FIVE STAR
Business Finance Limited

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 and year ended March 31, 2025.

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 April 30, 2025, for the quarter and financial year ended March 31,2025

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

Vigneshkumar S M
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Date: 2025.05.07 19:15:09 +05'30'

Vigneshkumar SM
Company Secretary & Compliance Officer

"Five Star Business Finance Limited

Q4 and FY '25 Earnings Conference Call"

April 30, 2025

MANAGEMENT: **MR. LAKSHMIPATHY D. – CHAIRMAN AND MANAGING DIRECTOR – FIVE STAR BUSINESS FINANCE LIMITED**
MR. RANGARAJAN KRISHNAN – JOINT MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – FIVE STAR BUSINESS FINANCE LIMITED
MR. SRIKANTH GOPALAKRISHNAN – JOINT MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER – FIVE STAR BUSINESS FINANCE LIMITED

MODERATOR: **MR. ABHIJIT TIBREWAL – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Five-Star Business Finance Limited Q4 and FY '25 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijit Tibrewal from Motilal Oswal Financial Services Limited. Thank you, and over to you, sir.

Abhijit Tibrewal: Yes. Thank you, Manav. Good morning, everyone. I am Abhijit Tibrewal from Motilal Oswal, and it is our pleasure to welcome you all to this earnings call. Thank you very much for joining us for the Five-Star Business Finance call to discuss their Q4 FY '25 earnings. To discuss the company's earnings, I'm pleased to welcome Mr. Lakshmipathy Deenadayalan, Chairman and Managing Director; Mr. Rangarajan Krishnan, Joint Managing Director and CEO; Mr. Srikanth Gopalakrishnan, Joint Managing Director and CFO.

On behalf of Motilal Oswal, we thank the senior management of Five-Star for giving us this opportunity to host you today. I now invite Mr. Pathy for his opening remarks. With that, over to you, sir.

Lakshmipathy D.: Yes. Thank you, Abhijit. Good morning, everyone, and welcome, everyone, to Q4 and for the full year earnings call. I'm happy to say we have done a commendable performance for the full year and in the last quarter. As I said in my last earnings call, financial year '25 was a challenging year, both from business and regulatory environments. We at Five-Star, had forecast it well and done all the needed precautions.

Our proactive decisions on growth and lowering the yields has helped us to navigate the tough times. Our focus was on quality growth rather than just growth. With these opening remarks, let me take you through the operational performance of Five-Star. We have opened 19 branches in Q4, and our total count stands at 748 branches as of 31st March.

For the full year, we have grown from INR9,641 crores to INR11,877 crores AUM at 23.20%. If the disruption in Karnataka from January to March was not there, we would have done our guidance of 25% growth, which I said in last earnings call. Disbursement grew 9% year-on-year and 55% quarter-on-quarter, which indicates the business environment are better now.

So we are back with quality growth. On collections front, our unique collections metric was at 96.2% in Q4 versus 96.7% in Q3 and collection efficiency was at 97.7% in Q4 versus 98% in Q3. There was a small dip due to disruption in collections in Karnataka from January to March. On NPA side, the gross Stage 3 assets have inched up from 1.62% to 1.79% in Q4.

Again, Karnataka has played a part on growing this NPA from 1.62% to 1.79%. Having said that, I'm very confident that this will get stabilized in this next quarter. And still, I can say that we have one of the good asset quality for the profile of customers whom we lend an average ticket size of between INR3 lakhs to INR5 lakhs. We stand one of the best asset quality lenders in the entire country.

On the cost of borrowing, our incremental cost of funds have dropped to 9.29% from 9.56%, nearly 27 bps drop. This shows the confidence that lender has on Five-Star and the rates are starting to come down. The cost of borrowing on the book is at 9.63%, same as last quarter. On profitability, I'm again happy to announce we have touched 4-digit profit after tax for the first time in the history of Five-Star.

For the full year, we have done INR1,073 crores PAT against INR836 crores PAT for the financial year '24, registering a growth of 28%. To commemorate this achievement, the Board also recommended a dividend of INR2 per share, which works out to 200% on face value and translating to a dividend payout of 5.5%, which is roughly around INR60 crores on the total profitability of INR1,070 crores.

I would also like to assure that this would not have any major impact on our capital adequacy and our need for capital in the future. With this, let me close my initial remarks and hand it over to Srikanth for getting into more details. Thank you.

Srikanth Gopalakrishnan: Very good morning to all of you. As Mr. Pathy said, I think given the headwinds that we have been witnessing, our results are quite commendable. We have been seeing headwinds both in the form of overleverage and also the disruption in Karnataka, especially in the last quarter. Given this context, and obviously, the results will need to be looked at from this context, the results are definitely healthy and commendable.

To get into some details, as of March '25, we had an active loan base of more than INR4.5 lakhs. This represents a growth of 19% on a year-on-year basis in the borrower count. We ended March '25 with a branch count of 748 branches. We have added about 228 branches over the last 12 months, but this is largely due to the split branch strategy that we had undertaken, where bigger branches were split into smaller ones or newer branches from a risk management perspective.

Disbursements saw a growth of 9% year-on-year and 55% on a Q-o-Q basis. We consciously slowed down disbursals in Q4 to get to our AUM guidance of 25%. And this quarter, we are back on track on disbursals. So the one quarter has not really had any impact on our disbursals. Our ability to pull back the disbursals has been demonstrated in the last quarter.

AUM grew by about 23% on a year-on-year basis. If not for the Karnataka disruption, we would have definitely achieved our guidance. But again, like Mr. Pathy said, I think we are an institution that focuses on quality growth and not growing for the sake of growth. We ended March '25 with an AUM of slightly short of INR12,000 crores.

We ended with INR11,877 crores. From a yield perspective, our yields gradually keep coming down. As you would recall, we had dropped our lending rates by about 200 basis points for all incremental loans from November, which will have an impact on the yield. So for the quarter, the yield dropped to 23.7%. The spread remained healthy at about 14.1%.

There was no movement in the cost of funds because most of the funds that we took, we had taken in the last week of March. So despite the incremental borrowing coming at a lower cost, this has not reflected on the book yet. But the good part is it will start reflecting on the book, resulting in better spreads.

The NIM also dropped because of yield drop, coupled with some increase in leverage. So the NIM dropped to 16.84% as compared to 17.19%. The cost to income, despite the headwinds that we are seeing, despite the credit costs that you see, our cost to income, inclusive of credit cost still stands at less than 37%. It's at 36.63%, which is well within our guidance of 35% to 37%.

It had inched up a little bit because typically, in Q4, we also take some provisions for incentives, for certain conferences that we will conduct for our employees. So given this, typically, the Q4 expenses will tend to be slightly elevated. This has resulted in an ROA of 8.04% for the current quarter. ROE continues to remain healthy at 18.36%.

From a borrowing perspective, we have about 47 lenders who have lend to us. What we had committed to you about 4 quarters back that the company has been looking at diversifying its borrowing base. I think it's clearly showing very strong traction. We had dropped our borrowing from banks. The proportion of borrowing from banks has come down from almost close to 80% to 63% as of March '25. So we had about 63% of borrowings from banks. And in the last quarter, we had received incremental debt of about INR700 crores. So we availed about INR1,100 crores primarily on account of some older sanctions that we had. And this came in at an all-inclusive cost of 9.29%, which is 27 basis points lower than the incremental -- the cost of incremental debt that we had in Q3. We continue to carry good amount of liquidity on our balance sheet. We had a liquidity buffer of close to INR2,300 crores and unlimited sanction lines of INR100 crores as of March '25.

The collection efficiency did drop a little bit. But if you look at it from a contextual perspective, the drop is not very material. There was a 30 basis points drop in overall collection efficiency and about 0.5% drop in our unique customer collection efficiency. There has been a slight increase in NPA from 1.62% to 1.79% on a quarter-on-quarter basis. Again, a slight inch up in the Stage 2 assets as well. But what is also important to note is that we are carrying a healthy PCR on our overall book as well as on our Stage 3 assets.

Our Stage 3 PCR remains at 51% and our overall PCR remains at 1.63%. So given the situation, we continue to create appropriate levels of provisions on our books that can sort of insulate the company from any shocks in the future. All of this resulted in a PAT of INR279 crores, representing an 18% year-on-year increase.

For the full year, like Mr. Pathy said, we have crossed a PAT of INR1,000 crores, which is a really memorable achievement and an extraordinary achievement in the life of any company. We had a net worth of over INR6,300 crores as of March. So I think we are very, very healthy from a capital perspective.

There has been a little bit of asset quality impact. But if you look at it from a contextual perspective, I think we have delivered quite healthy results. What gives us confidence is the easing of interest rates, which will definitely mean lower cost of funds. The tax sops that have been given for the middle income people, which means there will be more money in the hands of people for consumption as well as investment, which means our borrowers' businesses will go up.

So I think this definitely we should start seeing the demand picking up. This will result in a healthy growth, good asset quality and a strong profitability for the company in the quarters to come. So with this, we will end our remarks. Happy to take any questions.

Moderator: Thank you very much. We have our first question from the line of Mahrukh Adajania from Nuvama Wealth. Please go ahead.

Mahrukh Adajania: I had a couple of questions. Firstly, you did mention the impact of Karnataka on collection efficiency. So is that the only reason why your X bucket and even your total collection efficiency is lower Q-o-Q? Is that the only reason? And how do we look at it going ahead, especially after the Tamil Nadu ordinance? So that's my first question. And then I have a few more questions.

Lakshmipathy D.: Good morning Mahrukh, yes. You're right. The impact of Karnataka ordinance was completely unexpected. No one was prepared for that. So till mid of Jan, things were as normal. So by the end of Jan, the draft ordinance came into picture. And the ordinance were introduced in the February month that had an impact till 10th or 15th of March.

So we have bounced back very well in the month of March itself. And this month, we are bouncing back better. That is one major reason. Another general reason is the overleverage crisis, which we have been talking for last 2 quarters is still prevailing. It's not that completely they have gone.

But I'm very happy to say that small ticket lenders, both from fintech and microfinance, they have stopped substantial lending to this segment. So the overleverage -- the threat of more overleverage is gone now. That's why if you see our disbursement and business were back as usual. So I will say 2/3 contributed from Karnataka and 1/3 contributed in general.

Mahrukh Adajania: Okay. So is that -- will that 1/3 ease anytime soon or it will take time only?

Lakshmipathy D.: As I mentioned in last earnings call, let me recollect what I have said is, I think the guardrails, what microfinance and other small lenders have put in place has to first put in -- has to come into act. I think I have heard something in last week saying that, that is deferred to 1st June or 1st of July, whatever it is. So I think that is the first indication that the overleverage is completely stopped and more leverage comes down gradually.

So I'm expecting at least from the June month or the July quarter, the small ticket lenders, unsecured small ticket lenders, they follow the guardrails what they have -- the self-regulated organizations have been put in place. So I think that's the first indication I'll be looking very keenly.

Second, I think since I have been saying that even though we lend between INR3 lakh to INR5 lakh ticket size, we are fully secured. So the behavioral aspect of customers remains completely different when they handle secured lenders. So I think we will be navigating this crisis with a healthy collections that has been shown on quarterly and monthly. So this will be prevailing for at least for next 2 quarters is my guess.

Mahrukh Adajania: Okay. Got it. And just in terms of your guidance, now AUM growth will settle in the 25% range? Or do you see it picking up to 30%, maybe 2 years because the size still remains low, right? So how do you view your...

Lakshmipathy D.: So this year also, I think we are giving a guidance of 25% what we gave last year after October till things get settled. So we have to see how the new Tamil Nadu ordinance, which have passed, but we are well prepared in Tamil Nadu. It's a home state for Five-Star. We can handle any kind of situations here. And let me tell till today morning, the situations are completely under control. There's nothing that -- whatever you have seen in Karnataka, nothing has happened until now.

But this is a state of bigger banks and bigger NBFCs. I think state government will be very clear. And as I read the initial draft bill, the regulated entities like banks and NBFCs are completely excluded from this ordinance. That's what the bill said. We have to deep dive into the bill and see what are the implications. There will be some kind of disruptions, but not like what we've seen in Karnataka. That's the confident statement that I can give.

Mahrukh Adajania: Okay, sir, sir. And I have the last question. How do you look at cost of funds from here on as in that when we build out for the future for FY '26 rebuild and how much lower?

Srikanth Gopalakrishnan: Mahrukh, I think what is currently coming out is, see, especially the first repo rate cut that happened, there has not been much of pass on by the banks through lower MCLR. But after the second rate cut, we have seen banks already starting to drop their SA rates and deposit rates are also going down, which is a logical point for the MCLR drops to follow.

So -- and the other point is also that over the last few days, the expectation of the market in terms of interest rate drop during this year has gone up quite a bit. Originally, we were all thinking 50 to 75 basis points. But today, I think people are talking a lot higher. So our belief is that on an incremental basis, we should at least see 25 to 30 basis points of benefit coming through to us.

We also have about 65% of our book, which is variable rate, out of which roughly it is 50-50. MCLR linked will be about 50% and EBLR linked will be about 50%. So even these should start getting -- we should start getting benefits on reduction because of MCLR drops.

So my sense is I think we should see a good reduction in cost of funds, both in -- on the incremental debt as well as on the book in the next year to come. What is that proportion at this point of time, we'll just wait for banks to come down with their thoughts on the MCLR. But I think it should be a fairly sizable number is our hope and guess.

Moderator: We have our next question from the line of Raghav Garg from AMBIT Capital.

Raghav Garg: Firstly, I just wanted to understand your thought process on the ECL provisioning. Stage 1 and 2 provisions have come down despite stress rising. So I just wanted to understand that wouldn't it be prudent to provide more or create some overlays in such a scenario?

Srikanth Gopalakrishnan: Raghav, we are creating good amount of overlays. The only point is, if you really look at our PD and LGD rates, these are fairly low. In fact, our LGD, on one of our biggest segments, will be sub-20%. So when you have a sub-20% LGD, that means you are effectively going to be creating only 20% provision on your Stage 3 assets, right? But if you look at our Stage 3, we are carrying 51% of provision.

Obviously, we want to be conservative, and there is also some bit of input from the Reserve Bank of India on this where they are sort of expecting the NBFCs to keep their provisions on Stage 3 at around 50%. So a lot of our overlays actually go towards the Stage 3 assets, which means you can't keep creating too much overlays on your Stage 2 as well.

But this quarter, we have also created a good amount of overlays on the Stage 2 assets where, let us say, a 0 DPD customer at the beginning of the quarter did not pay any installment during that particular quarter, we have created overlay on such customers. So there's a small portion of such customers because of the overleverage and Karnataka disruption, we have seen during this quarter.

So there, we have created overlays. But given the low PD and low LGD, there is a little bit of a constraint in terms of creating too much overlays on Stage 1 and 2. See, Stage 3 is relatively easier because if there is a deep delinquent account, we can just overrule the LGD and create 100% LGD on that.

But that becomes a little difficult to justify when it is a Stage 2 account. And in the Stage 2 account, the proportion is also high. So you start creating an overlay, which adds to too much of provision. See, our belief is a provision of 1.5% to 1.7% is a very strong provision for a secured loan portfolio like ours. Now how do you distribute this 1.5% to 1.7% is what the company takes a call in consonance with the Board and the statutory auditors.

So there will be some ups and downs that you'll probably see in Stage 1 or Stage 2. But I think this is a consistent messaging that we've been giving for the last few quarters. In fact, last quarter also, I said that we will be more focused on the overall provision coverage rather than being -- rather than nitpicking too much on what should be the Stage 1, Stage 2 and Stage 3. Stage 3 is a little bit regulatory driven. So we will probably maintain around 50% on Stage 3. The balance will be given to Stage 1 and 2.

Raghav Garg: Understood. That's fairly clear. The other question is, why has the ticket size gone up this quarter? Is that entirely an impact of low disbursements in Karnataka? And is that it? Or there's something else to it? Because I think in the last couple of quarters, you mentioned that you will try to contain your ticket size, right? So in that context, I just wanted to understand this a bit better.

Rangarajan Krishnan: So Raghav, the ticket size going up is a very conscious strategy. So we have been guiding over the last few quarters that in general, if you look at it, Five-Star's ticket size will be trending more towards INR4 lakhs to INR5 lakhs rather than being around INR3 lakhs. Pre-COVID, we were about INR3.5 lakhs, and we were guiding you that the ticket size will grow at least at an inflationary rate year-on-year.

So more and more, I think the sweet spot for Five-Star seems to be between INR5 lakhs to INR10 lakhs rather than consciously focusing on very, very small ticket size of sub INR3 lakhs. So sub INR3 lakhs also even this overleveraged crisis exposed very clearly that people at sub INR3 lakhs are the people and the vulnerable segments which got most affected because of the overleverage.

So there is a conscious strategy at least in terms of incremental disbursements can we move more and more towards a little bit higher ticket sizes and thereby get the overall average ticket sizes up. So this is something that you will see trending in Five-Star even in the future. I don't think we are changing our customer segments because we were -- earlier, we were present in this segment.

But just that the importance and the focus that we are giving to this ticket size segment is a little bit higher than what we used to do earlier. So I think the average ticket sizes will tend to move up and go closer towards INR4.5 lakhs, INR5 lakhs as we see in the next few quarters.

Raghav Garg: Understood. No, the only reason I'm asking is because the -- specifically, you had stated that you would try to control the ticket sizes until the situation is over. So should we understand that things are improving at a faster pace than what you had expected initially, and hence, the call on increasing the ticket size?

Lakshmipathy D.: Gaurav, what Ranga said is the profile of customers remains the same, but we have started to pick a higher category of profile of customers in last few months. So if you see the addition of number of customers or loans to Five-Star stands at around 4% in last quarter, whereas the growth is at 6.25% in last quarter.

Generally, if you see earlier quarters, this -- both the numbers will go hand in hand. In this quarter, you see the addition of new customers to Five-Star stands around 4% to 4.5%, whereas the growth is around 6.25%. That shows the ticket size is slowly inching up to the better profile customers in this segment.

So it is not that what we said in last 2 quarters, increasing the ticket size of the same profile of customers to whom we have been dealing with, that we have still contained it, but we are picking the best -- better customers in the profile of -- in the category where we lend. And we will be within the range bound of INR3 lakhs to INR5 lakhs. That is the sweetest spot of Five-Star where you see lesser competition and really, it's a challenging underwriting and collection that has to be taken part. So there's no change in that.

Rangarajan Krishnan: Raghav, just one point to add in this is as we reduce the interest rates, it's also helping us be that much more appealing towards this slightly higher ticket size segment and more focused towards them. So a combination of all this is helping the ticket size improve a little bit as compared to previous quarters.

Raghav Garg: Understood. Okay. And do I have -- can I ask one more question, please?

Lakshmipathy D.: Yes, Raghav.

Raghav Garg: Yes. So any thoughts on pricing? This is a question that we keep getting very frequently. Any thoughts on reducing it further? Will you keep it here, I think not so much from a pricing point of view, maybe from a spread's point of view, what are your thoughts? I think right now, you're lending at 22%, right? Any thoughts of reducing it further.

Lakshmipathy D.: Raghav, in my initial comments, I said proactively, we have taken a call 2 quarters ago, reducing the rate of interest. I think that stands good for Five-Star. I think we have brought down on a sizable and good from a lending perspective, I don't see we will be doing it. But as Srikanth said, we will be expecting the bank borrowing to come down in this quarter.

As I said, comparing to last quarter itself, close to 25 bps have come down on incremental borrowing. Those incremental benefits what we get from banks, I think, we and B oard will take a joint call saying that how much it can be passed on to the new customers.

Moderator: We have our next question from the line of Adityapal Singh from MSC Capital Partners.

Adityapal Singh: Great performance. Congratulations to the team. So a quick couple of questions. When we look at the deterioration of the collection efficiency, so you highlighted in your commentary that some part of it was because of Karnataka ordinance and some part of it was because of cash flow problems or overleveraging problems in some part of our customer base. So if I were to say it, is it largely the 70 basis points drop in our collection efficiency Q-o-Q largely because of the Karnataka issue? Or there is some fundamental underlying problem with the cash flows of our customers?

Lakshmipathy D.: Yes. Aditya, I recall what I said to the earlier questions is, the drop in collection efficiency from 98% to 97.7%. It is a drop of 0.3%, just 0.3% quarter-on-quarter. That's predominantly due to Karnataka's 2.5 months effect. It started in January, and it -- now the normalcy is coming back strongly.

But in March month, we bounced back very well. So that is the 2/3 impact. And the balance impact is that, in general, the stress in the system still prevails. It is not increasing, but still it prevails. So gradually, you'll see some kind of collection dips here and there in some pockets from certain customers.

So both put together only that 0.3% drop you see in collection efficiency comparing to last quarter. And that general trend, I think, will still remain in next 2 quarters, not the Karnataka one. That is almost we are able to settle it very well. But the general trend in the system, especially in the middle and lower middle class profile of customers will be there for next 2 quarters is my guess.

Adityapal Singh: Understood. And just harping on the asset quality point again. If I look at all the asset quality indicators, be it Stage 2, be it par 30 plus, be it a GNPA with 1-year lag and 2-year lag, there has been -- on last 4 consecutive quarters, we've seen it deteriorating. How much would you say that this is because of the problem in the microfinance and unsecured loan part? Or I would say that the control has happened, that is that the guardrails that have come in because of which the growth has slowed down in these pockets?

Lakshmipathy D.: Aditya, our guidance, if you recollect our guidance for past many years and when we become listed, we said our gross NPA will be sub 2% because please understand we are not lending to the best of best profiles of this country. We are lending to our middle and lower middle class people where their underwriting is challenging and was challenging. As I said, even our asset quality has inched up to 1.79%, still I feel and I see which is one of the best asset quality to the segment of customers whom we lend.

So our guidance will be -- our Stage 3 assets will be sub 2%. That's where our guidance always stands. Having said that, the overall credit cost, our guidance will be sub 1%. This is where the range that we like to operate. And as someone indicated, our lending rate is at 22% and our return on assets are at 7% to 8%. So keeping that in mind, asset quality at 1.7%-ish is commendable position in the market.

Adityapal Singh: Understood. And sir, just last 2 questions. So when I look at the branches, so in Q1, we had added -- that is FY '25, Q1, we had added 27 branches. What was the split branches in that part in that number? And for FY '26, how many split branches are yet to be completed?

Rangarajan Krishnan: So Aditya, just on an overall basis, if you look at, we are close to about 750 branches. Now out of the 750 branches, we'll have roughly about 150 branches in just split branches. Now majority of the branches which got opened last year, last year, we opened 228 branches, out of which 150 branches are split. We had explained this in the past, and I'm just reconfirming that.

Adityapal Singh: Just wanted the data points.

Rangarajan Krishnan: Yes, I'm just relating the strategy again. The first part of what we wanted to do as part of the split strategy is any branch which has more than 1,500 customers, we wanted to focus on them and then split it. That part of the split is largely over. Now we have a few more branches between 1,000 customers and 1,500 customers.

This is the split that will continue to happen this year as well. But definitely, it may not be as high as what happened last year. So in general, we are good to open about close to 75 to 100 branches every year, including the split branch. So I think we will stick to that same guidance as far as this year is also concerned.

Adityapal Singh: Understood. And sir, this -- in the balance sheet, there's a capital work in progress of INR62 crores. And another last question would be that a new state has been added. If you can just help me understand these last 2 points.

Srikanth Gopalakrishnan: See, the capital asset is a building that we had purchased for construction of head office premises. So that will come up over the next few years because this is a place that we have purchased, you need to demolish the existing building and construct. So that is the capital work in progress that you are seeing there. I didn't understand. We have added the Gujarat state. What is your question?

Rangarajan Krishnan: He wanted to understand which state. We have opened Gujarat. We have the first branch there in Ahmedabad.

Moderator: We have our next question from the line of Renish from ICICI.

Renish: Congrats on good set of numbers. Sir, just 2 things. One on the sort of clarification side, I will take that first. See, in terms of ticket size and all, of course, you did mention that INR3 lakh to INR5 lakh will remain a sweet spot for us given the kind of yield and the credit cost. So on this basis, obviously, this will be the profit driver. But when we are saying that incrementally we move towards better quality and higher ticket size in the same customer segment to INR5 lakh to INR10 lakh.

So how one should think in terms of AUM mix changing over the next 2 to 3 years given there is a bit of a change in strategy. And obviously, INR5 lakh to INR10 lakh ticket size segment is more crowded than sub INR5 lakh ticket size, especially in TN when even large NBFCs are also operating in same segment at 16%,1 7% yield. So how one should think in terms of AUM mix changing? And also, will this have any corresponding impact on the yields, which are at 22% currently?

Lakshmipathy D.: Renish, so let me go a little deeper into it. As we stand today, the ticket size of more than INR10 lakhs constitute close to 10% -- sorry, 5% of our overall book, 5% of our overall book. And the majority of our book stands at below INR5 lakhs and some good amount of book stands at below INR3 lakhs. What we are trying to do is below INR3 lakhs segment, we are trying to be a little careful in these times and start focusing on the ticket size around INR3 lakhs to INR5 lakhs more. So that is the first scenario.

That is why you see the ticket size have gone up a little INR50,000 from quarter-on-quarter. But having said that, what Ranga mentioned was, we will be also focusing on above INR10 lakhs cases, but not in a big way. Maybe the overall above INR10 lakhs, which stands at 5% now can go up to 7%, 8% in the next 1 year or 2 years.

Srikanth Gopalakrishnan: Renish, just want to add, I think more than the focus that we give on greater than INR10 lakhs, the focus will be a little more on INR5 lakhs to INR10 lakhs. So what you're seeing is about 13% of INR5 lakhs to INR10 lakhs today. That can even -- so -- and what is sub INR3 lakhs today, which is roughly at about 32%.

If we are able to move about 5%, 10% of our book from less than INR3 lakhs proportion to INR5 lakhs to INR10 lakhs. So the way you probably look at it is less than INR3 lakhs will be more around, let's say, a 20% level and more than INR3 lakhs or 3 lakhs to INR10 lakhs will be the large portion of our book. Today, you have 1/3 of our book in less than INR3 lakhs. I think we want to cut that to maybe around 20% or 25% in the near future.

Lakshmipathy D.: On the pricing side also, as we said, the yields drop, what we did 4, 5 months back, that will also help us to get into a better ticket size segment. And more focus will be on INR3 lakhs to INR5 lakhs segment. That will be the predominant book of Five-Star.

Renish: Got it. Got it. So basically, we are not changing the strategy, maybe given the current time wherein below INR3 lakh is appearing more vulnerable. So we are sort of changing that mix to 10% between INR3 lakhs to INR5 lakhs and INR5 lakhs to INR10 lakhs. I mean that's the fair assumption, right?

Lakshmipathy D.: Yes, yes, yes.

Renish: Okay. Okay, got it. And now sir, secondly, on this Tamil Nadu issue, and I'm just sort of drawing lines from the product again, how it impacted our book, right? So given only 6% exposure in Karnatak, we saw at least a quarter facing a problem. And obviously, TN issue will be far lesser in terms of impact versus Karnataka. But at the same time, we are almost 30% in TN.

So how are you confident that Q1, Q2 sort of will be at par with your assumption in terms of credit cost and asset quality? Because when you are saying that we'll be able to maintain credit cost at 1%, essentially means that we are actually not factoring any of the issue from TN. So how one should read this?

Lakshmipathy D.: See, as I said in earlier question, the Karnataka was completely taken by surprise. So that circumstance is not prevailing in Tamil Nadu as we speak now. So none of our employees from Tamil Nadu branches have reached out to head office talking about this bill. So that means it's very clearly contained and people have understood that banks and NBFCs are excluded from this. But having said that, there will be some kind of pressure, a little bit of disturbance at the ground level. We can't say there is nothing can happen.

For that, we have to wait and see. Maybe 15, 20 days from now can emerge as a clearer picture in Tamil Nadu rather than today. But my hope and confidence is Tamil Nadu is the home of many big lenders, both banks and nonbanks, right? So we are well equipped here and the connectivity, branch setup, people, all are well equipped to handle any circumstance. And being a hometown, that gives me a confidence that we can handle it far, far better than Karnataka.

Renish: Okay. Got it. And sir, just maybe a follow-up on that. So maybe asset quality, collection, et cetera, might impact any sort of spinout as per our expectation. But just the thought that -- I mean, as a cautious stance, are we thinking to recalibrate disbursement in TN, at least for Q1?

Lakshmipathy D.: So as I speak now, we have not taken any decision on lowering the disbursement. The disbursement will be as usual in Q1 for Tamil Nadu. As I said, 15 to 20 days will give us a more clearer picture. If there is a need for that, definitely we'll be proactive on that.

Moderator: We have our next question from the line of Viral Shah from IIFL Capital.

Viral Shah: First of all, congrats on, I would say, a good set of results given the current environment that we are in. Sir, I had a few questions. Just first, one follow-up to your comment with regards to yields. Basically, you taking into account whenever the banks pass on their benefit.

Correct me if I'm wrong, but you had actually mentioned that you had proactively passed on this 200 bps of rate cut ahead of the, say, anticipated reduction. So with this reduction in cost of funds coming through, do we further anticipate, I would say, incremental yield lending rate cut over the next, I would say, 6, 12 months?

Srikanth Gopalakrishnan: So Viral, I think what we meant as proactive was driven by us. But if you really look at our cost of funds, let's say, 2, 3 years back and where we were when we dropped our yields, it has actually come down from about 11.5% to 9.5%. So there was a benefit that was required to be passed on to the borrowers.

The only point was given the uncertain times, interest rates were moving up or rather they were not cooling off, you were seeing risk weights having an impact on possible capital and interest rates. So given the uncertain times, we had actually been pushing. But then when we are seeing that the regulator might step in or is getting a little uncomfortable with the kind of rates that entire NBFC industry was operating at, we proactively dropped the rates. So that is what we meant by proactive.

Now we will definitely keep watching the space as and when we get a benefit that is -- that we believe is long-standing. See, in this segment, you cannot keep dropping the rates and then pushing up the rates on a quarterly basis or on a half yearly basis. Once you drop the rate, it has to be there for a long period of time.

So when we believe that the benefit in cost of funds is long-standing and permanent for us, definitely, on a proactive basis, we'll want to pass it on to the customers. So when we mean by proactive, it is not like at the instance of somebody. We want to do it on our own. So that's the intent.

At this point of time, again, just giving you a little more clarity, we believe that the rates that we are operating at and not just the interest rate, Viral, it's including the processing fees and others, what you call as the portfolio rate or the average annual percentage rate, APR. I think from what we understand is, we are at a range which is comfortable to the regulator also.

So there is no additional action that is required from the company's end at this point of time. We will keep evaluating the spreads. And if we see that the cost of funds is dropping materially and in a long-standing manner, definitely, we'll take the call to pass on that benefit. But our thought at this point of time is that maybe this may not be required for the next 3 to 4 quarters.

Viral Shah: Got it. This is very clear. And just one more follow-up on that. Now that the regulator has again reverted the risk weight on bank lending to NBFCs, do you anticipate and want to, say, again, go towards bank borrowings, given the advantage that it has being a floating rate book plus the relative ease of getting it?

Srikanth Gopalakrishnan: So your point is valid. In fact, we had a fairly detailed discussion internally on this yesterday at our Board meeting as well. So given that the regulator may not be too fussed about diversification. Obviously, internally, from a risk management perspective, we want to keep a diversified borrowing book.

So it's not like we are just going to go back to 80% of bank borrowing again. But yes, given that the regulator may not be too pushy and the fact that it's a declining interest rate scenario, which means bank borrowings will come in a lot cheaper. The risk weight has not really had an impact on us. Even when the risk weight increased, we were able to push back any increases that the banks wanted.

So I don't think that had any major impact. But with the interest rate cycle turning, definitely, bank borrowings will be a lot cheaper. If you look at our Q4, where we had borrowed, we have borrowed -- we have taken a lot of bank sanctions out of them, which is why you're seeing a 27 basis points drop in the cost of incremental debt.

So given that perspective, I think we will want to be a little more biased in favor of banks. So whether 63% proportion of banks will continue to keep dropping, it may not. Maybe we would like to operate at a 65% to 70% bank proportion, which will also give us a good benefit of the cost of funds.

Viral Shah: Got it, Srikanth. And 2 more questions, I would say for Mr. Pathy or Ranga. If you can see, if we just take a step back from all of this crisis, maybe it will take another 2 quarters or 4 quarters whatever it is, but does this structurally increase the, I would say, the TAM and the ability for us to grow given their, I would say, relative pullback in the credit availability for those bottom of the pyramid customers. And are you seeing some of that happening already given that we are now probably now 12 months into the cycle? Just some -- from a medium-term perspective, any color if you can give on that?

Lakshmipathy D.: We are very optimistic on total addressable market. There's no change on that perspective. But if you see the lower middle class people where the leverage has gone up, I think fairly for last 6 months, the extra leverage was not building up. To that extent, the credit which was flowing very freely to them, was completely pulled back, especially by the small ticket unsecured lenders, fintechs and microfinance.

So that we are able to see from our new applications which we are receiving on a quarterly basis. So that is a very encouraging signal. That is what I said. In Q4, the business environment is looking better, and this better will become better and better if you move quarter-on-quarter.

But having said that, the guardrails, what was being brought in by the MFI has to be implemented. If that gets implemented, 2 things will be positive for Five-Star. One is the credit demand will be high because usually what they were getting from micro finance, the supply is now coming down.

So that brings in a good quality of customers to pick and choose from even below INR3 lakhs segment. That is one positive. Second thing is the overleverage is contained. The cash flow remains healthy in the rural market, our collections will be stabilized.

Viral Shah: Got it. And on your comment, sir, with regards to the MFI guardrails getting implemented, has the 3 lender cap not been implemented? Because our sense was that it has already gone into effect from 1st of April.

Lakshmipathy D.: No. I think as per my information, what I have been received a few days back, it's been pushed to June or July. But I'm not into that point because you have to check with the micro finance organizations.

Viral Shah: Fair enough, sir. And sir, last, if you can just give some updates on our medium-term strategy to say, getting into another product, say, affordable housing, what is the thought process over there? Or is it too early right now to discuss that?

Lakshmipathy D.: I will not say it's too early because we have been discussing this product all the while, because it's 100% or more than that complementary to the existing product that what we have, mortgage loans to business and non-business customers. Definitely, you'll see some kind of strides that we do organically in Five-Star.

Maybe we'll at least start up that initiative in the later part of Q3 or Q4 of this financial year to begin organically getting into that product with our existing branch network. As you see, we have close to 7,000 employees in business and collections and 750 branches network spreading across more deeper in south. So I think that gives us an easy runway to get into this product, which we have been talking and thinking for a long part.

Viral Shah: Got it. Sir, in the -- then when you do that, at least in the initial stages, I know you will be utilizing the same branch network and all, but it will require some bit of additional resources and processes to be there. Should we anticipate, say, some increase in your opex or once you start that for, say, a year or so?

Lakshmipathy D.: Viral, that is too early to answer that. You asked my thought process. I told you the thought process. How we are -- we'll be planning at least a later part of this financial year. We have to look into it. So a lot of these things will be addressed at that point of time.

Moderator: We have our next question from the line of Madanagopal Ramu from Sundram Alternate. Mr. Madan, are you there? We'll move on to the next participant from the line of Divyansh Gupta from Latent Advisors.

Divyansh Gupta: One data point question. So what would be our non-collection employee count of that 6689. And the associated question is that if I look at per loan per business employee, at least in the last quarter, it was 1 loan per month. So does it mean that for any scale up, we will keep on increasing our head count? Or is there a headroom in increasing this productivity?

Lakshmipathy D.: So let's Srikanth and Ranga give the answer for the first one which you asked. On the second part, in general, when we move up to INR12,000 crores of AUM, the general metric was that employee, the AUM will be around INR1 crores to INR1.25 crores. That was our historical average. So we will be getting into that INR1.25 crores AUM per employee. So that's our endeavor. That's also one of the reasons where the ticket sizes are moving up will help us to get into that INR1.25 crores per employee zone. So that's our comfort.

Rangarajan Krishnan: Yes. Total number of business offices alone at the end of last quarter was 4,889. We also ended up disbursing last quarter, 37,855 loans. So if you look at it on an average, every officer is doing about 2.6 loans per month.

Divyansh Gupta: Sorry, you said 4,889, right?

Rangarajan Krishnan: Yes. 4,889 officers disbursing 37,855 loans, translating to 2.6 loans per officer per month. This is what happened in Q4. Yes.

Divyansh Gupta: Got it. Got it. Understood. The second one was that in the last con call, someone had asked and you had mentioned that our average CIBIL score is around 550 right? So if let's say, I divide this into a spectrum of saying NTC and more than 650 and whatever remains else. So what will be the distribution?

And is there a -- is this a specific, let's say, underwriting policy? And is this a part of the strategy itself to target a lower CIBIL customer because then other banks are not lending to him. He only has an option of going to a money lender and therefore, Five-Star wins with its products and offerings?

Srikanth Gopalakrishnan: Yes, I think the completely new to credit, we have been telling and December broadly remains flat at what we have been telling is about 25%. You will probably see about 10% of the -- 10% to 15% of people who are at 650 and above or maybe 700 and above. There will be at least 55% to 60% of our borrowers who are probably operating anywhere between 400 to 550 or 400 to 600.

So see, the people who are, let's say, 700 and above or those -- they are being catered to by the larger NBFCs, banks, they're getting higher quantum of funds, they're getting cheaper funds. So that is not the target market for us. Our target market is either a person who is coming to the formal ecosystem for the first time for this size of loan.

You could have borrowed a product loan like a microfinance or a gold loan. But for this size of loan and a secured loan, we are probably the first lender to almost 90% of our customers. So we will continue to focus on this segment, the 80% being NTC and people with some, let's say, 550 to 600 kind of a credit score because these are people where the target market is high, where we are able to command a slightly better pricing, leading to better profitability, and there are also not much alternatives available for them. So they will continue to be our target market.

Divyansh Gupta: And will this also be for our home loan or home loan because, at least in the LAP, there's a house that you can go and take, whereas in housing, he's actually putting in equity and building a house. And therefore, the collateral is not necessarily, I won't say perfect from a documentation perspective, but it's not ready, right? So will this change from a home loans perspective, if there is any thought on it?

Rangarajan Krishnan: Divyansh, 2 points. Firstly, I think definitely, the home loans profile should definitely look better than this because the yields are not going to be the same. So we cannot operate the same level of risk. If the risk reward has to work out in your favor, then obviously, we're going to target a slightly different set of customers from a home loan perspective. But like Mr. Pathy put it, we have enough time to think and put the product strategy for it. It's not happening at this point of time. We still have a couple of quarters away.

But broadly, the thought process is very clear that we cannot target the same set of customers here. But I think I also want to add a second perspective to what Srikanth just said. Just because we are going and targeting somebody with an average score of 550 does not automatically mean that the customer is a high-risk customer. Over the years, we have understood as to how to glean these customers and see how 2 customers having 550 score is not the same. Somebody would be having 550 because he has defaulted on a secured private lending loan and somebody could be having 550 score because he has secured on a gold loan or, let's say, a government-guaranteed loan.

So we don't view these 2 customers very, very similarly. And I think over the years, we have sort of understood as to which is an acceptable risk for Five- Star and which is not an acceptable risk for Five-Star. So that gives us the edge to go to this customer segment even with a score of 550 and ensure that we are not as risky as what it is perceived in the general trend in the market. So I think if you keep this perspective, it's slightly different targeting segment that strategy that we adopt at Five-Star.

Divyansh Gupta: Understood. Understood. Two more questions. One is a very basic data question. So in the call, we have mentioned more than INR10 lakh AUM is around 5%, whereas in the presentation, it's around 1 and 0. So net-net, it's 1%?

Srikanth Gopalakrishnan: You're right. I think 5% was a little more colloquially mentioned, but it's about 1% to 2%.

Divyansh Gupta: It's 1%. Got it. Got it. And the last one is that if I look at our lagged NPA numbers, so the level of, let's say, 30 -- 2-year lagged NPA is around 3.7%, which is, say, at least from the presentation perspective that we have been disclosing was, let's say, last seen in September of '20, which was, let's say, a natural disaster, not planned and not under our control, right?

So it is reaching those levels. So while I understand there might be a Karnataka-led noise. But Karnataka, let's say, 2 years ago, was also 7% or 6% of our portfolio. So it cannot be only Karnataka. So one is how should we read into this? And what are the actions we are taking to bring it back to, let's say, a more comfortable number?

Srikanth Gopalakrishnan: So firstly, when you said Karnataka was 6%, 7% even 2 years back, we are not talking about Karnataka's proportion. It is 6%, 7% it has been for the last, let's say, 2, 3 years. But today, the level of NPA in Karnataka is higher than what it was 2, 3 years back. So that is what is contributing. So if you look at our absolute NPA itself, it has gone up this quarter, right? And in the last couple of quarters, we have been seeing a little bit of impact on our portfolio. And when you compare this with a 2-year lag, it will obviously look a little worse.

See, our guidance to you on a 2-year lag is it will be anywhere around…you know the 1.36% and all that you are seeing in Q4 FY '22, I think those are not sustainable. We are seeing -- the normal NPA numbers for this business model is sub 2%, which means if you're looking at a 2-year lag, and I'm assuming 25% growth on a year-on-year basis, it should at least be 3% to 3.25%. So even in the current quarter, we are not way off on a 2-year lagged NPA number.

But we would like this number to be more around 2.5% to 2.75%. And obviously, we are -- there have been some disruptions, but we are taking the necessary action to bring this down. So with the portfolio moderating, you will -- I don't think you will ever see a 1.3%, 1.4% kind of a 2-year lag numbers and all that. You'll probably see that in the normal NPA, a 2-year lag will probably work more around the 2.5% to 3% number.

Moderator: We have our next question from the line of Chandrasekhar Sridhar from Fidelity International.

Chandrasekhar Sridhar: Can you just remind us on the change between the yields, which you had done, there were some thoughts around not having a blanket reduction, but changes in yield basis of the quality of the customer sort of trying to tell essentially to the regulator that there's a lot more signs behind the pricing. Is that in force as of now? And how does that play through in the context of given that some more increase in ticket sizes, does that mean that the customers who are now coming closer to the INR7 lakhs, INR8 lakhs will come at lower than the 200 bps reduction as a result?

Srikanth Gopalakrishnan: Chandra, when we revised our interest rate model at the time of reducing the rates, we had clearly gone to a risk-based pricing. And short answer to your question is it is in both. So the range of interest rates is anywhere between 21.5% to 22.95%. So the blended yield comes to about 22.25% to 22.5%, -- so which is where we said it is a drop of 200 basis points on an average basis.

But there is a customer who today could get a 21.5%. There is a customer who can get close to 23%. So it's a completely risk-based pricing depending on the score of the -- credit score of the borrower, depending on the end use of the loan that we give to, whether we can classify them as a priority sector loan or not.

So clearly, it's a risk-based pricing, which is involved. See, our belief is the current drop in interest is reasonable enough for us to even look at a slightly better profile of customers. So it doesn't mean that if we have to go to a better profile of customers or given the fact that we are going to a better profile of customers, there will be more yield drops that will have to come.

The current drop itself is sufficient to attract better quality of customers within the overall customer target that we have. So that's why we said at this point of time, we are not envisaging any further drop in interest rates. I think this will be an evolving...

Chandrasekhar Sridhar: It's not about dropping, the question is the mix changing with the mix changing and then given that you're working with rather than a blanket you're working with a range, you'll have more customers coming in at the lower end of the range is the question?

Srikanth Gopalakrishnan: So I think we've seen that Chandra. No, I understand. We have seen that. So today, when we said it's a 200 basis point drop, our average lending, which used to be at about 24.5% or so prior to November. Today, it's coming more around 22.25% to 22.5%. So there are people -- there are about, I would say, 25% of the customers who were coming sub 22.5% maybe some proportion, which is between 22.5% and 23%. So which is why you are looking at blended yield of closer to 22.5%. We are not seeing the mix significantly changing in the -- at least in the near future.

Chandrasekhar Sridhar: The second was just on AUM per employee. By when do you think you can get to this 1.25?

Lakshmipathy D.: Chandra, we are hoping that by this financial year end or mid of next financial year, you will see that AUM per employee inching up. It all depends upon the growth, right? So growth depends upon the environment, which we are. We're hoping this environment will be better, better as we move towards quarter-on-quarter, that will inch up the growth, that will inch the AUM per employee to where we want to be.

Chandrasekhar Sridhar: I mean it essentially means that employee count over the next year should not be more than 4%, 5% increase saying direct -- you're saying in 1.5 years ,5% to maybe 7.5%.

Lakshmipathy D.: It should be. It should be. Because that's why I gave an indication, the quarterly AUM growth was 6.25%. The new addition customers were 4.5%. So to that extent, we don't need so much of employees for the meaningful quarters. You're right.

Chandrasekhar Sridhar: Got it. And just the last question. Did I hear it right that the cost of fund reduction you expect for the whole year is 25 basis points?

Srikanth Gopalakrishnan: At least. So 25 to 30 basis points is what on the incremental cost. So this is from the current level, Chandra. So we are at about 9.30, 9.35. So from here, we are expecting 25 to 30 basis points on the incremental cost. Obviously, there will be some further benefit coming in from the book cost as well because MCLR will drop, EBLRs will drop. So then the overall benefit can be slightly higher than even 30 basis points.

Moderator: We have our next question from the line of Pranav Gupta from Aionios Alpha Management.

Pranav Gupta: Just a couple of questions. A, if you talk about TN and comments from a lot of other lenders from various segments. I mean the biggest issue…

Moderator: Sorry to interrupt Mr. Pranav your voice is quite muffled.

Pranav Gupta: The question was mainly relating to Tamil Nadu, where a large part of the issue faced by lenders over the last couple of years has been high attrition rates. And if we sort of now think about it along with the ordinance. How should one think of the costs you mentioned...

Rangarajan Krishnan: The audio is not clear.

Pranav Gupta: Is it clear right now? Can you all hear us?

Moderator: Yes, sir, we can hear you. Pranav, we were unable to your half question.

Lakshmipathy D.: But I understood this question. Let me address it to the extent I have understood the question. See, I think the ordinance has just got cleared. It's just yesterday, it got cleared. So in 15 to 20 days, we will know how the impact is going to be at the ground level. But ordinance clearly states that regulated entities are out of this. So that's the confidence that I said that disruption may be, but it will be far lesser than Karnataka. That is from a collections perspective.

From a disbursement perspective, I see nothing getting stopped in Tamil Nadu because this is a hometown of Five-Star. We have been here for the last 40 years, and we know the customers better in this segment like beyond anyone. From an attrition perspective, see, it's too early to talk about attrition. Why -- how is this attrition is -- I don't think attrition is directly connected with the bill or ordinance what -- it gets cleared in the state, right? There will be some kind of difficulties in collection and we agree the difficulties and we let the people to do what best they can do.

That -- I don't think that has a direct impact on the ordinance what -- because I can clearly say in Karnataka, the attrition was not anything got alarmed because of the ordinance. There was disruptions. There was some kind of harassment because we didn't anticipate that kind of ordinance to get into a state. But here in Tamil Nadu, we are well prepared. I don't think that will be any cause of concern from an attrition perspective.

Pranav Gupta: So just on the attrition bit, just to clarify. Obviously, I was not implying that the attrition sort of links to the ordinance. What I was trying to understand is that most lenders have seen attrition, which is why collections in Tamil Nadu for lenders have sort of been impacted. And now that the ordinance is also in place which increases the impact further. How should one think about that? That was the question. But I'll probably take that off-line later. The second question is...

Lakshmipathy D.: Pranav, I can answer that. I got it. From Five-Star perspective, Tamil Nadu is one of the best collecting states. I don't know about other lenders for Five-Star that comes on the top of our list from a collections perspective. So that's our confident and strength what we have in the home state of Five-Star that will keep continuing. So this bill will have a very less disruption and very short disruption. That's what I hope for.

Pranav Gupta: Right. But just as a follow-up to that, then, I mean, how should one tie that up with the relatively slower growth there in Tamil Nadu, given that it's the best connecting state, how should one think of that, just as a follow-up?

Lakshmipathy D.: Yes, that I've been talking in the earnings call for quite a long time. So we said this financial year, Tamil Nadu and Karnataka will inch up their growth. That's what exactly happened in Tamil Nadu. If you see Tamil Nadu on a quarterly basis, it's performing really very well. So you will see Tamil Nadu as a state today being at a little sub-30%, will cross 30% very comfortably.

Pranav Gupta: Sure. Understood. Sir, second is just a clarification on the cost of funds bit. I know you sort of highlighted that on multiple occasions, but just to clarify, given that we have already taken the price cut of -- on a blended basis of 200 basis points. Obviously, that's more on a risk-based level. But this sustainable dip in cost of funds that we think would sort of play out over this year of 30, 35 basis points. Srikanth sir mentioned that we could see some pass-through to incremental customers. But is that sort of tied up purely with the risk-base pricing? Or is it sort of a downward revision of the overall range of pricing that you mentioned earlier?

Srikanth Gopalakrishnan: So Pranav, firstly, I want to clarify. I think this 30, 35 basis points that we are looking at for the current year, that is not going to have any impact on the yields because see, again, in our customer segment, 25 basis points of reduction in rate alone make absolutely no difference for the customers. So -- when you do a yield drop, it has to be closer to 75 or 100 basis points or so. That is what makes a meaningful difference for you to attract better customers.

So this 30, 35 basis points, I think, is not going to result in any yield reduction. If let us say, there is a possibility of a rating upgrade that we get and the situation becomes a lot better, we are able to borrow at much cheaper part. Like we are able to borrow at 75 basis points lower than where we are borrowing today.

That is when we will start looking at the yield reduction, which is why we said given that all of these things look a little unlikely at this point of time or may happen only towards the second half or end of the year, there is unlikely to be any interest rate reductions for this financial year.

Pranav Gupta: Perfect. That's very clear. And just one last question regarding the dividend that we paid out. Obviously, this is more as Pathy sir mentioned, on a milestone basis, but any policy that we are stating around this? Or can we look at this just as a one-off milestone-driven event?

Srikanth Gopalakrishnan: No, Pranav. I think now we are getting into a dividend paying mode. So it's not a milestone-based event. I think we will become a dividend-paying company. The payout will obviously be gradual. We are not going to take it to any significant numbers shortly. I think we want to be gradual and measured and pay the appropriate level of dividend to our shareholders.

So we have kept a max range, which is quite high. So at this point of time, I don't even want to talk about that. But our payouts will probably range anywhere between 5% to 8% for the foreseeable future. So that's -- but I think you will see the company paying out dividends every year thereafter.

Moderator: We have our next question from the line of Manik Bansal from Master Capital Services.

Manik Bansal: So my question is, what is the reason for the 35 bps increase in capex -- I mean opex?

Srikanth Gopalakrishnan: 35 bps increase in opex. Okay. So that is primarily because of the denominator also being lower, right? So where we wanted to be at 25% growth, we are at 23%. So consequently, you're also seeing the total assets being lower than where we wanted to be. So if you're looking at another 2%, that means it will at least be another INR200 crores to INR300 crores of balance sheet size going up, which will obviously would have dropped in. So the question is the opex is a little front-ended, which will get absorbed by...

Manik Bansal: Sorry to interrupt. It's opex. 30 bps increase in opex.

Srikanth Gopalakrishnan: So opex to assets only you are referring to, right?

Manik Bansal: Okay.

Srikanth Gopalakrishnan: So when the assets are lower, the opex to assets will be lower -- will be higher.

Manik Bansal: Okay. So next question is, as you mentioned that there is one branch opened in Gujarat, right? So how do you look to expand in that state? What kind of opportunities you see there? Because if we look at the branch network other than Andhra Pradesh and Tamil Nadu, so it has not grown that much in the past many quarters. So is that the same thing that is going to happen in Gujarat also?

Rangarajan Krishnan: Manik, I don't know the basis on which you are making this comment that branches have not increased only in these 2 -- except in these 2 states. We have given the branch count and it has increased across. And today, there are multiple states where we are reaching -- 100 branches, including our latest state, which is Madhya Pradesh, which is having 94 branches as of March. We have expressed our strategy multiple times in the past. Any new state that we enter, the first 18 months to 24 months will be a very measured growth.

We will not put up more than 4 branches. And only when we get confidence in the state, we expand further. Gujarat is no different. So for the first 18 to 24 months, you will not see us opening more than 4, 5 branches. Once we get confidence in the state, it's a very, very large state. Many established lenders have been doing business for decades in that state. So it's important for us to understand and track that state very well. But we will take our time. After 18, 24 months of good operations there, then I'm sure that is going to be a very big state for us.

Moderator: We have our next question from the line of Shrinjana Mittal from RatnaTraya.

Shrinjana Mittal: I have 2 questions. So I understand that the Karnataka impact on the collection has already been discussed. But I just wanted to see if it is possible, can you share the collection efficiency number ex of Karnataka for the last 3, 4 quarters?

Srikanth Gopalakrishnan: Shrinjana, we will probably take it offline. We don't have the data ready for the 3, 4 quarters. So we'll have to take it offline.

Shrinjana Mittal: Sure. Just one more bookkeeping question. So in this quarter, what would be the number of split branches that we have opened?

Rangarajan Krishnan: Sorry, in this quarter? Can you repeat the question?

Shrinjana Mittal: The number of split branches that we have opened in the last 3, 4 quarters, if you can share that as well.

Rangarajan Krishnan: So last 1 year, roughly about 148. 148 split branches out of the 228 overall branches.

Moderator: We have our next question from the line of Sarthak Nautiyal from Eraya Capital.

Sarthak Nautiyal: Congratulations on a good set of numbers. So I have a few questions. Considering 25% of AUM growth and drop in yield roughly by 200 basis points versus last year, what kind of earnings growth are we expecting in FY '26? And what is our target for ROA and ROE in the near term?

Srikanth Gopalakrishnan: See, for FY '26, you're right, the earnings growth will be slightly muted. So if you are looking at a portfolio growth of about 25%, given that we have dropped our yields from November and you will see a full year impact, I think we should look at an earnings growth anywhere between 12% to 15% for FY '26.

See, ROAs, I think if the leverage is not going to go up significantly, ROAs will continue to be around 7.5% to 8%. We are not going to see any significant reduction in ROA, which also means that ROE will also not go up in a quick manner. So both of them will move in a gradual manner. Earnings growth will be at about 12% to 15%.

Sarthak Nautiyal: Okay, sir. Okay. Also, sir, I want to understand what is the end usage of our loans and what kind of collateral we have against the role?

Rangarajan Krishnan: End use of loans is broadly 3 purposes: business purpose constituting about 60%; 25% will be for construction of a house or purchase of a property; and the balance 15% will be for personal consumption, which has a large cash outlay. So it could be medical emergency, education or consumption-related purposes. And the kind of collateral that we have for all these loans, we don't differentiate the loans based on end use, both the underwriting and the product features are very, very similar for all the 3 end users.

The collateral is a self-occupied residential property. 95% of the loans is backed by a self-occupied residential property. The balance 5% would largely be commercial properties that the customers own. Maybe about a percentage out of the 5% will be also on vacant lands, but it's a hard collateral.

Sarthak Nautiyal: Okay. So also as our NPAs are increasing, so are we planning to auction the collaterals that are -- to address this issue?

Rangarajan Krishnan: No, I think we are well within the range in terms of NPAs. What the numbers that you have seen is because of a temporary disruption in a particular state, we have never auctioned any of this, and we are confident of our usual negotiated settlement with the customers. There is a legal team in-house that we have, which pursues the 90 plus customers. And we are very, very confident that it will happen in the normal course. We have never auctioned any collateral so far in the history of Five-Star and we will continue to do the same at this point of time.

Sarthak Nautiyal: Okay. Okay. Sir, just a last question. So how are the incentives of disbursement deal structured? Like in any manner are they responsible for collection also? Or they are purely assessed on disbursement targets only?

Rangarajan Krishnan: So we have 2 types of officers at the base level, offices who do business and collections. And this team generally handles lower vintage customers. So typically, about less than 24-month customers is handled by this team. And we also have specialized collection teams, which handles higher vintage customers at the branch level. Now obviously, the people who handle only collections are incentivized and measured only on the collection efficiency that they do.

In terms of business, what people are responsible for is, one is what is the quality of sourcing and the disbursements. Second is of the loans that they have disbursed, how much of it is turning into early arrears or early mortality accounts within the first 12 months and 24 months. The third part is also within the 12 to 24 months that they are handling, how is the collection efficiency of those customers measured. So it's a combination of all these 3 is where they are measured and rewarded all.

Moderator: We have our next question from the line of Siraj Khan from Ascendant Capital Partners.

Siraj Khan: Sir, a few data keeping questions, then I'll quickly come to my questions. Firstly, what is the breakup of the -- in the AUM, salaried and self-employed customers?

Rangarajan Krishnan: Self-employed will be roughly about...

Siraj Khan: Self-employed and salaried.

Srikanth Gopalakrishnan: See, if you remove shopkeepers, so shopkeepers will be about 60%. Self-employed will be about 25%. 15% of our customers will be salaried, typically cash salaried or contracts and labor and all that.

Siraj Khan: Understood. Understood. And could you just give me the number, the number of files that we disbursed during the full year and the sanctions, the number of files, if that is or amount, whatever the...

Srikanth Gopalakrishnan: The full year disbursals we have given, it's close to INR5,000 crores, INR4,970 crores.

Siraj Khan: The count I mean to say. The count of files is that?

Srikanth Gopalakrishnan: Just go ahead with your next question. We'll get the data back.

Siraj Khan: So the first question that I have is with respect to the growth. Now I know that the state of -- that we have some problem with one particular state. Ex of that, how do you see the growth panning out with respect to a breakdown of how much of the growth will be productivity-led inflation in the average ticket size and the change in the mix?

So what I want to understand is the breakdown of the growth with respect to these aspects? And also with Maharashtra now becoming in the range of inflection point where we have 25 branches, that state should start scaling up. So with respect to new geographies and the existing geographies, how will the growth breakdown in these 2 parameters?

Rangarajan Krishnan: So Siraj, firstly, the overall growth guidance the company is giving is at about 25%. Now obviously, the mix of how this 25% is going to be achieved is going to be through a faster growth in some of the inflection point states. Like rightly, you mentioned Central India, we have just crossed the milestone of INR1,000 crores portfolio in Central India at this point of time.

So that will definitely continue to grow at a faster pace than some of the older states that we have. As of now, the mix is roughly about 8% of our portfolio is Central India, and that will continue to inch towards the 10% and 12% in the years to come. We had guided that over the steady state of about 3 to 5 years, we will have at least 15% to 16% coming in from Central India and the rest of it coming in from the southern states.

So within this state-specific strategies, will continue to happen like this. Productivity-led improvements to an extent will definitely happen. And that's -- I think we are not bad on productivity. Like I mentioned to a previous question, we are almost already at about 2.6 loans per officer per month in terms of disbursement.

We will expect this to inch up to closer to 3 loans per officer per month, and that's a great productivity for us to maintain. We will also gain some things out of the increase in the ticket sizes. So even if the ticket size increase is close to, let's say, 5%, 6% per annum, a combination of productivity increase and this ticket size increase, we are very confident of delivering a 25% kind of a growth that we have guided for.

Siraj Khan: Understood. But so like just to break it down, so like 10% would be productivity, 10% would be growth with respect to volumes and expect -- could that be possible to do it?

Rangarajan Krishnan: Roughly, you can say 5% productivity increase, 5% ticket size. The balance 15% is acquiring incremental customers, both through our existing branch network and the new branch...

Siraj Khan: Understood. And with respect to the reasons, now as you said that Central India will be a good part of the coming few years as we move ahead. So in the current scenario, with respect to some of the other peers that -- and other companies that are there in the mortgage segment, there are some more with respect to Central India, specifically the states of maybe Madhya Pradesh, Chhattisgarh, even parts of Maharashtra, seeing some bit of stress that is being built up. So are you seeing any of that? Or our customer segment is exclusive of that what the other players are seeing? That is one.

Rangarajan Krishnan: So far, no specific trends that we are observing. But these are early days. Having spent more than 5 years in states like Madhya Pradesh, we understand the state fairly well. And we have built up good teams, both at the leadership level in the respective state and at the ground level. So anyway, we'll be watchful of how any of the states are going to emerge and confident of handling it. Siraj, also just answering your prior question on the number of loans which got disbursed, it's 1,38,660 loans during FY '25.

Siraj Khan: Okay. So that is the disbursement count. And also the sanction number, if that is available, the number of sanction count?

Rangarajan Krishnan: So sanction does not matter, and we don't reveal it specifically. Usually, the disbursement ratio for us is about 95%.

Siraj Khan: 95% is sanctioned to disbursement?

Rangarajan Krishnan: Yes.

Siraj Khan: And the login to sanction, if that would be possible in amount basis or account, however?

Rangarajan Krishnan: So maybe about 75% to 80%.

Siraj Khan: 75% to 80% of the login to sanction. Great. And just final bit on the branch expansion. What will be the absolute new number of branches, not the split, the absolute new number of branches that we are targeting for the full year? And will that be again predominantly focused on the core geographies or more on the new geographies?

Rangarajan Krishnan: I think specifically this year, Siraj, given that we have opened quite a lot of branches in FY '25, the focus of the company will clearly be on getting productivity and making sure that these branches are performing up to their optimal level. That will be point one. So maybe the branch count will definitely be slightly lesser. We usually guide for about minimum of 75 new branches in a particular year. So maybe the number in terms of new branches will be slightly lower this year. A combination of new plus split will be equal to 75 to 100.

That's the guidance that we are giving you for this financial year. As usual, the focus will be more in the established states that we do. We will, of course, open new branches in the new locations. Last year, if you look at it in FY '25, we opened close to 50 branches in Central India. Maybe it will continue to be a slightly lesser or an equal number in Central India. The rest of the branches will come in from our core geographies of the 3 states in South India, which is Tamil Nadu, Andhra and Telangana.

Siraj Khan: Great. And finally one on the credit cost, what would be the guidance for FY '26?

Rangarajan Krishnan: Our guidance stays at 75 to 100 basis points.

Moderator: We have our next question from the line of Madanagopal Ramu from Sundaram Alternates.

Aravind R: This is Aravind, sorry. Sorry for the mishap. Congratulations on the good set of numbers in the light of tough situation in the segment we operate in. Sir, like we are building capacity in terms of branch addition, in terms of employee addition, and we are focusing more and more on like INR3 lakhs to INR5 lakhs rather than less than INR3 lakhs and on INR5 lakhs to INR10 lakhs.

In the wake of all this, like we still have a very conservative growth guidance of 25%. I'm just wondering like do you think like if the credit environment improves, we can easily increase the growth guidance like, let's say, 2, 3 quarters down the line if the demand improves -- sorry, if the credit situation improves?

Lakshmipathy D.: Yes, you're perfectly right. As I said, the total addressable market is very big, and Five-Star is in this segment for the last 20 years. That gives a clear edge for Five-Star to move ahead. That's what we are doing it. But as I said in the initial point that quality is almost the most important for any lenders. So if you see, I think the political issues are also now starting to come up. You saw Karnataka last quarter, you are seeing Tamil Nadu now.

We don't know, right, which will be the next to following state. So keeping these all in mind and INR12,000 crores of AUM, 25% growth is not a normal one. I think it's a commendable growth, keeping your asset quality and credit cost one of the lowest in the industry for the yield what you generate. So I think that's more important. So growth comes a little later, the quality and profitability has to be in front end so that growth is always -- can be taken up.

Moderator: We have a last question from the line of Nikhil Agarwal from VT Capital.

Nikhil Agarwal: While it has been touched upon, my question is more strategic aspect related, which is your shift from the less than INR3 lakh ticket size to INR5 lakh to INR10 lakh ticket size. I just wanted to know that the drop that we have seen in production efficiency, like you said that not entirely is attributable to Karnataka and some of it is the lower ticket size due to low leverage. So I just wanted to know how much of that is from this segment, which is why we have taken the decision of...

Srikanth Gopalakrishnan: So I think Nikhil, we are -- first of all, we are not taking the decision of quitting any segments. We will continue to operate within that segment also.

Nikhil Agarwal: Right..

Srikanth Gopalakrishnan: So what we are saying is given that we have also dropped our yields, it is allowing us the flexibility to focus on the premier customers within this segment, which is where we are going to, let's say, INR3 lakh to INR5 lakhs or INR5 lakhs to INR10 lakhs. So -- and see, one of the points is the less than INR3 lakhs typically -- despite the fact that we do secured loans, we do much longer tenure loans, there is a tendency for people to bucket us with microfinance institutions. So which is probably maybe one reason that could have that could have caused some impact.

At this point, if you ask us to break the impact between these various points, I don't think we'll be able to do that. Like Mr. Pathy said, the broad thing that we have seen is about 2/3 coming from Karnataka – if you want to split 1/3 into sub INR3 lakh, 3 lakh to INR5 lakh, I think that will be -- that's beyond the company at this point of time.

But our belief is the stress in the less than INR3 lakhs segment is probably slightly higher as compared to, let's say INR3 lakh to INR5 lakhs or INR5 lakhs to INR10 lakhs where the customers are a little more savvy. Their incomes are a lot more stable. So from a collections perspective, they tend to be a lot better customers. So which is why we are moving, let's say, 10% population from sub INR3 lakhs to INR3 lakhs to INR10 lakhs.

Nikhil Agarwal: And one last question. The credit cost guidance of 75 to 100 bps, is it a midterm long-term guidance or is it for FY '26 only?

Srikanth Gopalakrishnan: The range is -- I would say it's a midterm guidance at least. We are not going to change the range unless situations get very different. For FY '26, I can probably say that we'll be more closer to the lower end of the range rather than the higher end of the range. But our guidance stands at 75 to 100 basis points for the medium term.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Lakshmipathy D.: Yes. Thank you. So good to hear a lot of questions coming out from state-specific and growth specific. I'm confident that we will navigate all the tough times, and we'll come out of better results in the first quarter of this financial year. Thank you.

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