FIVE STAR
Business Finance Limited

31st July 2026

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, 2026

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 July 27, 2026.

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: 2026.07.31 14:13:30 +05'30'

Vigneshkumar SM
Company Secretary & Compliance Officer

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"Five-Star Business Finance Limited Q1 FY27 Earnings Conference Call"

July 27, 2026

MANAGEMENT: **MR. LAKSHMIPATHY DEENADAYALAN – CHAIRMAN AND MANAGING DIRECTOR**
MR. SRIKANTH GOPALAKRISHNAN – JOINT MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER
MR. PRASHANTH SREENIVASAN – CHIEF, TREASURY AND INVESTOR RELATIONS

MODERATOR: **MR. SANKET CHHEDA – DAM CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Five-Star Business Finance Q1 FY27 Earnings Conference Call. 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 touch-zone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanket Chheda from DAM Capital. Thank you, and over to you, Mr. Chheda.

Sanket Chheda: **Hi everybody.** Good morning to all of you. Welcome to Five-Star Q1 Earnings Call. We have with us the entire management team today Mr. Lakshmipathy Deenadayalan, who is the Chairman and Managing Director. Then we have Mr. Srikanth Gopalakrishnan, who is Joint MD and CFO; and Mr. Prashanth Sreenivasan, the Chief of Treasury and Investor Relations.

Without further ado, I'll hand the call over to Lakshmipathy sir for his opening remarks, and then we will follow that up with question and answers. Over to you, sir.

Lakshmipathy D.: Yes. Thank you. First of all, let me welcome you all for this Q1 Earnings Call Financial Year 2027. At the onset of strong momentum, I feel delighted to present the performance of Five-Star Business Finance for the quarter ended June 2026. The quarter panned out in line with our expectations, which vindicated the actions we took to overcome the challenges we faced.

The most heartening facet of this quarter is the strong traction in disbursements that we have achieved. We clocked our historical best in disbursement with quarterly disbursements coming in at INR1,496 crores, a growth of 23% over the previous quarter and 16% over the previous year.

We ended the quarter with an AUM of INR13,722 crores, which is a sequential growth of 4% for the quarter. This clearly shows that Five-Star is on the growth trajectory. And at this pace of quarterly growth, we should be able to achieve our full year growth guidance very comfortably.

Collections continues to remain robust despite being the seasonally soft quarter. For the quarter ended June 30, 2026, we clocked a unique customer collection efficiency of 97.9% versus 98.1% last quarter, with our x-bucket collections coming in at 99.2% versus 99.3% in previous quarter.

On the result of this, our current book continues to improve and stood at 83.30% as compared to 82.69% as of previous quarter. We also saw a good improvement in our 30-plus book, which reduced to 12.38% as compared to 12.69% in the previous quarter.

With our strong collections, we should see asset quality metrics consistently improving in the quarters to come. Our slippages remained flat at 0.70% compared to the previous quarter. And despite the seasonally soft nature of this quarter, our credit cost dropped sequentially to 1.85% for Q1 financial year '27 from 1.88% for the Q4 financial year '26.

On the borrowing front, our all-inclusive cost was at 8.33% despite not so favourable liquidity conditions. This has also helped bring down our cost of fund on the book from 8.95% for Q4 to 8.80% for the Q1 this year. Not only did this ensure our spreads to remain intact despite drop in our yields in last October 2024, but this also shows the strength of our franchise from the perspective of external stakeholders.

On the whole, it has been a great and satisfying quarter for Five-Star and sets the platform for the company to achieve a strong trajectory across the facets of growth, profitability and quality in the quarters to come.

I also want to take this opportunity to state that notwithstanding whatever has been happening over the last year or so, both external and internal, Five-Star has been able to demonstrate very strong numbers across various metrics.

This clearly shows the strength of the institution that we have built and re-establishes the fact that we are not an institution that is dependent on few individuals. The individuals may come and go, but the institution will go on forever.

On this positive note, now I would like to hand over to Srikanth.

Srikanth Gopalakrishnan: A very good morning to all of you. Mr. Pathy has outlined a lot of metrics that really gave us tremendous encouragement during this quarter, and it has been a very, very encouraging quarter for all of us. During this quarter, one other milestone that we crossed is to achieve 500,000 active loan customers as on 30th June, which is a very significant milestone in the journey of the company.

From a branch perspective, we continue to keep adding branches, primarily in the newer states. We added about 12 branches during this quarter, largely coming in from the state of Maharashtra and ended June with about 856 branches, which is a very strong infrastructure that we can build upon in the quarters to come towards achieving our growth targets.

Our yields continue to remain consistent in line with the drop in yields that we did about a couple of years back. You will see about 10-15 basis points of reduction in yields on a quarterly basis. So there was a 12 basis points drop in our yields. However, this was more than compensated by the drop in the average cost of funds, which dropped by about 15 basis points, resulting in a spread of 3 basis points higher compared to the last quarter.

The NIM continues to be flat. We had achieved an ROA of about 8.11% for the current quarter, ROE of close to 14.5%. From a collections perspective, 2 metrics stand out. Mr. Pathy had already outlined this in his opening remarks, but I just want to reiterate the fact that achieving a 60 basis points drop in the 1-plus number and achieving a 30 basis points drop in the 30-plus number, especially in a softer quarter like Q1, shows that we are completely back on collections and the collections is on a very strong trajectory.

Our provision coverage on the Stage 3 book continues to remain healthy at over 40%. And on the overall AUM, we are close to about 1.8% of provision coverage.

On the profitability side, we ended the quarter with about INR271 crores of PAT. And our net worth as of 30th June stands at about INR7,653 crores.

As we said, it has been a very strong quarter for us after 4 quarters of some challenges that we faced. This quarter has been immensely satisfying and we are extremely confident in our mind that we will be able to achieve all the guidances that we gave you comfortably in the quarters to come.

On that strong note, we would like to take any questions that any of you may have. Thank you so much.

Moderator: Thank you. We will now begin the question and answer session. The first question comes from the line of Renish from ICICI.

Renish: Congrats on a good set of numbers. Just 2 things, sir. First on the opex front, right? So I understand we have been doing process restructuring and making investment towards setting up collection infra etc. So just wanted to understand what will be the new steady state cost to asset for us, right? I mean, historically, we used to operate at around 5% which is now running at almost 6%. So when do you see operating leverage kicking in? And ultimately, where does cost to asset settling in over the next 5 to 6 quarters?

Srikanth Gopalakrishnan: Renish, this was a point that we had addressed this even in the earlier calls as well. So, this year, given various conditions around us, especially with a few other competitors coming in, we have to be a little more competitive from an employee compensation perspective. So to that extent, we are not guiding the market for any strong operating leverage to kick in.

Whatever operating leverage kicks in will possibly be taken up by the increased expenses that we'll have to incur. So the opex for this year will largely stay flat as compared to last year. But from next year onwards, certainly you will see operating leverage starting to kick in. From the perspective of total assets, like you rightly said, we are at about 6%.

I think we will stay at around 5.75% to 6% for this year. But in a steady state, this number should drop somewhere close to about 5.25% to 5.5%. But that will happen more -- 5.25% to 5.5% in a steady-state scenario, but that will happen more from FY28 onwards and not during this financial year.

Renish: Got it. Got it. No, this is very helpful. And second, on the asset yield part, right? So do you feel as of Q1, the large part of asset repricing at lower rate is over and maybe going ahead, the yield contraction will be limited to incremental growth?

Srikanth Gopalakrishnan: That's right, Renish. The large part of the contraction has already happened. In fact, for Q1, if you look at it, we are at less than 22.5%. And today, we are onboarding loans at close to 22.5%. And given some adjustments for the NPA interest reversals, this number should largely settle around the 22.25% is our thought. So maybe you will see this contraction of another 10-15 basis points for the next couple of quarters, should settle somewhere around the 22.25% levels.

Renish: Okay. And just last thing, what is the lending rate as of now? It's 21.5%?

Srikanth Gopalakrishnan: No, no. We are onboarding customers at an average of closer to 22.5%. The range is between 21.5% to 23%, but the average yield on disbursements will largely come in at around 22.5%.

Renish: 22.5%.

Srikanth Gopalakrishnan: Yes.

Renish: So then why should yield go down? I mean, if the disbursement yields are at par with your Q1 yields?

Srikanth Gopalakrishnan: Interest reversals on NPAs, Renish.

Renish: Okay. That's the only thing. OK, got it.

Moderator: Next question comes from the line of Viral Shah with IIFL Capital.

Viral Shah: **Thanks for the opportunity and** congrats on a good set of numbers. My first question is just a follow-up on the previous question. So Srikanth, you mentioned the yield compression largely being coming from, say, the interest income reversal. So what is the extent of further flow-throughs that you expect in the Stage 3 over the next couple of quarters?

Srikanth Gopalakrishnan: The slippages should start trending down, Viral. Given the seasonally soft nature of the quarter, we saw the slippages to be flat, but I think you will start seeing slippages coming down in the quarters. Our recoveries are also actually going up. In fact, during this quarter, between write-off and NPA settlements, we clocked a recovery of about INR 35 crores as compared to about INR 26 -27 crores of last quarter.

So you will also see a pickup in recoveries in the quarters to come. From that perspective, I think you will see slippages coming down and NPAs also starting to trend down in the quarters to come.

Viral Shah: Got it. And Srikanth, just to clarify, we do not, as of now, resort to an ARC sale, right?

Srikanth Gopalakrishnan: No. We do not resort to any ARC sale. The second point is our credit cost is also reflected at gross level, which means we are not netting off the recoveries that we are getting on write-off loans on our credit costs. We are actually showing it as other income in the top line. So these 2 aspects need to be kept in mind because there are divergent practices in the market.

Viral Shah: Got it. And Srikanth, my second question is basically with regards to -- sorry.

Srikanth Gopalakrishnan: No, go ahead. Sorry.

Viral Shah: Yes, my second question is with regards to the asset quality stress. So over the weekend, we have comments from some other player. Can you just delve deeper into, if at all there are any asset quality stress that you are seeing in your portfolio or in the market? And also whether this is in the early buckets or this is more of a flow-through into the, say, harder buckets or an NPA of the existing overdue accounts? And also whether if you can give some sense of what is the rollback rates in the early delinquency bucket accounts?

Lakshmipathy D.: So from an asset quality perspective, I'll ask Srikanth to check the rollback. I don't know whether he has the data on his hand. But let me take up the first point. On the asset quality front, we see very comfortable collections going forward. I'm not seeing this quarter alone. For last 7 months or 8 months in Five-Star, our collections trends are going up.

So that clearly indicates the cash flows of our customers are intact. But I want everyone to keep 2 things in mind. One is on the energy cost, which has gone up, which may even go up. Second is on the liquidity front, what the regulator is going to take a call on the price hike.

So these 2 things have to be kept in mind. But at current circumstance, we see no issues from a collections perspective. As Srikanth said, the slippages, the credit cost and NPLs will start trending downwards for quarters to come.

Srikanth Gopalakrishnan: Viral, on the rollback, generally, we see at least about 4% to 5% of rollbacks happening in the softer buckets. By that, we mean about the 31 to 60 and the 1 to 30 bucket and about 2% to 3% happening on the 61 to 90-day bucket.

So ours is more of a stabilization journey rather than too much on the rollback because these are not customers who are -- who can pay multiple installments in a month and roll their account back, which is why the collection efficiency or the unique customer collection efficiency becomes extremely important, where you're holding them in the same bucket and controlling flows, rather than allowing for flows and then rolling back the customers.

Viral Shah: Got it, makes sense. Thanks a lot and all the best.

Moderator: The next question comes from the line of Abhijit Tibrewal with Motilal Oswal Financial Services Limited.

Abhijit Tibrewal: Just to take the discussion forward. Sir, on asset quality, just looking at the net slippage number, largely stable or in percentage terms, a minor improvement sequentially. Now the only thing I'm trying to understand here is that in the past, we have admitted that a large part of the stress that we have seen was actually spillover from microfinance where we also had overlap with microfinance customers.

Now that in microfinance, we are very clearly seeing an up cycle, where asset quality is fast normalized, credit costs have normalized, how many more quarters do you see from here where, I mean, slippages start coming down? And maybe what would be a normalized slippage number when a few quarters down the line things are normalized?

Lakshmipathy D.: So as I said in last call, same thing I'll repeat. Definitely, our collections are standing by, not in a few months. In a few quarters, we are able to see our collections trend going up pre-crisis level. That is why we started our growth engine to come back. So we are very clear that collections are more important than growth. So we come from that conservative background. So before kickstarting the growth, we wanted to ensure the collections are back and back with a steady set of numbers for a little longer period of time.

So having said this, on the asset quality, I said that coming quarters, especially in September, December and March for this financial year, you see all these 3 numbers trending down, slippages, credit cost and NPLs.

The guidance what we have given for the credit cost for this financial year, the credit cost will be in somewhere between 1.7% to 1.9%. But already the trend is lower than what we have said in the higher side. So you see the trend goes towards 1.7% more likely in the quarters to come.

Srikanth Gopalakrishnan: And Abhijit, we have also clearly guided you on the gross NPAs, which will fall to sub 3%. So that will be on account of obvious drop in slippages, which should start trending down. But we would also like to see 1 or 2 quarters of how the slippages trend before giving you a number that we can maintain in the steady state. But right now, our guidances are on the credit cost and on the NPA side.

Abhijit Tibrewal: Got it. That is useful. The other is, sir, on the business momentum that you've seen this quarter, right? I mean disbursements obviously reached a record level in this quarter. And I think from here, from our commentary also, I could make out that the quarterly growth should keep improving from here.

So I was just trying to understand if you could break down what is it -- what are the key drivers of this acceleration? Basically, how much is coming from stronger demand versus, let's say, higher approval rates, branch productivity or any geographic expansion that is planned?

Srikanth Gopalakrishnan: Abhijit, the first point to keep in mind is there is no dearth of demand in this segment which is something that we have been consistently reiterating. The demand was always there. Given the challenges that the company faced over the last 3 to 4 quarters, we had consciously put in certain measures, which possibly had a little bit of an impact on the approval rates and consciously slowed down on disbursements, because as a company, we take a very conservative stance that asset quality comes first, followed by growth. So it is extremely important for us to put some of the challenges that we faced in order, before resorting to growth. So demand was never a problem.

The split of verticals between business and collections has also led to significant increase in productivity because the same person was doing both business and collections in the past. And if there is some level of stressed accounts that the person is managing, it also shows up negatively on the disbursements with the concerned employee or the branch can do. Now that is completely addressed because you have a separate team with the requisite expertise who can actually do -- who are doing the collections on difficult accounts, which frees up a lot of space for the business people to focus only on bringing incremental log-ins and incremental business.

So the lead indicators that we are seeing are very strong traction in logins, very strong traction in business. And when we mean business, we talk about sanctions converting into MODs, which will eventually convert into disbursements. So these are some actions that we have taken, which has led to significant increase in productivity, and we are very confident that this will continue to sustain or keep going up in the quarters to come.

Abhijit Tibrewal: Got it, Srikanth sir. And just one last question. While you've already spoken about yields that maybe for the next couple of quarters, there could be anywhere between 10 to 15 basis points compression in yields. And what's the view on the cost of borrowings? We've seen that keeping improved for the last 4-5 quarters now. What's the view on cost of borrowings from here?

Srikanth Gopalakrishnan: I think it will largely stay around -- the incremental cost, Abhijit, will probably stay somewhere around the 8.5 levels because we also have one more tranche that we need to avail from ADB. We'll have to time it right because that's an ECB and there is an impact of hedging costs that hits there. But ADB being ADB, we can't afford not to take that money.

So my sense is, I think our incremental cost of borrowing should be somewhere around the 8.5% level, which means we still have another 20-30 basis points of compression that can come in the borrowings over the period. And all this predicated on the fact that there will be no repo rate increases.

So if there is a repo rate increase, then that will definitely impact the cost of borrowings in a negative manner. So it's a very evolving situation. But at this point of time, we feel confident that the cost of borrowing should start -- should at least trend down by another 10-15 basis points for the year.

Moderator: Next question comes from the line of Chandrasekhar Sridhar with Fidelity International.

Chandrasekhar Sridhar: I have a few questions. Have you done a check again on the customer base scrub to see the extent of leveraging maybe any time now versus what we have done in the past since we've done it? Any updates which you could share if you've done on that?

And the context I'm trying to understand also around this is that what your thoughts are around -- obviously, gold loans have grown now substantially largely INR20 lakh crores. Is there a possibility that given the overlap of our customers with gold loan and MFI that some of the customers could be using the gold loans to repay us and showing up in the better quality?

Lakshmipathy D.: Chandra, on the gold loan front, see, generally, gold loan is fully secured. So we don't have to worry about gold loans from a repayment perspective, from a collections perspective. The point what you said, the gold loans or smaller loans, what that gets translated into repayment of other NBFCs or banks. This generally happens. This is not -- it's a seasonal quarter for this.

This happens if the cash flow of the customer temporarily goes for a halt, he uses the small loans like around INR50,000 or sub INR1 lakh, either from personal loan or microfinance or gold to take up the cash flows what has been dipped. So that's a phenomenon that we have to live with, and we'll see across all quarters.

On the scrub part, see, from our underwriting, we always keep this saying that we don't have any control that customers overleverage can again kick in. We are very conscious, and we have taken all measures in the last 12 months. A little -- it was a bit slow from a market perspective. But from our perspective, we have taken all measures to face the next overleveraged crisis that may hit whenever it wants to hit.

So from that perspective, we are very strong to face the next overleverage crisis. We can't control the customers as long as the lenders are obedient enough or disciplined enough to have the guardrails what their associations have been put in place.

So from our side, we see the leverage as what we used to see a year back as trending lower, either through write-offs, what they have done or either through the strict guardrails what they follow, we see the leverages coming down. But the gold loans keep going up. That's the trend that I can share with you all saying that loans other than gold is coming down from our customers, but gold loan as a trend is going up, maybe the value would have also added to that. Srikanth?

Chandrasekhar Sridhar: Yes. So I'm just trying to understand whether that helps. I mean it maybe helps on a quarterly basis, as you say, typically, you do find that. But just is that -- I mean, is that masking maybe the underlying -- maybe things have not improved as much, but sort of getting masked because of the value of the gold loans going up. So just trying to get some sense around that?

Srikanth Gopalakrishnan: Chandra, not in the last 6 months or so because all of us know that the gold price corrections have been happening in the last 6 months. If you had told this last year, we would have probably agreed with you because the growth in gold loans was significantly higher because of the prices. But in the last 6 months, it's more correction, while gold loans are still growing, but not at the pace that they were growing maybe prior to 6 months back.

So I do tend to agree that to some extent, what you're saying is right, and that will be largely a behavioral trend across not just in the last 12-18 months, but any time you will see that temporary cash flows are being addressed through microfinance and gold loans.

But I would say in the last couple of quarters, we are definitely seeing that the guardrails that microfinance companies have implemented has brought down the proportion of overlap in microfinance lower. I think the number -- while we have not done it for this quarter, but it trended down from about 20%-21% to about 16%-17%.

And on the gold loans also, given the correction in prices, it's not that people are borrowing big in gold loans to repay us. What we are also seeing is -- and the other point, I think, to keep in mind is we have always maintained that the cash flows of these customers were never a problem, even in the last 12-18 months. It was more the behaviour which got a little bit impacted because of write-offs being done by unsecured lenders, and we had to correct the behaviour. So today, what we believe is that the cash flows have largely remained flat, while they may not have shown too much of improvement, but there is adequate cash flow in the hands of the borrowers to repay the secured lenders.

Chandrasekhar Sridhar: Understood. Maybe a couple of more questions which I had. One is that just around thoughts around ticket sizes. There's been obviously a slight push up, one, because of inflation and one sort of consciously. But how do you just think about that in the medium term? That's one. And second, thoughts on any diversification - sort of broad sense maybe over the next 1 or 2 years and what you're thinking of?

Lakshmipathy D.: Chandra, on the second point on -- multiple product, I've been talking with all investors for a long time. So we are very clearly thinking 2-3 products, out of that one product which we wanted to go first, maybe in next 3 months or 6 months. We will definitely get into one of the products because one of the learnings that what we have learned in this crisis is not to be in a single product.

However, the depth is there for the growth in this product, a single product is not going to help you during the crisis time. So keeping that in mind and the Board's emphasis on multiproduct, we are also thinking to get into one more product. At the appropriate time, we will come to the investors and explain what is the product and what is the rationale for that product.

Srikanth Gopalakrishnan: So Chandra, on the ticket sizes, like you rightly said, it's a combination of inflation and some bit of conscious movement to move towards slightly higher ticket sizes. And as we have been guiding in the past, we definitely want to operate at 25-50-20, which will be 25% at around INR3 lakh ticket size and 50% around the INR5 lakh ticket size and the other 25% closer to the INR10 lakh ticket size. So that's the kind of mix that we would be comfortable with. And we have been taking steps, which is getting reflected in the portfolio mix.

Chandrasekhar Sridhar: Sure. Can I squeeze in one more question?

Lakshmipathy D.: Sure.

Chandrasekhar Sridhar: Yes. So just lastly, I mean, I think my conversation around the spreads, it seems aside from the interest reversal on the NPLs and which should sort of start stabilizing. It seems that -- I mean, 12 months out spread should not -- should be -- I mean, you say policy, but I mean, assuming policy is where is, we should see spreads where they are today because sort of the gap between -- you still have about 30 bps left on the incremental cost of funds?

Srikanth Gopalakrishnan.: That's right, Chandra. Spread should largely remain flat to current levels for the next few quarters, assuming no policy actions.

Moderator: Next question comes from the line of Raghav Garg with Ambit Capital.

Raghav Garg: I have a few questions. One, your repayment rates have gone up. So that's one question. Why have they gone up? And then a follow-up question to that is that when I look at the duration mix of the book, the share of 3 to 5-year loan is going up. But at the same time, your repayment rates have also gone up. So I was just trying to reconcile as to why -- how do you reconcile these 2 things. So those are my 2 questions. And then I have another question.

Srikanth Gopalakrishnan: So Raghav, the repayment rates have gone up primarily due to stronger collections as well. So if you're actually comparing against the last 12 months, the repayments were low because obviously, the collection efficiencies were more around the 96%, 97% levels. But -- the point is with the collections becoming stronger, that will get -- that will see slight increases.

On the other side, I think the repeat customers who are actually coming -- we had a policy where any kind of customer, even if it's the best customer in Five-Star with zero DPD for any of the other institutions, we were actually asking the customer to prepay their entire loan before we can sanction a fresh loan, which was becoming very difficult for the customers.

So they were actually going out to the other NBFCs, which increased the repayment. We have made some policy changes, stricter policy changes where at least the best customers, we will not ask them to repay their existing loan, but we'll give the top up on top of it. So that is something which should start helping us from a repayment rate perspective going forward.

Having said that, I think while the number currently is at about 30% or closer to 30% Raghav, this number should largely trend somewhere around 27%- 28% in the normal sense. That's why we say our behavioural loan tenor will be somewhere around 4-4.5 years.

Raghav Garg: Understood. That's helpful. The other question is that -- so like I mentioned, the share of 3 to 5-year loan has been going up for you and at the same time, the share of less than 1 year is coming down. Theoretically speaking, does this help you in terms of increasing the overall book IRR from an accounting perspective because the share of the longer-term loans is going up?

Srikanth Gopalakrishnan: I just want to understand where you're getting this -- where you're deriving this data from Raghav?

Raghav Garg: So you mentioned the AUM by loan duration in the presentation, right?

Srikanth Gopalakrishnan: The vintage you're talking about, right?

Raghav Garg: Correct. Yes.

Srikanth Gopalakrishnan: See, the vintage will obviously go up because as we keep putting more and more new loans and the loans start getting seasoned, so this has nothing to do with less than 1-year loans. This is more the vintage on the book. This is not the tenure of the disbursements that we do.

Raghav Garg: Of course, this is the tenure on the outstanding book, correct?

Srikanth Gopalakrishnan: Correct. So the higher the disbursements, the momentum in disbursements pick up, you will see increase in less than 1-year portfolio because every quarter, we are disbursing so much, right? This quarter, we disbursed close to INR1,500 crores, which will come up in the less than 1-year book. But most of our loans, I would say, almost 85%, 90% of our loans are disbursed for a tenure of 7 years.

Moderator: Next question comes from the line of Rajiv Mehta with Yes Securities.

Rajiv Mehta: Congratulations on good numbers. My first question is, how should we look at write-offs trend in the coming quarters? And what is the nature of the write-off? Is it driven by policy? Or is it driven by your definition on certain customer profile or collateral profile? Because see Stage 3 most likely will keep on going up because there is a net slippage happening.

So should we assume that even the write-off will keep on going -- will keep increasing in the same proportion or there can be a scenario wherein the write-off will stabilize or will start to normalize a bit?

Srikanth Gopalakrishnan: For this year, we had already provided the guidance. We should be seeing write-offs for the full year at somewhere around INR225 crores to INR250 crores, which is largely the run rate that we did in the first quarter. We did about INR60 crores of write-offs in the first quarter. You should see that number largely remaining flat for the rest of the quarters as well.

So don't assume too much of benefit coming in the write-offs for this year because there is also a good amount of portfolio in the 61- to 90-day bucket. There will be slippages. And typically, these write-offs are done purely for 2 reasons. One is from a tax perspective, it gives us the benefit.

The second is in terms of showing the appropriate level of NPAs on the book. But these are only technical write-offs. There is no question around the recoverability of these write-offs. And like I said a few minutes back also, we are continuing to show good amount of recoveries in our write-off. For example, this quarter, we recovered about INR7-8 crores on the write-offs.

So we will definitely get back these monies. But from a tax and the appropriate level of GNPA positioning perspective, we'll continue to keep taking write-offs. What it will be in the steady state, Rajiv will probably come back to you after 2 to 3 quarters because we also want to see how the good collections in the softer buckets are holding up and what is the impact of that on the portfolio. Now if you start seeing flows decreasing and our softer buckets showing better trends, then eventually, this write-off should start trending down at least in the coming years.

Rajiv Mehta: And Srikanth, your guidance of credit cost, which is 1.7% to 1.8% for the whole year, does it build in any building back of coverage on Stage 1 and Stage 2 because we have drawn down the coverage in the last 4, 5 quarters. And when I look at the fresh flow rate, they have completely normalized. They've significantly normalized now.

So at least the provisioning from a fresh flow rate point of view is coming down, write-off will stabilize. Then if you're still guiding for a 1.7% to 1.8% credit cost, are you trying to also imply that you will build back coverage in Stage 1 and Stage 2, which is currently low?

Srikanth Gopalakrishnan: I'll answer it slightly differently. We will endeavor to maintain an overall coverage of 1.75% to 1.8% on the book Rajiv, whether it's a combination of pushing up the Stage 1, Stage 2 coverage or pushing up the Stage 3 coverage, I think that's a call that the company will take depending on how the portfolio mix looks. But definitely, we will ensure that we maintain our overall coverage on the book at around 1.75% to 1.8%.

Rajiv Mehta: And if the current flow trends were to hold and once the write-off stabilize, FY28 obviously should be a much better credit cost year for us?

Srikanth Gopalakrishnan: Yes. Whatever guidance we gave you is for the current year, it will -- in fact, we spoke last time also. From FY28 onwards, it won't be at 1.7%, 1.9% levels, which will -- even the highest range will be 1.7%, possibly around 1.6% to 1.7%.

Rajiv Mehta: Okay. And when you say that the disbursements are now improving and the asset growth is improving, this is without changing any credit filters or credit policies on the ground, right? It is purely driven by the fact that the business people are sourcing much better and with the same level of credit visibility?

Srikanth Gopalakrishnan: Absolutely. It's improvement in productivity, but no impact on quality.

Moderator: Next question comes from the line of Kunal Shah with Citigroup.

Kunal Shah: So firstly, when we look at it overall in terms of the trends in 1 plus and 30 plus, looking at the collection efficiency wherein we are, and as you mentioned like maybe there is no change in the credit filters, how should we see this overall settling? And in terms of your credit cost guidance, this is more in terms of controlling the forward flow once it gets into the 1 or 30-day bucket or maybe just preventing the flows itself into this segment?

Srikanth Gopalakrishnan: Kunal, the first point is it's preventing flows into this segment because that is where we are focusing very sharply on the current book. And you see our current book collections coming in at upwards of 99% consistently for the last few quarters. So the clear thought process of the company is how do we control the flows right from the start rather than allowing the flows to happen and controlling it in the bucket.

Controlling a current flow, flow from a current bucket is a lot easier than controlling a flow from a 1 to 30 bucket. So very clearly, the thought process is how do we keep our current book more robust and how do we keep our 30-plus more robust. We had sort of given a guidance last time. I think we expect our current book to be about 85% by the end of this year. It's currently at about 83.3%. And you will also start seeing the 30-plus come down less than 12%.

Kunal Shah: Yes, that I agree maybe from a near-term perspective, but maybe as the entire portfolio matures, where do ideally maybe with this 99.2% standard bucket collection efficiency, where should we see this number settling? Okay, maybe this 15%-odd and 12%-odd 2, 3 years down the line, where does it settle down with the -- maybe the better underwriting, which we are doing it currently?

Srikanth Gopalakrishnan: So the thumb rule that we are working on, Kunal, is about around 90% to 91% of Stage 1 assets, which will be somewhere around let's say, 87%, 88% of current and about 3%, 4% of 1 to 30. So Stage 1 is somewhere around 91%-- 91% or so. Stage 2 hovering somewhere around 6% to 7%, which will be a combination of maybe 3%, 3% or 3.5%, 3.5% in the 31to 60 and 61 to 90-day bucket.

And NPAs at sub-3%. So in a steady state, if you're talking that we are guiding you for an NPA of around 2.5% or so. So I would largely put it as Stage 1, somewhere around 91%, 92%, Stage 2, somewhere around 6% to 7%, Stage 3, somewhere around 2.5%. That should be the sustainable business model, at least for the short to medium term.

Kunal Shah: Perfect. That helps. And secondly, on the employee side, so is it more like just the retention and the upgrading of the structure which has happened or there is ESOP component to it and that would be more of a one-off because you are now indicating in terms of the operating leverage, not much to come through. And we have seen employee costs going up quite significantly. So this is purely the rebase of the existing structure?

Srikanth Gopalakrishnan: That's right, Kunal. See, these are people at the branch level, who could be branch managers, supervisors. To them, ESOPs are not the most attractive. I'm not talking about the senior supervisors, but even the mid-level supervisors. ESOPs are not the most attractive form of compensation. So this will be more like realigning, revising their salaries, giving them slightly better incentives for the performance, which will push up the cost. So nothing to do with ESOPs.

Kunal Shah: And in terms of the attrition, how it is helping us to bring it down, if you can just give an example, maybe given that now we are rebasing this or maybe providing more incentives, how has the attrition behaved?

Srikanth Gopalakrishnan: Too early to say, Kunal. As of now, it's largely flat to what it was. But our belief is, I think once we start seeing more quarters where people start doing business, the excitement starts coming in, I think the retention will be a lot higher and the attrition should start going down. So possibly, we can give you some trends maybe 2-3 quarters down the line.

Kunal Shah: Okay. Got it. And on overhead cost, would there be also an element of investments, which will again lead to not much of an operating leverage out there or maybe the only thing is maybe the overhead benefit is getting offset by the employee cost increase, which will be there?

Srikanth Gopalakrishnan: It's primarily employee cost, Kunal. I don't think we are expecting to put too many branches this year. We'll continue our normal run rate of about 50-60 branches. So it's not like the overheads are going to push up the cost. It's primarily on the personnel expenses.

Moderator: Next question comes from the line of Aditya Miglani with Burman Capital.

Aditya Miglani: Congratulations on the good results and momentum. My question was regarding the repayment rates, but that has already been asked.

Srikanth Gopalakrishnan: We can move to the next one.

Moderator: Mr. Miglani please go ahead.

Srikanth Gopalakrishnan: No, no. His question has already been answered. So please move to the next one.

Moderator: The next question comes from the line of Nischint with Kotak.

Nischint: Maybe if you could just reiterate a bit on the expense side. What kind of an expense growth are we looking at this year? Would it kind of track what we saw in the first quarter or would it kind of accelerate from here on?

Srikanth Gopalakrishnan: On a year-on-year basis, Nischint, I think it will largely track what you saw in the first quarter. So we are expecting somewhere around 20% to 21% growth compared to last year's numbers. So we are not expecting anything abnormally from here onwards because some of it has already been built in, in the first quarter in the form of increments and appraisals and all that. So largely in line with the Y-o-Y trend that you have seen in this quarter.

Nischint: And just one -- the closing line that Mr. Pathy made about employees sort of being volatile or coming in and going, anything kind of specific happening out here?

Lakshmipathy D.: Nischint, nothing specific. I just wanted to give confidence to the market and to the shareholders that Five-Star is not an institution depending on a few individuals, but it's depending on its 15,000 employees, which will show the strength. That's what we have communicated through results also, nothing specific.

Nischint: Got it. Got it. That's very clear. And just one last clarification. The write-off of INR60 crores for the quarter is something that you will probably expect to continue for the rest of the year. But from a coverage point of view, probably ECL coverage can remain at these levels. I think that's what we are seeing, right?

Srikanth Gopalakrishnan: Largely, yes, Nischint. At an overall level, ECL coverage will remain at around the 1.75% to 1.8% levels and write-offs also will largely remain stable at around the INR55 crores to INR60 crores every quarter.

Nischint: Got it. And the 20% loan growth guidance stays, right?

Srikanth Gopalakrishnan: Absolutely.

Moderator: Next question comes from the line of Divyansh Gupta with Latent PMS.

Divyansh Gupta: Two questions on the liability side. If I look at the absolute amount of debt, debt has gone down from March. So 2 questions, how to read into this? And second is that while the -- let's say, the cost of debt is lower is because we are being very choosy and let's say, optimizing on our P&L. But as we want to lever up the balance sheet, what should we expect as a more realistic cost of fund?

Srikanth Gopalakrishnan: So Divyansh, I think both the questions are related. We are obviously being choosy currently given our focus on the cost of funds. But at the same time, if we want to lever up the balance sheet, we have adequate lines available where we can push and get. That's why we are not even guiding you for an 8.3% incremental cost. We are guiding you for an 8.5% incremental cost. So that is something that will come in because of our intention to lever up the balance sheet as and when we need. This quarter, this was sufficient because we also took quite a bit of monies in the last quarter. For example, last quarter, we raised almost close to INR1,000 crores. And that liquidity was sitting on the balance sheet. And typically, Q1 tends to be a little muted from a additional borrowing perspective. Banks are also waiting for the results to be announced. So it takes a little bit of time for them to get their necessary limits in place, whatever their strategies are.

So which is why we took about INR450 crores. We are still holding close to INR1,850 crores on the balance sheet. So it's still a sizable number. But the focus of the company will clearly be to ensure appropriate cost of funds. But at the same time, we will not compromise on the growth.

So we are very confident from a debt perspective, ability to raise whatever quantums we need at the right cost of funds, but please bake in an 8.5% incremental cost of funds going forward, not the current levels.

Divyansh Gupta: Understood. Understood. The second question was that, let's say, when we started reducing the rates, our -- let's say, hypothesis or, let's say, target was that we will leverage the balance sheet so that ROE does not get hit. While I understand all that happened in the last, let's say, year or so, when can we realistically can expect that we will hit a debt to equity of 2? And what time line are we thinking around for it?

Srikanth Gopalakrishnan: See, debt to equity of 2 will take a little bit of time. I would probably think it's in the medium term, maybe another 6 to 8 quarters from here onwards because it depends on the growth that we are looking at in the current product and also the newer product diversification we're thinking about, how that pans out over the next few quarters.

You also need to keep in mind that we add almost INR1,100 crores, INR1,200 crores of PAT every year to the net worth. So from that perspective, it's also going to be a little bit of a challenge. I would probably think definitely not before another 8 quarters, 6-8 quarters.

Divyansh Gupta: Understood. The next question was on the new product that you have mentioned. So we had already started something in housing. So this is then going to be third product or the product is just a better variant of housing that we launched?

Lakshmipathy D.: See, the housing product what we have launched 2 quarters down the line, we were not much focusing on that because we want our micro LAP to bounce back to the pre-crisis level, which you have started to see in the disbursement and that will show good numbers going forward. So once the existing product is set in tone, then we wanted to get into the housing product, what we already launched to our similar profile of customers. What we are talking now is apart from that.

Divyansh Gupta: Got it. Understood. Understood. And the last question is that we used to give our overall collection efficiency, which, let's say, in the last quarter and for this quarter, if you can tell?

Srikanth Gopalakrishnan: I think please connect with our IR team separately on some of these data-related questions, Divyansh.

Moderator: Next question comes from the line of Chirag Fialoke with MS Capital.

Chirag Fialoke: Congratulations team on executing what you had laid out a couple of quarters back. Srikanth, just one question on the new customer additions, that quantum has been more in the 6,500, 4,000 kind of range. And then effectively, if one just does back of the envelope math, it seems like the incremental disbursements are more in the average INR5 lakh to INR7 lakh kind of range.

Is that where it is today? And do you think that this is just a transitory phase and it will normalize back to more INR5 lakh kind of range or is it now more going to be incrementally in the INR7 lakh average disbursement range?

Srikanth Gopalakrishnan: So Chirag, it's not INR7 lakh. The average ticket size is somewhere close to around INR5 lakh -- INR4.5 lakh to INR5. It will largely stay there. So the intent is not to keep adding smaller and smaller customers, but to keep adding the right kind of customers who will be good from a NACH perspective, who will be good from a repayment perspective, who will be good from a flow perspective. So we will continue to keep adding -- our ticket sizes for this year should largely hover around an average ticket size for the quarter of about INR5 lakhs or so.

Lakshmipathy D.: So this is a very important point that everyone should keep in their mind is, we are not vacating any space. Like many players who have done it in the last 12 months, we are not vacating any space. We are becoming more and more stronger in the same space where Five-Star has been operating for the last 24 years.

The only change is the mix. What we guided in last July earnings call was our mix of less than INR3 lakh ticket size will be close to 25% and INR3 lakhs to INR5 lakhs will be close to 50% and above INR5 lakhs will be close to 25%. So that is the mix in which Five-Star wanted to move from last July to this June. So that is what exactly the trend is happening. So we are focusing on what we say.

Chirag Fialoke: Understood. Very clear Mr. Pathy. Just a quick data question. On the 60 to 90 bucket, could you just highlight what that percentage were for the quarter?

Srikanth Gopalakrishnan: Chirag, please connect with the IR team to take some of these data-related aspects.

Moderator: Next question comes from the line of Kunal Thanvi with Banyan Tree Advisors.

Kunal Thanvi: I had 2 questions. One was if you can zoom in into the disbursement growth, like what are the areas from which we got the growth? And what is your confidence in terms of meeting your guidance of 20% this year?

Second question was on the overall organization structural change that you have made. If you can zoom into the incentive structure for the business guys. And from a cultural point of view, while I understand your productivity would improve, but one of the key things was we were able to run a leaner ship with fewer number of employees. How does culturally the organization is now adopting to a business guy and a service guy being separate? If you can zoom into these two aspects?

Lakshmipathy D.: So our request is, can you please keep yourself mute so that the background noise is too much.

Kunal Thanvi: Yes.

Lakshmipathy D.: Thank you. Let me get into the organization structure first, then Srikanth will add. So very clearly, we have said in last 1 year that I'll be in the operational front as MD. And to support me, there's a JMD with Srikanth. And underneath Srikanth, you have operational heads across all departments.

So if you see every department in Five-Star has one head and one chief. Specifically in this investor presentation, we have given details of all the 20-21 management teams who are in the company to -- you can please go through them and feel comfortable to come back to our IR for any doubts.

Srikanth Gopalakrishnan: So Kunal, I think your -- on your question in terms of the disbursement trend for the next few quarters, what kind of incentive structure changes we have made, has the culture changed because we have created this business collections vertical - none of that holds good because today, even though the business and collections vertical have been segregated, the business team continues to have the responsibility of collecting at least on the current accounts for a certain vintage.

So it's not like we are completely removing the DNA of collections from the business people. Their incentives are still dependent on achieving a certain level of collection percentage in the current accounts and also achieving the growth perspective. It is only that we are moving the arrears to the collection team because you need focus, you need expertise to ensure that the flows are contained, the slippages are largely contained.

So from this perspective, there has been no cultural shift. There has been no incentive changes, and we are very confident of achieving the traction in disbursements. While we did about INR1,500 crores in the first quarter, even assuming the same run rate for the next 3 quarters and adding a 10% on top of it because the next few quarters, obviously, the numbers will be higher. We will be somewhere around INR6,500 crores to INR6,800 crores, which will enable us to achieve our growth guidance of 20% very comfortably.

Moderator: Mr. Thanvi are you done with your question.

Srikanth Gopalakrishnan: Let's move ahead.

Moderator: Aright. Next question comes from the line of Varun Subramanian with Ascent Capital.

Varun Subramanian: My questions on leverage were answered. I just wanted to understand when you launch the new product, let's say, in the medium term, at that point, would you be guiding for AUM growth of higher than 20% or would that be including the new product launches that you have in mind? Is that a medium-term sort of guidance?

Lakshmipathy D.: No. Definitely, the guidance at that point of time will be much higher than the guidance what we have given with the Micro LAP product. It's going to be the addition of the guidance what we have given as of now.

Srikanth Gopalakrishnan: Varun, we also want to impress upon on the question on leverage. This is something that we are talking about given the growth on the current product, with how the new products pan out, when the growth goes up, obviously, there will also be a kicker in leverage. So definitely, our intent is also to maximize the returns to the shareholders from an ROE perspective and which is why we are looking at strong growth in the existing product and also the new products coming in and giving better growth, which can help the leverage needle also move up.

Varun Subramanian: So just to clarify, would leverage be linked to the launch of a new product or would you be able to lever up the book even with the existing products scaling up and with the asset quality improving? Will we be able to maybe get to 1.5 in 4 quarters, something like that?

Srikanth Gopalakrishnan: Definitely, I think the current product itself will give a kicker in leverage. What we are saying is it will get better with newer products coming in because we have a strong capital, and it is important for us to use the capital in the right way to maximize the returns for all the shareholders. And that's the endeavour of the company that we are working on.

So definitely, you will see leverage going up in the existing products. But with the new products coming in, it will obviously be a lot higher. So from here onwards, the focus is clearly to deliver strong returns to the shareholders.

Moderator: Next question comes from the line of Darshan Deora with Indvest Group.

Darshan Deora: Happy to see the turnaround in asset quality. Quick question. On a steady-state basis, what sort of ROE would the management be targeting? Like what sort of ROE would the management be aiming for?

Srikanth Gopalakrishnan: Darshan, today, we are operating at somewhere around 8% ROA, right, 8% to 8.5% based on the AUM. If you convert it into total assets, this number will be somewhere around 7% to 7.25%. Now our point is, as leverage keeps going up, you will have a compression in the ROA.

So in the past, the guidance that we used to give would be a steady-state ROA of somewhere around 6% to 6.5%. And if we are able to get to the 3x leverage, we are talking somewhere between 18% to 20% as the ROE. So that's the endeavor that we are working on.

Darshan Deora: Got it. And secondly, in October '24, we have decided to reduce our lending yields, right? Because it was to some extent the expectation of the regulatory environment. And also prior to that, we had always experienced relatively good asset quality or we were able to bounce back relatively fast from any credit crisis.

So last 18 months have been sort of a slight change from the previous experiences where we have had to also really bulk up our collection efforts and increase our costs. So any thoughts on -- and now the regulatory environment is also more favorable. So now any thoughts on maybe sort of further like moving back to a slightly higher yield in order to sort of hasten the process to getting to a higher ROE?

Lakshmipathy D.: Darshan, first of all, I wanted to correct your first question. You're right, in October 2024, we dropped 200 bps at one go. That was not from a regulator perspective. I have already reiterated. I'm again happy to reiterate that. It's because our borrowing cost was 11% plus. It has now -- it was dropping down to 9% plus.

So that 200 bps, we wanted to fix the appropriate time to give it back to our customer. We took October as the right timing to give this 200 bps reduction to our customers. So that point I wanted to emphasize again so that people correct themselves why Five-Star did the 200 bps in October 2024.

Going forward, our intent is keeping the borrowing cost in mind, our lending rates will get adjusted. So it is not that if the borrowing cost trending down, we are not intend to keep our lending rates up. So that is not going to happen in Five-Star. That's the call that Board has taken in October 2024 itself. That is why that 200 bps reduction was being given for onboarding new customers. So as the borrowing rate trends, the lending rates will also trend.

Darshan Deora: So Pathy point taken. But I think from a cost structure point of view, also our cost structure has slightly changed, right, because we have invested a lot in sort of increasing our team size because of the collection efforts. So somehow, do we want to price that back in into our yields going forward?

Lakshmipathy D.: I think that will be priced back in our credit cost and slippage ratio and NPLs trending down. So we want that to be priced back in provision rather than in increasing the lending rate.

Srikanth Gopalakrishnan: And Darshan, like we said, the opex will start trending down. So it's possibly a phenomenon for 1 year. It's not like it's going to continue to remain where it is forever. From next year onwards, definitely, you will start seeing opex to trend down.

So as a responsible lender, we want to price our products in the right way so that we also see strong traction, the customer service is good, the customer feels happy getting onboarded with Five-Star. So at this point of time, given where our borrowing costs, I think we are very comfortable with the yield.

Darshan Deora: Got it. And I think just like one suggestion from my side. I think we're doing a great job, but metrics such as AUM per employee, disbursement per employee, we hope as investors to see an uptick in that. I think it's already happening on a Q-on-Q basis, but it would be great, I think maybe with the addition of new products to see that AUM per employee and disbursement per employee trending upwards with more speed...

Lakshmipathy D.: Yes. Darshan, you are correct. Not even with new product. I can tell you very confidently with the existing product itself, you will see in the quarters to come, the disbursement per employee and AUM per employee will trend up.

Moderator: Next question comes from the line of Renish with ICICI.

Renish: Just one thing on the disbursement front. If you can share the June disbursement number would be helpful, sir?

Srikanth Gopalakrishnan: So June, we did about INR670 crores, Renish.

Renish: How much? INR670 crores?

Srikanth Gopalakrishnan: INR670 crores, yes.

Renish: So is there any seasonality in that particular month? I mean, otherwise, the disbursement target, which you have in mind for '27, that should actually overshoot by a big margin. So just wanted to get a sense on that?

Srikanth Gopalakrishnan: Renish, there will always be seasonality in the third month of the quarter. But this year, we are very consciously working towards keeping the seasonality between the months in the quarter minimal. So you will not see, let's say, the first month of the quarter being at INR300 crores and the last month of the quarter being at INR700 crores, but there will still be a seasonality.

So right now, despite what you have seen in the first quarter, I think which is a very healthy trend. And we are looking at traction building from here onwards to achieve our growth comfortably.

Renish: Got it. So it is fair to assume that, let's say, anywhere between INR600 crores to INR650 crores, INR670 crores should be a new normal monthly result number for rest of the year?

Srikanth Gopalakrishnan: On an average, yes.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. I now hand the conference over to the management for closing comments.

Srikanth Gopalakrishnan: Thank you all. As we said, it's been a great quarter for Five-Star. We are extremely confident in the way that the company is moving and the actions that we have taken have vindicated our stance. And like we said in the presentation, from here onwards, we are very confident of moving in the right direction and in our journey to move onwards and upwards to get back to some of the strongest numbers that Five-Star has been used to delivering. On that note, we will all be happy to see you in the next quarter. Thank you so much.

Moderator: Thank you. On behalf of Five-Star Business Finance, that concludes this conference. Thank you for joining us. You may now disconnect your lines.