strategy that we introduce is that every passbook that we give to the customer, we started printing that with a very specific QR code wherein the customer can directly just scan the QR code and make a very specific payment to his account at the convenience of sitting from his home.

This we started from January, and I think from May this year, we have started another big thing, which is for all fresh payments, fresh disbursements that we make starting from the month of May, the UPI autopay sign up is mandatory for the customer. So, which means unless the UPI autopay is set up prior to the disbursement, we will not make the disbursement.

Earlier this used to be an offline process and there is a lot of translation errors between the time that you make a disbursement and actually the NACH mandate getting set up because there could be a number of reasons like it's an inoperative account or it's a signature mismatch or any number of reasons where your customer can find excuses of not signing up for a NACH mandate post a disbursement.

But when you make that as a compulsory precondition prior to the disbursement, we have seen huge uptick on that. And today, for 100% of the cases that is happening, but it's not necessary 100% of the customers will still make a UPI payment, but I think the effort is everybody finds, very few number of customers may not have the monies in their UPI account and on the time of the repayment date. They can always come back and pay through any other means or any other digital means. But at least the effort from the company side is very clear that unless you have an UPI, unless you do an auto UPI mandate with us prior to the disbursement, we will not be able to disburse.

So, I think these are clear structural changes that we have made on the ground and more and more customers are adopting for it. We have guided in the beginning of the year that we will be at about 70% digital payments, and I am fairly confident that we should cross that number comfortably.

Lakshmipathy Deenadayalan: So, just to add one point and even from the customer's behavioral aspect, there is a quite good bit of change that we were able to see. We were not able to get it right two years before. We thought the cash still is the king at the ground level, but a lot of changes happened in last two years and when we approached whatever Ranga said in last 24 months, that has yielding as a much faster effect rather than a slower one. So, we are very confident that except that little rural market, people still wanted to pay by cash. In semi-urban and fast-growing rural market, people adoption in digital payments are much higher and encouraging to see that our people are able to convince the customers and move towards that. So, all put together, I think we are good to go with 70 is to 30 and revisit after the march where we can take the 70 numbers too.

Abhijit Tibrewal: So, effectively speaking now, I mean, from March onwards, all disbursements that we will be doing will have a free condition of an UPI auto pay.

Rangarajan Krishnan: Yes, Abhijit, from May onwards.

Abhijit Tibrewal: Yes, from May onwards. Sir, the second question I had was for Srikanth sir. Sir, given the last yesterday's Fed meeting and the fact that there are now rate cuts which are there on the horizon, given that we still have almost 75% of our borrowings coming from banks, you could just elaborate how have we kind of positioned ourselves on those spread side in terms of fixed to floating or for that matter a 3 month or a 6-month MCLR, how are we positioned? And how can we benefit from any rate cuts?

Srikanth Gopalakrishnan: So, Abhijit, our breakup, in fact, we had given this in our presentation. Our breakup between fixed and floating today, we are at about 65% floating and 35% fixed. It went up a little bit because of the NCD issuance that we did to IFC. So, which is why the floating is at 65% and given the fact that we are also moving slightly away from our strategy of borrowing from banks, the floating will be a little lesser because the rest of the facilities typically tend to be fixed, especially on securitizations and all that.

On the floating, if we look at the breakup of this, the floating proportion, we have about 70% of that which is linked to MCLR and about 30% which are linked to the external benchmark rate. And even on the external benchmark rate, most of it, 75% of the EBR-linked facilities are linked to repo.

So, very clearly, if there is a benefit that is going to come through the rate cuts, we will definitely stand to benefit immediately from the day that the repo rate cut starts becoming effective, at least on about 30% of our facilities. On balance, 70% of our floating rate facilities, most of these are either a one-year MCLR or a six-month MCLR.

So, at various points of time, these benefits will come in. It will not come bunched up. It depends on when we have taken the facility and whether it is a six-month or a one-year MCLR. But I would say, from the day of the rate cut over the course of the next 12 months, we should see a significant benefit coming on at least 65% of our borrowings.

Abhijit Tibrewal: And the last question that I had is, while I think in last earnings call, you were guiding for a credit cost of about 70 to 80 basis points for this year, a related question here is, how are we kind of looking at the provision coverage ratio on stage two, stage three? I mean, likely to maintain at similar levels, or there is a thought process that given that collections are improving, cash collections are coming down, non-cash improving, is there an idea to kind of bring down the provisioning coverage going ahead, maybe not just a couple of quarters, but maybe over the next one or two years?

Srikanth Gopalakrishnan: So, Abhijit, the first point on the credit cost guidance, the guidance still stands at around 70 to 80 basis points. While this quarter we are reflecting about 61 basis points, it also has a proportion of write-offs. So, broadly about 30 basis points, we have written off about 7 crores of loan book. So, roughly the 60 basis points spread into 30 and 30, which is incremental provision of about 7 odd crores and of about 9 crores and about the balance coming in from write-off.

See, we will continue to do some technical write-offs purely for tax purposes as well and given that the regulations permit these technical write-offs. So, at this point we are not changing the guidance on the credit cost. We will continue to be at about 70 to 80 basis points for the foreseeable future.

In terms of the provision coverage, we are comfortable holding this number at this point of time. Our general thumb rule is about 50% provision coverage on Stage-3 assets and the overall provision coverage of 1.5% to 1.6%. We are at about 1.63%. I don't think you will see any significant benefit to come in the short-term future in terms of the release of provisions.

But if we are seeing significant improvement in the portfolio, if you are seeing the factors which we have used for building overlays are not really coming out in reality, then we may have to relook at both the model as well as the overlay, which may probably bring down the provision.

But at this point of time, we are not giving you guidance for any betterment or release of our provision. We will continue to be broadly at where we are. And given that the P&L has the ability to absorb the provisions that we are creating, why should we refrain from creating some buffers in good days, which can take care of us in rainy days. So, I don't think we are going to be aggressive in our provisions. We will be a lot more conservative.

Moderator: Thank you. The next question is from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah: Actually, I have a few questions. One, just from the perspective of quarter, was there any one-off in the other income because we saw a sharp increase on a sequential basis?

Srikanth Gopalakrishnan: So, Viral, you are looking at the non-operating income line.

Viral Shah: Correct.

Srikanth Gopalakrishnan: So, see, this will be other costs like storage costs and the fees that we get for the storage costs and all that. So, while you are seeing a 5 million to a 1.4 million number, this is not a very material number. So, it will broadly be the storage fees that we collect from the customers for storing their documents, which is typically up-fronted.

Viral Shah: Srikanth, while you are at it, on your previous comment with regards to the PCR, while I understand, of course, the eventual LGDs, especially on Stage-3, are not to the extent of what PCR we have, but I believe there is a soft regulatory nudge also to believe of maintaining 50% PCR. Would that be right?

Srikanth Gopalakrishnan: So, Viral, we would have probably guided you otherwise, but we are guiding 50% today because there is an expectation that we also, see because our LGDs are much lower, on a very big portion of our lending book, our LGDs will be probably closer to about 10% to 12% number. So, even a 50% is a far-fetched estimate, but you are right. Yes, there is some bit of a regulatory expectation in terms of maintaining a good cover on the Stage-3 assets, which is why we are guiding the market for a 50% PCR.

Viral Shah: And my next question is for Mr. Pathy and Ranga. So, in this quarter, we have seen that in the rural markets and especially for the MFI borrowers, the collection efficiencies as well as the asset quality has kind of worsened. In that environment, I understand there is risk for us also, but it was nowhere to the extent of what we have seen. So, have you seen some bit of prioritization amongst the borrowers to repay the secured loans and that they have their house as a mortgage versus the other news that they would have?

Lakshmipathy Deenadayalan: Viral, you are absolutely right. That's the underwriting model that Five-Star took 22 years back. Our underwriting is not for good times. Our underwriting is only for the bad times. So, that's why in the last 22 years, Five-Star is able to survive all big falls where bigger banks and NBFCs were not able to survive.

So, you are right. In terms of cash flow deterioration in a family, because Five-Star takes a family income and puts all the family members as part of the agreement, there will be a choice of customer whom to pay. So, generally, it tends to pay the mortgage loans.

That's what you see in HFC and mortgage lenders like Five-Star are not affected when there is a bit of cash flow dent happening, not permanently and just for a few months because of the heat wave, elections and school fees, what I said. Yes, this is a trend that you will see always and that will not change in the middle-class mindsets of our country.

Viral Shah: Lastly, in terms of the yields that we have, right, again, over here also, there has been a regulatory nudge for not just MFI lenders but even small-ticket lenders that basically, there should be some moderation in that and we have been talking about taking rate cuts. Any updates on that? And how are you thinking about it going into FY '25?

Lakshmipathy Deenadayalan: Viral, let me be very clear, maybe crystal clear, that there is no discussion between Five-Star and regulators on the pricing front. Right? I think regulators have seen us for the last five years and not a discussion they had, or we had with them on the pricing side. It's a market driven and it's underwriting risk that what the company has, that fixes the, both fixes the pricing. So, there is no point on even discussing about that whether regulator has any concern or not. Regulator has absolutely no concern from Five-Star's perspective. So, let me be very clear and crystal clear about that.

And yes, we have been saying to the market that we will be passing on our benefits what we got from the banking side. We were waiting for the rate cut to happen across the world and especially in our country, but that we are not seeing. But you will see Five-Star cutting a bit of rates in this financial year. I can say you it will be around 50 to 75 bps of the rates, which is what benefit that we got from the bank for last two years, we are happy to say that we will be passing on to the customer in the due course for the all-new customers who are getting logged in in Five-Star from now to March.

So, that's the approach what the Five-Star has been taken and we have been vocal on this. We have been telling you from the first Con Call ever since that we met you that we will be passing on a good rate cut for our customers once the rate cut announcement is there in our country. But it is taking some time, but we want to go first. So, you will see a rate cut of 50 to 75 bps in next nine months to go.

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

Chandrasekhar Sridhar: Few questions. May be just on the business growth, Tamil Nadu is now down to about 20% per annum. If you just take us through what's happening in Tamil Nadu, I mean, the bulk of the delta is actually coming from Andhra and Telangana. So, any particular change? I mean, I can see there is a competitor NBFC, which has also started off in a fairly large way in this space, a larger NBFC.

Just thoughts around that whether it's, you know, and that's their home market, whether it affects the competitive positioning over there. And MP was basically a market also where we had gotten a foothold, but it's sort of growing it where the company is growing at. Is there any particular challenges which you face? That's question one.

Second, two questions for Srikanth. One, I think there was an expectation that the cost of funds would go up marginally because you are diversifying into NCDs, and you need to pay up a little more because you are not getting your tenors. It's not going up. So, just maybe take us through what's there.

And then lastly, we have now crossed 10,000 crores. We will be having conversations with rating agencies around the ratings upgrades and what if any potential implications on the cost of borrowing?

Lakshmipathy Deenadayalan: Good morning, Chandra, I will take the first question, I will ask Srikanth to comment to second and I will also comment on the third. Chandra, from the first question, I will take it up Tamil Nadu and Ranga will talk about the MP. Nothing has happened in Tamil Nadu, Chandra. We are going as usual in Tamil Nadu.

I am just recollecting what I said in last call, or the last two calls. Tamil Nadu growth was not catching up with the growth of Andhra and Telangana. They were extremely growing very well. Growth from a team perspective, quality of files perspective, supervision team perspective, all were setting very well in combined Andhra, what we call as Andhra and Telangana put together. To that level, Tamil Nadu was not able to catch up. That's the only thing that what we saw Tamil Nadu as a share coming down for Five-Star.

But I have told that this year, you will see Tamil Nadu and Karnataka. I have also been saying to the market that Karnataka turnaround story is very good for Five-Star where we had a bit of slip in COVID and post-COVID and it was getting corrected and now they are one of the best performing states for Five-Star. So, Tamil Nadu and Karnataka will catch up this year with Andhra and Telangana. So, that's the South story. That's where the confidence comes in that we will be delivering a (+30%) growth in the South very comfortably.

So, I will hand it over to Ranga on an MP perspective.

Chandrasekhar Sridhar: There is no competitive intensity being higher impacting in any ways.

Lakshmipathy Deenadayalan: Chandra, I will not say only in Tamil Nadu. Across all states, you see many companies jumping into small business loans, especially after seeing Five-Star success. For eight quarters, they have been watching us closely, both from a quality as well as profitability perspective. Yes, people are jumping into do bits here and there. That's the nature of the good business. That doesn't have any big impact in Tamil Nadu. As I said, Tamil Nadu team has not able to catch up the Andhra and Telangana speed. With this year put in place and I have met all Tamil Nadu guys last month. I am very confident this year Tamil Nadu will see a good rise comparing to themselves, what they were in last year.

Rangarajan Krishnan: Chandra, With respect to Central India, I think the challenges are a little bit different. The first thing is in Central India, our ticket size is almost 40% lower than the ticket size that we see in South. So, despite that, if we are able to maintain the proportion of the overall AUM in Central India, it in fact means that the productivities are higher, but the ticket sizes are lower.

On a standalone basis, if you look at MP or MH, I think each of this is growing at about 50% CAGR last year while the company grew at about 35%-36% CAGR. But that said, I think we are very clear and we are investing more in Central India. You will start to see the proportion of Central India slowly going up from here. It is not going to happen in a hurry. We don't want it to happen in a hurry because these are newer markets.

You have to be extremely calibrated with what you have to do. But 100% we are very clear that the markets will go up and there are enough investments that are happening on the ground. Even this quarter, out of the 27 branches that we have opened, 14 branches are put up between Maharashtra, Madhya Pradesh and other Central Indian Geographies. So, we are very clear and keenly watching and investing in these states and the proportion will go up.

Srikanth Gopalakrishnan: Chandra, on your question on the cost of funds expectation to go up, first of all, thank you for asking this question because we don't want any of you guys to think that every quarter we are going to keep dropping our incremental rates. At some point, it definitely has to go up. So, see, the reason it has not gone up during this quarter is a couple of conversations that we have been having with capital markets, especially on mutual funds where the rates tend to be higher has not completely materialized.

Like I said, most of those transactions are expected to happen either in this quarter, which is Q2 or in Q3. So, you will definitely see a jump up in the cost of funds in the next quarter. So, given that these did not happen last quarter, you probably saw the rate going down from 9.58 to 9.49 or so. But definitely the number will inch up once we have capital market transactions coming in. So, that is in terms of the cost of funds expectation on the incremental borrowing.

See, on the rating discussions, this is something that we have crossed 10,000 crores. It's a very important landmark for us for the rating agencies. But our rating, the earliest rating agency that gave us the upgrade, gave it to us in December of 2022, so which is like 1.5 years now. So, 1.5 years is a little shorter time for us to push for a rating upgrade, given that it has also been two years of good growth.

And in fact, ICRA and CARE, the rating is about a year old and 15 months old with CARE and ICRA respectively. But having said that, we are having very strong conversations with them. We are demonstrating using our numbers, why we should probably command one notch higher rating than where we are today.

But realistically, I would probably think the best case, if I have to put my neck out and say, is probably end of this calendar year or end of this year, or the more reasonable and the logical case would be if we are able to go with the March results, March '25 results, you know, I will say it has a very high probability of getting converted. But I would probably think it's at least two to three quarters away.

Chandrasekhar Sridhar: Last one, if I could just squeeze in, can you remind me right now the share of AUM which is for personal purposes versus business purposes?

Srikanth Gopalakrishnan: Sorry, Chandra, share of AUM in?

Chandrasekhar Sridhar: In business purposes, used in business versus for non-business purposes.

Srikanth Gopalakrishnan: Broadly about 65-35.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: So, this is on the interest rate of around 50-75 basis points. So, from when are we really affecting it? And I believe this is again only for new loans.

Srikanth Gopalakrishnan: Yes, Nischint. In fact, I think we will probably be introducing this as early as this month, which is the month of August. So, sometime during this month is what we are looking at and yes, this will be on incremental loans. So, you will not see the yields dropping by 50-75 basis points. You will probably see it dropping by one-third of the 50-75 basis points because it will take time to impact the portfolio yield.

Nischint Chawathe: And is there a particular plan or a thought process in place, maybe for next year or something in terms of saying that you would want to sort of take it down every year by a couple of basis points and sort of move up the quality curve?

Lakshmipathy Deenadayalan: Nischint, not really. Let me recollect what I have been saying to the market. We got 150 to 200 bps of rate benefit from the banks, though out of that at least 50% we wanted to pass it on to the customers. That's the background. It's not of what is the means that we are holding and what is the pricing that we are lending, that's not the point. The point is we have been saying to the market for a long time, we were waiting for the rate cut to happen in our country over last September itself, but that didn't happen. So, we wanted to move forward and give the benefit what we got from the banks with the customers. So, it only depends upon the bank benefit what we got to transfer to the customers. So, next year we can't give a commentary right now without knowing what is the fresh benefit that we are going to get from the bank. This is only for this financial year.

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

Ajit Kumar: Most of my questions have been answered. Just one or two quick questions. First, following up is on your ECL methodology. Just wanted to know how many years of data do you factor in the model and has it changed in recent time? And also, at what frequency do you revise or reassess your model assumptions?

Srikanth Gopalakrishnan: So, we follow as per the IndAS guidelines, Ajit. I think it's the last five years data that we use. So, every year the previous year's data goes out and every quarter, the previous quarter's data goes out and the newer quarter comes in, which is as per the accounting standards. Typically, we really look at this model once in three years.

Ajit Kumar: One last question. Harping on this incremental cost of fund, which has gone down sequentially from which stream of funding this decline is coming -- is it majorly from bank funding where pricing has come off or from bond market borrowings?

Srikanth Gopalakrishnan: So, we have not done much bond market borrowing, Ajit, during this quarter, so which is why you're not seeing this cost of funds going up. So, largely banks are willing to lend to us at lower rates, even the IFC funding that we got was at lower rates. So, I think it's broadly numbers it's coming from DFIs and banks, which has contributed to the lower rate. I think once we get to the capital market, participants feed the mutual funds or the others, this cost will probably look like more around 9.60%, 9.65% rather than 9.48%.

Moderator: The next question is from the line of Kunal Garg from IIFL Securities. Please go ahead.

Kunal Garg: Sir, my question is primarily, you mentioned that there are few states where you see the downward trajectory in the business, right? So, what are the specific stress in the states in the coming months or in the coming quarters?

Lakshmipathy Deenadayalan: Kunal, can you come back? We didn't say there is any stress in any state in our commentary. What is that you are saying?

Kunal Garg: Sir, you mentioned that there was some business down in TN and Karnataka compared to the AP and Telangana.

Lakshmipathy Deenadayalan: No, what I said was the catch up by Tamil Nadu was not equal to the catch up of Andhra and Telangana. The Telangana and Andhra catch up speed was much higher than Tamil Nadu was what I am referring and there was not any issue or a problem in Tamil Nadu state and I was giving a commentary saying that in this year Tamil Nadu will catch up much better than what they were doing last year. There was no stress or any strain in Tamil Nadu and Karnataka.

Kunal Garg: So, the business growth will be continued in this Tamil Nadu and Karnataka as per the previous year, right?

Lakshmipathy Deenadayalan: Yes, very much so and it will be very stronger this year.

Kunal Garg: My second question is, have you given any top up loans this quarter?

Rangarajan Krishnan: So, Kunal, we generally do top up loans, but top up loans is a very, very small proportion of our disbursal. In the last few conference calls, they've been taking, our top up loans are more like about 4%, 5% that's what we give. In fact, if you look at the overall book the top up, repeats, borrowers who have closed their loan and come back for another loan, all put together it will be more like 8% to 10%. So, that's not a big source of disbursals for Five-Star or a business line for Five-Star. Our business line primarily is to go into unpenetrated or underpenetrated markets and get fresh borrowers from the informal to the formal ecosystem.

Kunal Garg: My third question is you mentioned that from May onwards you have made mandatory for UPI auto pay, right? So, is this 100% or still there are some pockets where you are giving some relaxation?

Rangarajan Krishnan: It's near to 100%, Kunal. So, they can either choose for a UPI auto pay or they can choose for an online NACH. Both these mandates are to be set up prior to the disbursement. See, we always had this condition, but the earlier condition was it can also be done post the disbursement because some of this was offline and offline takes a lot more time for us. Now, what we changed from the month of May is that you have to do an online registration, which means the mandate is set up in favor of Five-Star prior to the disbursement. And this is near to 100%, there will always be corner cases, but almost near to 100%.

Moderator: The next question is from the line of Rohan from Faircom Family Office. Please go ahead.

Rohan: I have two quick questions. So, if we look at the MSME LAP segment, that has been a high growth area also for some of the smaller peers, however with a smaller average ticket size. So, smaller ticket size, does that interest you and what is the risk versus reward dynamics here and the minimum average ticket size that you would take on?

Lakshmipathy Deenadayalan: See, Rohan, Five-Star ventured into secured business loans to the informal segment of this country 22-years back. We clearly understood what was the risk and what is the reward that we will be getting when you venture into this kind of profile of customers. This is what it's getting reflected in last 22-years. Yes, you have a risk, and you have a good reward for that. How do you balance that is what differentiates you as a good lender. Yes, 100% of our loans are secured. As Srikanth said, close to 60% goes to business end use and balance, 40% goes to the housing constructions and personal needs of these customers. The risk is, yes, these customers have bit of vulnerable cash flows and when they get into more unsecured borrowing in the market that tends to go to little more vulnerable. But, as I said in one of the questions, when a choice has been given to these customers during the downturn, whom to pay, they very clearly pay to a mortgage lender, let it be a housing finance company or a mortgage lender like Five star. Their choice is always to us. That's what it reflects during COVID-1, COVID-2 or the first quarter collection efficiency what Five-Star is able to do is the benchmark of HFC is what they have done in this country. So, this is the trend. This is the risk that you have to go through. And having done very successfully, yes, there are a lot of followers of Five-Star who intend to get into this segment. But if they don't understand the risk, if they don't see the cycles before pressing the growth, there will be a serious dent for their asset quality and that will slow down the growth going forward and Five-Star has learned it very well and we have been learner for the first 10 years and then the growers for next 10-years of our life. That's how we do it.

Rohan: Can you also explain your borrowing strategy? What's the rationale for moving away from bank borrowing?

Srikanth Gopalakrishnan: So, Rohan, the rationale is a little simple. See, today, there are a lot of banks who are willing to lend to Five-Star given our asset quality, given our growth and profitability, they see this as a very attractive institution that they can lend to. But I am sure you would also be aware that there has been some pointers from RBI telling that the NBFC should look at diversifying their borrowings, get a little more into the capital market and all that. And when we become a AA entity, we are also mandated by SEBI to onboard incrementally 25% of our borrowings from capital market. So, given all of these thought process, we have now taken a very conscious call that we will get into the capital market, we will be fully prepared for any eventualities that may come or fully prepared when we become AA entity. So, some of these are in response to external factors that we are doing. But if we have to borrow from the banks, I think there are enough and more banks which are ready today. But having said that, it's always good to have diversification in any of your streams which is the strategy that we are following.

Moderator: The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Sir, you've spoken about July collection trends being better than June. So, is it better in across buckets, I mean, is it better in regular bucket as well as in the delinquent buckets of 30-60, 60-90 as well when compared to June?

Lakshmipathy Deenadayalan: See, Rajiv, I have just seen it last night, I have not gone detail into it, but overall, our performance comparing to June should be better across states, across buckets. There will not be any significant difference between overall as well as the bucket wise. Rajiv, I'll ask Srikanth to connect offline, so you get more data when he has it.

Rajiv Mehta: Sir, just taking forward one comment that you made that typically in a stressed situation, the household prioritizes repaying you versus their unsecured loans. So, first is the categorization of those loans will be current with us, but in the current portfolio, what proportion of our customers would have a default on their unsecured line, but are current with us, do we track them differently?

Lakshmipathy Deenadayalan: No, Rajiv, we don't track our customers, we track them before lending a loan in a detailed way, we take at least minimum of two credit bureaus, High Mark and CIBIL before lending. But after lending, we don't track them from a credit bureau perspective, we track them based on the DPDs and what should the company do when he falls down the DPD, what are the measures that we have to take. That is pretty much in place. It's not that the current accounts or one DPD customers are being tracked from a number of loans that they have taken, and we don't have any control and we can't stop this unless until the other lenders are more clearer that once you see a bigger loan taken by the customer generally we should avoid lending to those customers. If that discipline is not there with other unsecured lenders, we can't do anything on that.

Rangarajan Krishnan: Just to add one point here. See, when we have taken this at points of time, I think what Mr. Pathy is trying to say is we don't do this on a regular basis like every quarter we don't do a bureau scrub to see where other customers are vis-à-vis with us. But I think when we have taken it at points of time, and we have done it quite a few times in the past especially during stress times. So, if we have done it during demon, we have done it during COVID-1, COVID-2, at that point of time, the behavior is very clear in terms of priority of repayments and that’s what gives us the confidence that, yes, when it comes to stress and when it when customers are forced to make a choice between repayment of a secured loan versus an unsecured loan, they always tend to choose secured loans, especially if it's an emotionally important asset to the family.

Rajiv Mehta: Just one observation. When I look at AUM of branch Tier, then the Tier-6 branch growth has been very significant in the last 12, 15 months. So, incrementally these Tier-6 branches have been contributing 60%, 70% of fresh growth. How should we read this?

Rangarajan Krishnan: We were anyway strong between Tier-4, Tier-5 and Tier-6 earlier also. Now when the branch split is happening so more and more branches in Tier-5 and Tier-6 are getting split because these are good pockets for us where the branches have grown to a reasonable size. So, earlier if you had one branch, now we are having two branches in Tier-6. I think that's what explains the contribution of Tier-5, Tier-6 towards this AUM proportion. But I think if you look at it overall from an AUM perspective, yes, leave the number of branches, we were anyway strongly biased towards 4-5 and 6-Tiers.

Rajiv Mehta: And when you speak about branch Tier, it is by location or by branch size.

Rangarajan Krishnan: It is by location. It is by the actual population where the branch is located.

Moderator: The next question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

S Mishra: Two questions. The first one is around the disbursements. Given the fact that we have this churn of almost 20% to 25%, which was discussed earlier on the call, what percentage of our disbursement is to existing customers, what percentage is to new customers? Second is around the leverage of the customers. Whether they're existing or new, how often do we check on the leverage, how many other trade lines do these customers have? I do understand that a lot of them are new, but do they have any other informal credit or any other unsecured, there's been a lot of proliferation of fintech is doing a lot of unsecured lending and of course that's also come down, but then have we done these checks more recently and what are our observations?

Srikanth Gopalakrishnan: Like we said, most of the disbursals happen to the newer customers only. So, maybe about 8% to 10% of the disbursals will be happening to our existing customers either through top ups or additional loans or fresh facilities after they close their old loans. So, about 90% of our disbursals happen to newer customers from the branch side. In terms of the leverage check that we do, we definitely do it at the time of underwriting, where we ensure that we try and get all the formal data through the credit bureau reports, whatever possible informal data through neighborhood and trade checks. But beyond that, we don't have a process of checking this data on a periodic basis, because even if we check it, it's more academic data that we will have. I think Mr. Pathy just answered the last question where he said even if the customer is taking a loan the day after he has taken a loan from us, what is it that you can do? It should be up to the other lender to ensure that they are very clear that this guy has already leveraged himself with Five-Star. Now for us to take the data and do the scrub, like I said, it's an academic exercise and we could get into, but we don't have any periodicity at which we keep taking this data and try and see what is the leverage of our customers. We ensure that by taking property, by making all the family members, there's applicants and co-applicants of the loan. The customer will give priority to us even in the most difficult time. So, that is something that we do rather than doing a scrub data and I don't know what we can do beyond that.

S Mishra: The quantum of disbursement in FY'24 is almost as much as the disbursement that we did in the previous two years. Do we expect some degree of seasoning impact and then impacting the credit cost going forward because of the seasoning impact of this because it's a much bigger number, it's almost as big as the FY'22 and '23 number.

Srikanth Gopalakrishnan: See, this is again a problem because of FY'22 number having been impacted by COVID. So, FY'21 and '22 are the years that probably need to be kept out of our comparisons. But if you look at prior to FY'20 when we have been growing much faster or post FY'22 where we have been showing a good proportion of growth, we don't really see any kind of seasoning impact to come in. Obviously, there will be some impact, but we are also going to keep adding new customers, new loans. So, it will sort of balance each other. So, we don't really see any impact on the credit cost coming in because of fresh disbursements becoming muted and the seasoning impact coming through. So, it will largely offset each other.

Moderator: The next question is from the line of Sonal from Prescient Capital. Please go ahead.

Sonal Minas: Hi sir, this is Sonal Minas. Sir, I wanted to understand the maturity profile of any particular loan vis-à-vis the time that the loan has been on your books because you mentioned that typically it's a 7-year-old loan, that's the duration of the loan. So, how do you see the NPA panning out in one year, two-year, three-year, four year, if you could just give a bit of a color around that, that would be great?

Srikanth Gopalakrishnan: So, on a static pool, our analysis shows especially the later portfolio, the last 3-4 years when we have implemented D1C1 completely, there is a drop in the probability of default, which means the number of customers who are turning NPAs itself have reduced. So, on this, typically what we see there is some level of peaking that happens around the three, three and a half years timeline. This used to be about two and a half, three years earlier, but that has got pushed because of the collection efforts. So, 3 to 3.5 years there is a peaking that happens, which probably goes to about 2-2.5% on a static pool basis, sort of stabilizes, but it's also important that from an LGD we don't lose any of this because in most of these cases, while the customer might have slipped into NPA, might stay in an NPA, there is a empirical evidence to prove that when he settles the loan, he actually clears all the dues. So, our LGDs are very low from that perspective. But just to answer your question, yes, around three, three and a half years, there is a little bit of peaking to around 2-2.5% of static pool NPAs, stabilizes, and then we are able to recover almost 99% of the principal that would have stayed as principal at the time of NPA.

Sonal Minas: Second question, which is I think write-off which you're talking about. If you just take maybe last ten years or maybe last five years and take a snapshot, like do you share data of how much write-offs have you done, what percentage of books would be, because percentage numbers are a little misleading, but is it okay to say that 1% of all the books who are maturing in three, five years typically that's the write-off on the book, how do you understand that?

Srikanth Gopalakrishnan: 1% is a very high number. Generally, our experience has shown that our write-off tends to be somewhere around 25 to 30 basis points of our opening book. If you look at the last five years, we would probably have written off somewhere close to 60 to 70 crores of loans. So, that's the overall number, but broadly on a year-on-year basis, the technical write-off works to about 25 to 30 basis points.

Sonal Minas: And the actual write-offs will be lower than that**?**

Srikanth Gopalakrishnan: Actual losses will be less, yes.

Lakshmipathy Deenadayalan: As Srikanth said, this is fully a secured loan. It's only a time gap that it takes for Five-Star to recover write-off from the legal course. So, the credit loss which is the ultimate loss that we suffer maybe is around 15 to 20 bps.

Sonal Minas: You were talking about giving top up loans, follow-up loans whatever they may call it, adds up to 8% to 10% of the books. As a prudent measure, these top up loans are typically given to customers once they finish a particular life cycle of a loan or they are given while the current loan is also outstanding, just trying to understand the process.

Rangarajan Krishnan: Top up loan is not an automatic program within Five-Star. The customer has to apply for a top up loan and he can apply for a top up loan after a minimum of two years of seasoning with Five-Star. So, when he applies for a loan, it's a fresh evaluation, credit does the entire evaluation of the loan, they will check the repayment, they will check if there is any improvement or decrease in his overall income or in the valuation of the property and then finally take a call on what is the loan amount that needs to be given. When the top up loan is given, the customer has to be a zero DPD customer. So, if the customer's track record is patchy for whatever reason he does not get sanctioned the loan with Five-Star. When we give a loan, we will make sure that both the loans run parallelly in the system because with the proceeds of the new loan, if you have to close the old loan, the history of the old loan goes away. So, we don't do that. We allow both the loans to run parallelly, which means loan runs to its original tenure, maybe let's say he took a loan for seven years, he applies for a loan at the end of three years in this example, the original loan will run for another four years, while the new loan gets sanctioned at this point of time, which will run for seven years from this period to the next seven years. Any deterioration in any of these two loans will result in an automatic degradation on the asset quality of the loan. So, it's not about old loan being extinguished, or the new loans being given separately. Both those loans will play to determine what is the asset quality for the particular customer.

Moderator: The next question is from the line of Vijay from Sharekhan. Please go ahead.

Vijay: My question is about borrowing mix. As you mentioned that you are moving towards the capital market, so what kind of the percentage you would see in terms of banks versus capital market? And if you move to a capital market what kind of the benefits the company will get?

Srikanth Gopalakrishnan: So, Vijay, I think in a steady state, this is not immediately, but maybe over the next two to three years, we are probably looking at banks to be at about 50% and balance coming in from capital market, securitization, DFIs and all that. See, from a benefit perspective, like I said, we can do 100% from banks today, there are enough and more banks willing to lend to us, but it's a question of diversification, what are the sources that are available for you, certain sources can be on-tap, certain sources can be a little more like if a bank takes an exposure today, they'll wait for 12 months to take a fresh exposure, while that may not be the case with capital markets. So, it is a question of maintaining the balance between availability of funds and cost of funds. So, in a steady state, we expect it to be 50:50. Banks will always be relatively cheaper as compared to capital market transactions. So, we'll play the rate with the banks, but capital markets can give you good quantums and can be faster in processing renewals. So, all of those things will be taken care of when we look at the borrowing mix.

Moderator: The next question is from the line of Arvind from Sundaram Alternates. Please go ahead.

Arvind: I think this question has been answered, but I would like to get a bit more color on this, especially in terms of asset quality. Obviously, the MFI players have signed off some pockets of stress or risk coming up in different regions of the country, and obviously, our customer repayment behavior is much better in terms of income as well as the repayment behaviour because it's a mortgage loan. But are you seeing any pockets of risk either in terms of regions or in terms of any economic activity, sir?

Lakshmipathy Deenadayalan: Arvind, what you read from the voice of MFIs, we also read that and it is true, I never denied it. I only said during this pocket of stress how does the customer differentiate himself from a secured loan to an unsecured loan. That's what my commentary was. And this is again proven in this quarter when unsecured guys were facing the pressure, secured loans guys like HFCs and mortgage lenders like Five-Star, we didn't see any big pressure at all, and we'll be bouncing back in the quarter of September, whereas the unsecured lender will take a little bit more time to bounce back. So, there was a heat in election, heat in weather, and like I said, seasonal expense of school seasons in the month of June, all put together would have affected the minds of the customer. Generally, if a customer's mind get affected, they show it in the unsecured loan. That's my 20-years experience. So, they will not show it in the secured loans. But having said that, I never denied that our customers have not seen any slowdown in the cash flows, they have seen the cash flows slowdown, no doubt about that because of the two factors what I said. But they will bounce back in the quarter of September and going forward. So, we will be very comfortable going forward.

Moderator: The next question is from the line of Dinesh from Finsight. Please go ahead.

Dinesh: I joined a few minutes late. Maybe you have answered this previously, but I just wanted to know how your employee addition program has been in this quarter because I just see the number has been pretty flat quarter-on-quarter, so how do we see for this year and going forward?

Lakshmipathy Deenadayalan: Dinesh, yes, you are right. The number of branches have gone up, the number of officers are almost flat. This is what the commentary what we have been saying in the last two quarters that the split branch, the cluster branch approach is work underway. So, that's where you see number of branches more, but no big operational cost or officers getting added here. And just to recollect you, Dinesh, whether you have been tracking Five-Star for last four, six quarters, I don't know, we used to have a full-fledged collection vertical during the months of COVID, that helped Five-Star to have a good asset quality and slowly and steadily we are moving that good numbers of collection team to convert into business. So, that is also being done side-by-side. So, both put together, as per our commentary as per our guidance what growth that we intend to do in this quarter, accordingly the addition of officers is been done.

Dinesh: But can we expect at least the previous trend which we have seen in the past, would that continue henceforth maybe because once you add more number of branches or you split branches obviously would need some extra manpower there, right, to get more loans for disbursal?

Lakshmipathy Deenadayalan: So, two things will come into play, Dinesh. One is when a collection officer gets into business, more number of files gets logged in and more disbursement will happen. That will be done, but I am saying it will be slow and steady, we are not in a hurry to convert everyone, we are converting wherever we see good traction in collection so that collection people moves into business. That's point #1. Point #2, as I said in an earlier question, 70 to 90 new branches will be formed in new locations, mostly in the South and good numbers in the rest of the country. Those number of officers will be a clear addition to Five-Star in this financial year.

Dinesh: But will that lead to any increase in operating expenses, or we would expect the OPEX as a percentage of AUM to remain fairly flat going forward?

Lakshmipathy Deenadayalan: Our cost to income, which is a clear metric of measuring what is the cost that you incur for the income what you get is at 34-point something in this quarter. We will remain at 35%. That's the guidance what we have been given to the market and there will not be any increase or decrease in this number.

Moderator: The next question is from Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Sorry, joined in late, not sure if that got answered, but if you look at the AUM vintage, maybe that is now getting more skewed towards the lower bucket in terms of one to four years. So, is it more in terms of incrementally we have changed the tenor, or this is more in terms of the repayment which are happening and what the proportion is left on the AUM that is showing that kind of a vintage because the disbursal growth run rate is also relatively low?

Srikanth Gopalakrishnan: So, Kunal, I think the answer is in the last statement that you made. It is primarily because of the incremental disbursals that we are doing. There is a little bit of the run-off impact, which is there, like we said, while we onboard the loans for six to seven years tenure at the time of origination, the typical behavior in tenure works out about 4, 4.5 years. So, a loan which typically would have been given let us say in 2019 or so, should have ideally been repaid by now at a portfolio level, there will be loans obviously, but at a portfolio level it will not be a very significant percentage and with the newer loans especially the last couple of years, the growth has also been good. So, with the newer loans getting added, you will probably see the proportion of newer vintage loans being higher. I did answer a question earlier in terms of our experience from a static pool perspective where we are seeing very good traction on the newer vintage loans given our focus on D1C1 collection efficiency. So, it is not like you're probably going to see NPAs or losses that you probably saw, let's say, on a portfolio which was four years back. The newer vintages are coming with a much lower probability of default, much lower loss given default. So, even the static pools on the newer vintages will not cross 2, 2.5% of NPAs in a peak scenario, which we are expecting to be around 3, 3.5 years.

Kunal Shah: But in terms of contract tenor, that is something which we have not tweaked and still continues.

Srikanth Gopalakrishnan: Yes. We have not tweaked.

Kunal Shah: And looking at that in terms of the borrowing, so maybe the ALM there is a clear maybe 10% decline in that tenor. Are we realigning the borrowing profile towards the lower tenor bucket, and just maybe as you explained, there was some benefit which has come to do in terms of the borrowing cost which you will tend to pass it on in terms of the lending rate, but maybe shifting this borrowing towards the lower tenor, would it further help in terms of the overall borrowing?

Srikanth Gopalakrishnan: Kunal, while it may help on the overall cost, I think we are very clear that we want to be at a matched ALM, we don't want to carry that much of a mismatch. So, given that our behavioral tenors are around 4, 4.5 years, even our borrowings are more like four to five years on an average, while there are few entities which give seven years and all that, but generally they are about 4, 4.5-years and we are not looking at going too much down to the shorter tenor. So, we will ensure that we borrow similar tenures. So, we are not looking at too much of cost benefit to come in because of borrowing for lower tenors and allowing any kind of a mismatch on the ALM to be there. So, we will continue to borrow at around 4-5 years average tenor which is the behavioral tenor of the assets as well.

Kunal Shah: And lastly, you indicated that maybe running the CIBIL that again would be more of a academical exercise, but given what is being heard in terms of customer over leveraging, would we take some initiative this time because it's been heard across the industry or would we still wait for in terms of our 31 to 60, just to ensure that whether it's reflecting in there and then take the action, because I think there is a stress, it is building up. So, would we think maybe at least in terms of having some maybe guardrails out there?

Rangarajan Krishnan: Kunal, we can do this exercise, but I don't know practically can we with the information that let's say an ex-borrower has taken more monies, will you have the ability to go and control the borrower, that's the question. You may have the knowledge. But I think if you are confronting the borrower with this information, the borrower will say, yes, I have taken this loan, but as long as I repay your loan, what's your problem? I think if such a question is directly asked, there is no answer. So, we do keep monitoring this at pockets where we are expecting some stress to happen. But in 100% of the top up cases or let's say in cases where at the regional level we are potentially seeing some stress, we can definitely do this and make some policy level changes if need be.

Moderator: The next question is from the line of Pranav Gupta from Alpha Investment Advisors. Please go ahead.

Pranav Gupta: What I was trying to understand is this branch expansion strategy that we have for this year, almost 50% of which will come from splitting off large branches. Is this trend sort of going to continue for the next 3-4 years or is this something that we just see in the near-term, post which you will start opening newer branches rather than splitting a larger part of our branches?

Lakshmipathy Deenadayalan: Yes, Pranav, I think it all depends upon the number of super branches and bigger branches what we have in Five-Star. It's close to 200 to 225 branches, if I am right. Those are the branches that we intend to make it a ideal branch. Ideal is a very clear terminology where we find that ideal branch will run through for next three years without any risk into it. It's not that the entire 500 branches will move towards split, it's only the bigger branches I think will be completed in a 12-month period. So, we have already started it, maybe in the next 9 to 12 months period, this exercise will be perfectly done. So, that's the commentary that I can give now. In case maybe six months later, I can revisit what has happened in that.

Pranav Gupta: Second question is on Tamil Nadu. So, you mentioned that Tamil Nadu was not able to catch up in terms of growth over the last year, but you're confident that this year it will sort of catch up. But if you look at last year, are there any specific issues that we saw for the state, maybe attrition that is something that a couple of other players in that geography mentioned or maybe some overleveraging of customers in certain pockets, is there something that we can point towards for last year, could you help us understand that better?

Lakshmipathy Deenadayalan: Pranav, nothing new. That's what I have seen because I said I met each and every member of Tamil Nadu team last month and previous month too. So, it's a general phenomena that Tamil Nadu is one of the best performing states for any lenders. So, you'll see every bank and NBFC having their presence in Tamil Nadu. So, it's nothing new that has happened anything in Tamil Nadu. Andhra and Telangana, maybe we are very, very good. So, those two states are catching up rightly good. So, Tamil Nadu was not able to match that speed. That's what I meant. There was no lesser speed in Tamil Nadu. If you compare Tamil Nadu on a yearly basis, there's nothing lesser in what they have been doing. While comparing with other two states, their catch up was slower is what I mentioned and that difference of catch up will be narrowed in this year. I am very confident from Tamil Nadu's perspective.

Pranav Gupta: One clarification. You mentioned that for the digital push or payments through digital methods, we sort of mandated a UPI auto pay. In case the customers EMI bounces because of lack of balance or any other reason on the UPI payment mandate, do we charge any fees or is that something that we don't do at all?

Rangarajan Krishnan: We do charge a bounce charge for any UPI or a NACH mandate which gets bounced.

Pranav Gupta: And the charges will be same?

Rangarajan Krishnan: It is the same. We charge Rs.500 per bounce and it is the same for any mandate which gets bounced.

Moderator: The next question is from the line of Sanjay Chawla from Denison Investment Managers. Please go ahead.

Sanjay Chawla: I have got a couple of questions. Can you indicate what is the target leverage ratio? Currently, it is rather low at 2.3x. And the second question which is a related question is what combination of dividend policy, ROE and AUM growth you expect, that would take you to your target leverage and by when?

Lakshmipathy Deenadayalan: I have said several times. Let me repeat it. At a steady state, steady state means 2-3 years down the line, we intend to be somewhere close to 3.75x to 4x leverage. I am talking about leverage perspective, not debt-to-equity, debt to equity means it will be 2.75 to 3 and leverage of 3.75 to 4. That's where ideally Five-Star wants to fit into it. So, that will take another 2.5-3.5 years from now to reach that stance. While doing so, our spreads will be close to 12% to 13% and NIMs will be close to 14%, 14.5%, 15% and that eventually translates to ROA of close to 7% and ROE, which will go beyond 20%. That where we guide the market in the steady state and we are very clearly right on the trajectory what we have been talking to the market and we are very confident of reaching it ahead of time itself, but, let me not take it up in this point of time, it will be next two and a half to three and a half years where we will reach this leverage, ROA and ROE. From a dividend perspective, I think we also gave a last answer to one gentleman who asked me in last earning call. You will hear good news very soon. Let me repeat the same to all the individual shareholders, you will hear very good news very soon.

Sanjay Chawla: You are obviously indicating that 20%-plus ROE business and getting to that leverage in 3-4 years, let's say. An AUM growth you're probably looking at 25% CAGR. Am I correct on that?

Lakshmipathy Deenadayalan: So, we are looking at 30% CAGR growth for the next two to three years.

Sanjay Chawla: You will have to pay a substantial dividend to actually get to that leverage ratio in three, four years, I mean maybe 40%, 50% payout on your profit. Is that something a combination you're looking at to get to your target leverage?

Lakshmipathy Deenadayalan: Right now, we are not looking dividend payout from a leverage perspective. It's a board's call that board will take a right call. If the leverage is little lower also, but nothing to worry, our ROE guidance what I have said that +20%+, we will reach very comfortably.

Moderator: The next question is from the line of Hemant Patel, Alder Capital. Please go ahead.

Hemant Patel: Just notice that when I look at it from an AUM to branch Tier, your proportion of semi-urban allocation which is Tier-5 and Tier-6, I mean has increased from 58% two years back to around 70%. It seems like there is an inclination towards a lot more on the semi-urban side. I just wanted to understand what's driving this inclination. Second, when I look at it from an RBI classification of rural which is 10,000 below pop, right, just wanted to understand what proportion of this Tier-6 caters to that segment of that market, is there a white space, is there something that you would look at going ahead as you expand your book?

Lakshmipathy Deenadayalan: Yes. Hemant, the Tiers what we indicate is our own classification. Tier-3, we call it as 20 lakhs plus population and Tier-7 we call as 25,000 plus population. That's our internal metric, nothing to refer to the commonality what other lenders do. Maybe we will align going forward with what the terminology that other people refer to. But even Tier-7 where we are now starting our presence, it has a 25,000-plus population in that region. So, we are not looking into a 10,000 population at all, we don't want to get into that kind of rural market as of now because there are plenty and plenty of available spaces for us to move the customers from informal to formal. So, Tier-5, Tier-6, Tier-7, these three will be the driving force for Five-Star at least for next 24 months is what I think.

Hemant Patel: Tier-7, what proportion that would be of the overall AUM?

Lakshmipathy Deenadayalan: So, Tier-7 we have just started I said. Even that is around 20,000 plus population. So, predominant our presence is will be at Tier-5 and Tier-6. Tier-7 has just started.

Srikanth Gopalakrishnan: Tier-3 to Tier-6 will be the major portion, 95%+ of our book will be from Tier-3 to Tier-6.

Hemant Patel: Yes, but I just was pointing this question towards the inclination to move more towards it. I mean, is it because you feel that the competitive intensity is more if I were to put it in urban areas versus semi-urban areas where you are actually heading towards lot more in terms of granular presence?

Lakshmipathy Deenadayalan: Yes, slowly the penetration will be happening in Tier-1, Tier-2, Tier-3 cities. So, if you see Tier-3 cities also, we are not very fond of. So, since you are not fond of Tier-3 cities, the alternative what we are seeing where the files are coming from, where the customers are coming from, it's clearly towards Tier-5, Tier-6. So, that's where we will be moving towards. And we want to keep ourselves closer to the customer. There is no need of keeping your branch in Tier-3 and sourcing your files from a smaller location in Tier-5 and Tier-6. Better we keep our branch in Tier-5, Tier-6 location and call those branches Tier-5, Tier-6 locations. So, that's the thought process that we are currently in process.

Moderator: The next question is from the line of Dinesh from Finsight. Please go ahead.

Dinesh: My question is a very simple book-keeping question. What's the total number of diluted shares outstanding we have right now as of Q1? And what's the ESOP plan we have for the next few quarters and years?

Lakshmipathy Deenadayalan: Dinesh, can you repeat the first one?

Dinesh: The total number of diluted shares outstanding as of this quarter.

Srikanth Gopalakrishnan: So, diluted shares is about 29.5 crores.

Dinesh: And what's the ESOP plan for the next few quarters, like do we have any major SBCs?

Srikanth Gopalakrishnan: So, we had approved an ESOP plan about a few months back, Dinesh. So, that will be given. So, right now we have enough both in the older plans and the newer one that got approved a few months back. So, we will use that to incentivize our people. If there is a need at a later point of time the board will deliberate and then we'll come to the shareholders, but nothing on the anvil right now.

Dinesh: Nothing more share dilution, right, apart from this, what we have already planned for, right, is that right?

Srikanth Gopalakrishnan: Nothing is on the anvil right now. 29.5 crores is taking into account all the dilutions, so nothing on the ESOPs right now.

Dinesh: And my last question is on Maharashtra. We don't see, Maharashtra being such a big capital intensive and growing economy, almost on the verge of being 1 trillion now in the next few years. Why are we not expanding so aggressively in Maharashtra?

Rangarajan Krishnan: So, Maharashtra, you will see us expanding very clearly this year. We were taking a little bit of a pause in Maharashtra because of COVID issues. But I think in the last two years, Maharashtra has performed very well for us. This year is an expansion year for Maharashtra. You already see us putting a good number of branches. Definitely I think from this year onwards Maharashtra will become a key market for us.

Dinesh: On average loan what we gave book value, that will remain same in Maharashtra, right, or will you go on a more conservative basis, okay, we'll start with the lower value and then increase it, like how are you thinking about it?

Rangarajan Krishnan: No, so far I think across all the states, we don't have a differentiated strategy from a product perspective. At origination, the LTV across all the states will range anywhere between 40% to 50% depending on the merits of the case. So, Maharashtra is no different from that perspective.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question. I now hand over the conference to Mr. Sameer Bhise for closing comments.

Sameer Bhise: Thank you very much everyone for joining this call today. Thank you to the management of Five-Star Business Finance for giving us the opportunity.

Lakshmipathy Deenadayalan: Yes, thank you, Sameer for taking us through and thanking you all the shareholders for your wonderful questions. If any question outside, please feel free to connect us directly so we can give you the clarity. With this, we will end this Q1 Earnings Call.

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