

Five-Star Business Finance

BSE SENSEX	S&P CNX
84,818	25,899



Bloomberg	FIVESTAR IN
Equity Shares (m)	294
M.Cap.(INRb)/(USDb)	167.2 / 1.8
52-Week Range (INR)	850 / 501
1, 6, 12 Rel. Per (%)	-10/-32/-16
12M Avg Val (INR M)	924

Financials & valuations (INR b)

Y/E March	FY25	FY26E	FY27E
NII	21.0	23.9	28.1
PPoP	15.2	17.3	19.9
PAT	10.7	11.5	13.2
EPS (INR)	36	39	45
EPS Growth (%)	27	7	15
BVPS (INR)	214	251	294

Ratios

NIM	19.6	18.7	18.1
C/I ratio	30.9	31.5	32.6
Credit Costs	0.8	1.5	1.4
RoAA	8.2	7.4	7.1
RoAE	18.7	16.8	16.5
Dividend Payout	5.5	5.1	5.6

Dividend Valuation

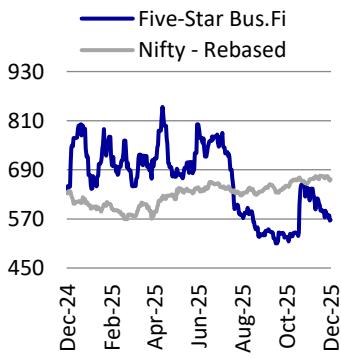
Valuation	15.6	14.5	12.6
P/BV (x)	2.6	2.3	1.9
Div. Yield (%)	0.4	0.4	0.4

Shareholding pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	18.6	21.5	21.6
DII	12.2	9.5	9.0
FII	55.8	58.1	56.7
Others	13.5	10.9	12.7

FII includes depository receipts

Stock performance (one year)



CMP: INR568

TP: INR700 (+23%)

Buy

Calibrated growth while prioritizing portfolio stability

Near-term softness in asset quality; tech-driven efficiency to sustain future growth

We met with Mr. Srikanth Gopalakrishnan, Jt. MD & CFO of Five-Star Business Finance (Five Star), to gain insights into the company's future growth plans and other strategic developments. The following are the key takeaways from our discussion:

- Five Star is in a phase of deliberate recalibration, focusing on portfolio stability and underwriting discipline over disbursement volumes. Management has adopted a consciously slow approach to disbursements in 3QFY26 as well, just to be sure that the observed stabilization is a 'real recovery' and not an aberration. This calibrated approach is likely to lead to a moderation in business volumes in 3Q but will also set the base for a significant acceleration in disbursements from 4QFY26/1QFY27 onwards.
- Stable collections in Oct-Dec'25 will bolster the management's confidence in scaling business volumes. Simultaneously, Five Star is also strengthening its customer profile and building a robust cohort to ensure future growth does not compromise asset quality.
- Five Star continues to invest notably in technology to enhance customer experience and underwriting efficiency. Initiatives such as CKYC-based account aggregation, speech-to-text automation for field interactions, and AI-enabled calling efforts are expected to improve customer repayment behavior while improving operational efficiency.
- The creation of dedicated collections for verticals and tighter credit controls underscores the company's focus on asset quality improvement. Geographically, AP and Telangana show steady improvement, while Karnataka lags at ~93–94% collection efficiency (~3–4% below pre-ordinance levels), partly due to behavioral shifts among MFI borrowers.
- Five Star plans to appoint a new CEO (likely an internal candidate) by Mar/Apr'26, while Mr. Lakshmpathy (the MD and Promoter) will focus more on strategic initiatives, which will enable the company to have both promoter-led vision and professional execution.
- The company is navigating the current environment with deliberate caution, prioritizing stability, portfolio quality, and organizational readiness over near-term growth optics. While FY26 AUM growth is likely to be softer than earlier expectations, the company is laying a robust foundation for sustained compounding as collections normalize and technology-driven efficiencies scale. We now estimate Five Star to deliver an AUM growth of ~19% in FY26 and revert to its ~24% AUM CAGR over FY26-28E.
- The stock currently trades at 1.9x FY27 P/BV. We estimate Five Star to deliver a CAGR of ~24%/17% in AUM/PAT over FY26-28E, along with RoA/RoE of 6.8%/16.6% in FY28E. **We reiterate our BUY rating on the stock with a TP of INR700 (premised on 2.2x Sep' 27E P/BV).**

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Focus on portfolio stability: Laying the foundation for strong growth ahead

- Five Star continues to adopt a deliberate, calibrated approach to growth, prioritizing portfolio stabilization over disbursement momentum. The company has consciously moderated 3QFY26 disbursements to validate that the improvement observed across recent months reflects a structural recovery rather than a temporary aberration. This cautious stance is expected to dampen the business volumes in the very near term while creating a stronger base for a meaningful acceleration in the coming quarters.
- The disbursements are expected to accelerate from 4QFY26 onwards. The management highlighted that if collections remain stable across Oct-Dec'25, confidence to scale volumes back to historical run rates will be significantly higher. While the company expects to return to normalized business volumes by 4QFY26, we realistically expect normalization by 1Q/2QFY27.
- Five Star is also focusing on curating a more resilient borrower franchise and tightening the customer filters, effectively weeding out weaker customer profiles, which will eventually enable growth aided by a strong cohort of borrowers.
- We expect Five Star to deliver an AUM CAGR of ~24% over FY26-28E, with FY26 AUM growth estimated at ~19% (vs. our earlier estimate of ~23%).

Selective repricing, stable CoB: NIMs poised for controlled normalization

- Five Star has increased its lending rates by ~50bp for loans below INR500k and reduced them by a similar quantum for loans above INR500k. Since ~85% of the book comprises sub-INR500k loans, the adjustment will provide a modest yield uplift. The disbursements are also expected to shift towards INR500K+ loans, with a reduced focus on <INR300k loans, targeting a 75%/25% mix.
- On the liabilities front, ~30-35% of its liabilities – which are linked to EBLR – have already benefited from the rate cuts. Conversely, MCLR-linked rate cut transmission has been limited, with most banks reducing MCLR by only ~5-15bp. The incremental CoB currently stands at ~8.60-8.65%.
- In terms of the non-interest income, the management has clarified that the company will not engage in cross-selling or upselling like insurance commissions. Five Star will focus only on processing fees and legal/inspection charges. We expect Five Star to deliver a NIM of ~18.7% in FY26 and estimate NIM to moderate to 18.1%/17.4% in FY27/FY28.

Opex ratio to remain rangebound owing to investments in tech initiatives

- Five Star indicated that it does not expect opex to decline meaningfully in the near term due to continued investments in people, technology, and customer engagement. The company has initiated several technology initiatives, such as leveraging CKYC as an account aggregator to improve underwriting efficiency, exploring the speech-to-text functionality for field credit officers' conversations with customers to eliminate translation loss, and increasing productivity by automatically capturing data.
- On the customer engagement front, the company is deploying technology-led interventions to encourage better and earlier repayment behavior. The company is investing in AI-enabled calling and digital communication tools to resolve ~60-70% of the accounts, thereby reducing the burden on field officers and improving overall operating leverage in the medium term.

- We expect the cost-to-income ratio (CIR) for Five Star to remain in the range of ~32-33% over FY26-28.

Tightening credit filters and focused collections to drive portfolio resilience

- Five Star has witnessed an increase in the rejection ratio (from ~23% in 1Q to 41% in 2QFY26), reflecting tighter credit filters and the implementation of additional review layers, including supervisory checks before file logging. These measures will help ensure that the portfolio quality will remain strong once the market conditions normalize.
- The company is also establishing a dedicated collection vertical to strengthen the collection efforts. This new structure will allow business supervisors and managers to focus mainly on business generation and manage the delinquent accounts.
- Geographically, AP and Telangana are exhibiting steady improvement, while Karnataka continues to lag with CE at ~93-94% (~3-4% below its pre-ordinance level of ~97%). The management attributed this stress partly to a behavioral shift among MFI borrowers, who have observed MFIs writing off loans and, as a result, assume that payment pressure (or collection efforts from lenders) will ease if they delay. We model Five Star's credit costs at ~1.3% (as a % of avg. assets) for FY26, which are likely to decline to ~1.2%/1.1% in FY27E/FY28E.

Other highlights

- Management plans to appoint a new CEO, likely an internal candidate, after Mar'26. An internal candidate will be preferred to maintain the blend between the promoter and professional management while enabling the MD and Promoter, Mr. LakshmiPathy, to focus more on strategic initiatives.

Valuation

- Five Star is navigating the current environment with deliberate caution, prioritizing stability, portfolio quality, and organizational readiness over near-term growth optics. While FY26 growth is likely to be softer than earlier expectations, the company is laying a robust foundation for sustained compounding as collections normalize, credit filters tighten, and technology-driven efficiencies scale.
- The stock currently trades at 2x FY27E P/BV. We estimate Five Star to deliver an AUM/PAT CAGR of ~24%/17% over FY26-28, along with an RoA/RoE of 6.8%/16.6% in FY28E. **We reiterate a BUY rating on the stock with a TP of INR700 (premised on 2.2x Sep' 27E P/BV).**
- **Key risks:** 1) further deterioration in the asset quality and 2) a delay in disbursement volume pickup if portfolio stability takes longer to materialize.

Exhibit 1: Valuation metrics for the MOFSL NBFC Coverage Universe

Val summary	Rating	CMP (INR)	TP (INR)	MCap (INRb)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)		
					FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	
MSME																	
Five-Star	Buy	567	700	167	39.1	45.0	251	294	7.4	7.1	16.8	16.5	14.5	12.6	2.3	1.9	
Housing Finance																	
LIC HF	Neutral	534	630	292	99.3	103.3	737	819	1.7	1.7	14.2	13.3	5.4	5.2	0.7	0.7	
PNB HF	Buy	900	1,080	230	88.2	96.4	732	818	2.6	2.4	12.8	12.4	10.2	9.3	1.2	1.1	
Bajaj Housing	Neutral	96	120	802	3.2	3.8	27	31	2.3	2.2	12.6	13.2	29.8	25.0	3.5	3.1	
Aavas	Neutral	1,558	1,800	122	83.5	99.4	634	734	3.3	3.3	14.1	14.5	18.7	15.7	2.5	2.1	
HomeFirst	Buy	1,189	1,450	123	53.2	64.2	415	475	4.1	4.0	16.1	14.4	22.4	18.5	2.9	2.5	
CanFin	Neutral	900	915	120	75.9	79.5	443	509	2.3	2.2	18.4	16.7	11.9	11.3	2.0	1.8	
Repco	Neutral	397	465	25	70.4	75.0	594	664	2.9	2.7	12.5	11.9	5.6	5.3	0.7	0.6	
Vehicle Finance																	
Cholamandalam	Buy	1,720	2,000	1,467	59.9	78.7	356	433	2.4	2.6	19.0	20.0	28.7	21.9	4.8	4.0	
MMFS	Buy	340	400	482	20.2	24.7	179	196	2.0	2.1	12.6	13.2	16.8	13.8	1.9	1.7	
Shriram Finance	Buy	847	860	1,575	51.7	61.8	343	392	3.2	3.3	16.1	16.8	16.4	13.7	2.5	2.2	
Indostar	Buy	242	285	33	39.2	13.9	264	278	5.8	1.9	16.5	5.1	6.2	17.4	0.9	0.9	
Gold Finance																	
Muthoot	Neutral	3,733	3,800	1,503	215.0	244.2	888	1,091	5.9	5.4	26.9	24.7	17.4	15.3	4.2	3.4	
Manappuram	Neutral	283	305	235	11.3	19.2	169	185	2.0	3.3	7.5	11.3	25.0	14.7	1.7	1.5	
Diversified																	
BAF	Neutral	1,006	1,160	6,273	32.7	41.4	183	218	3.9	4.0	19.3	20.6	30.8	24.3	5.5	4.6	
Poonawalla	Buy	450	600	350	8.7	21.8	128	148	1.5	2.5	7.6	15.8	51.7	20.7	3.5	3.0	
ABCL	Buy	354	380	937	15.2	19.5	129	145	0.0	0.0	12.3	14.2	23.3	18.2	2.7	2.4	
LTFH	Buy	302	330	758	11.9	16.1	112	125	2.3	2.6	11.1	13.6	25.3	18.7	2.7	2.4	
Piramal Finance	Buy	1,550	1,790	349	63.7	106.8	1,255	1,346	1.4	1.9	5.2	8.2	24.4	14.5	1.2	1.2	
MAS Financial	Buy	320	380	58	20.0	24.8	158	181	2.7	2.8	13.4	14.6	16.0	12.9	2.0	1.8	
IIFL Finance	Buy	568	635	239	34.7	47.0	323	365	2.1	2.3	11.3	13.6	16.4	12.1	1.8	1.6	
HDB Financial	Neutral	766	800	624	31.4	40.8	252	293	2.3	2.5	14.2	15.0	24.4	18.8	3.0	2.6	
Microfinance																	
CreditAccess	Buy	1,276	1,690	202	51.7	88.4	487	576	2.8	4.2	11.2	16.6	24.7	14.4	2.6	2.2	
Fusion Finance	Buy	158	215	26	-2.0	17.5	149	167	-0.4	3.6	-1.6	11.1	-79	9.0	1.1	0.9	
Spandana Sphoorty	Neutral	264	280	18	-86.6	27.3	241	291	-9.1	3.2	-29.0	10.2	-3.1	9.7	1.1	0.9	
Power Financiers																	
PFC	Buy	343	485	1,135	57.9	61.4	316	359	3.2	3.1	19.6	18.2	5.9	5.6	1.1	1.0	
REC	Buy	344	465	902	65.9	70.6	343	393	2.7	2.6	20.7	19.2	5.2	4.9	1.0	0.9	

Story in charts

Exhibit 2: Disbursements to grow ~27% over FY26-28E

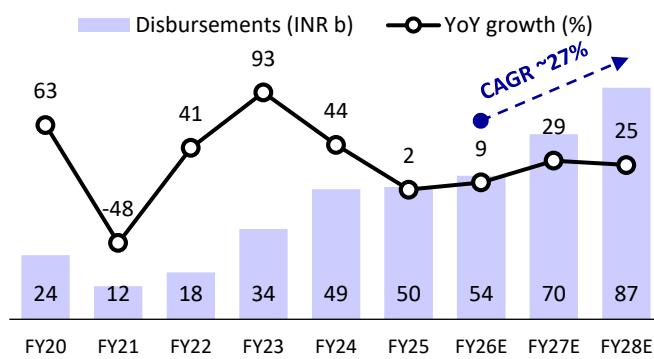


Exhibit 3: AUM likely to grow ~24% over the same period

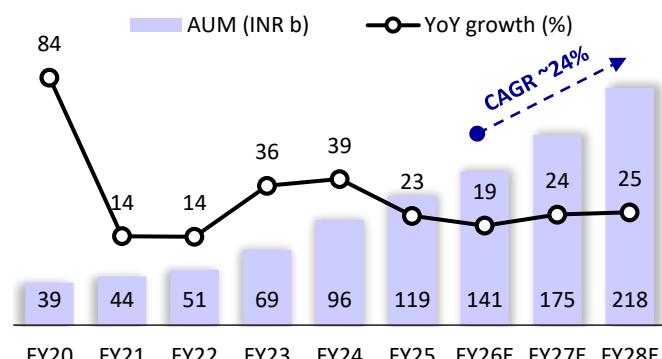


Exhibit 4: Spreads to moderate going forward

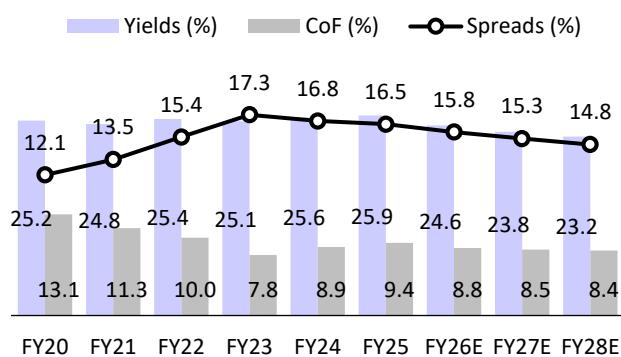


Exhibit 5: NIM to witness a gradual dip over FY26-28E

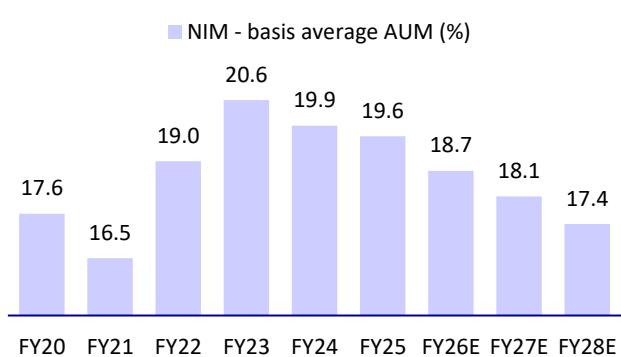


Exhibit 6: Opex-to-AUM ratio to remain stable in FY26/FY27

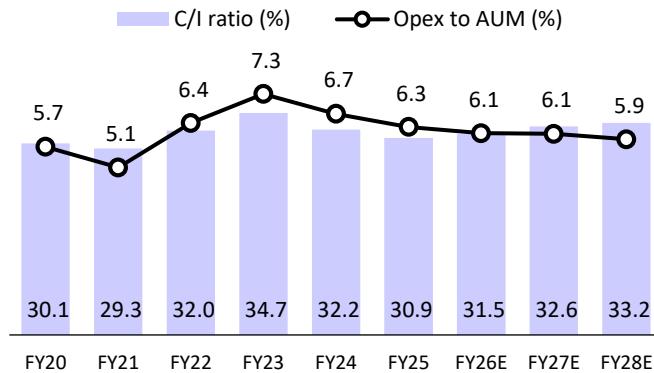


Exhibit 7: Asset quality to improve from FY27

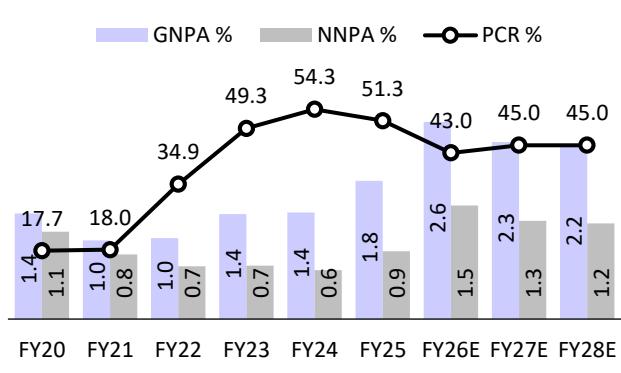


Exhibit 8: PAT growth to remain modest

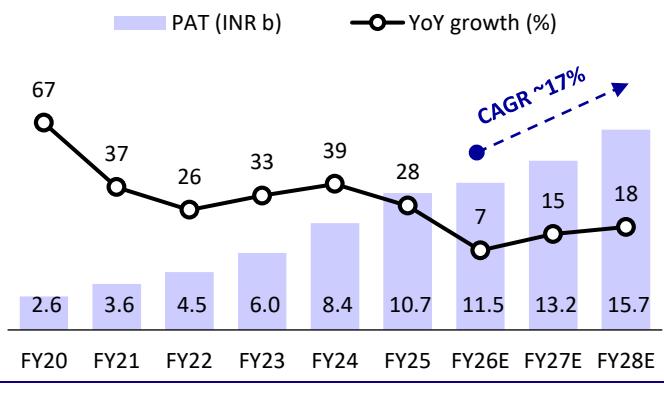
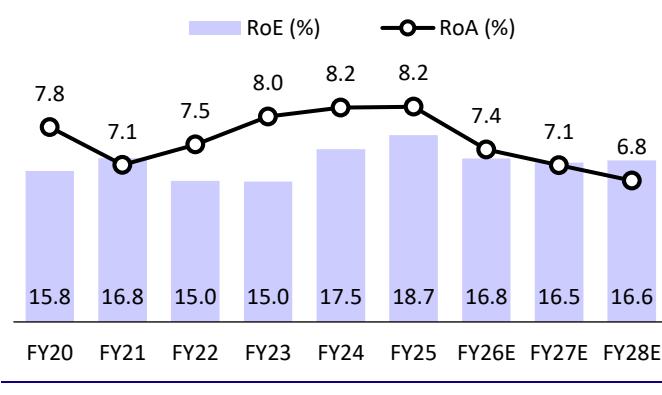


Exhibit 9: Healthy RoA/RoE of 6.8%/17% by FY28E



Source: MOFSL, Company

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Exhibit 10: Strong branch network expansion...

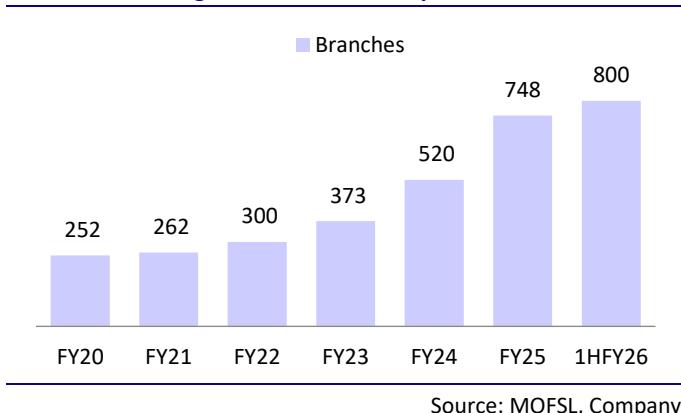


Exhibit 11: ...with well-diversified AUM across states (%)

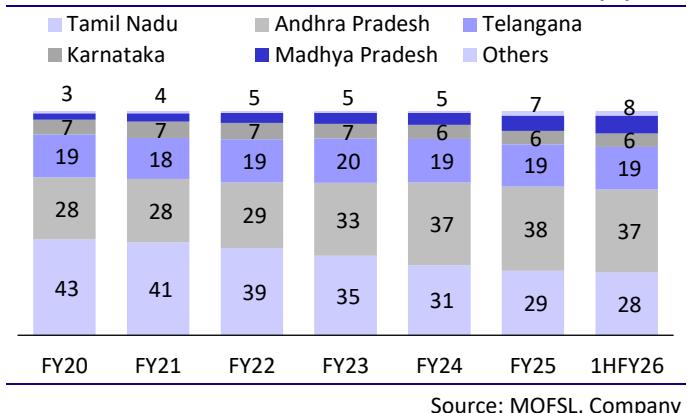


Exhibit 12: Major focus on Tier 4-6 cities (AUM-wise; %)

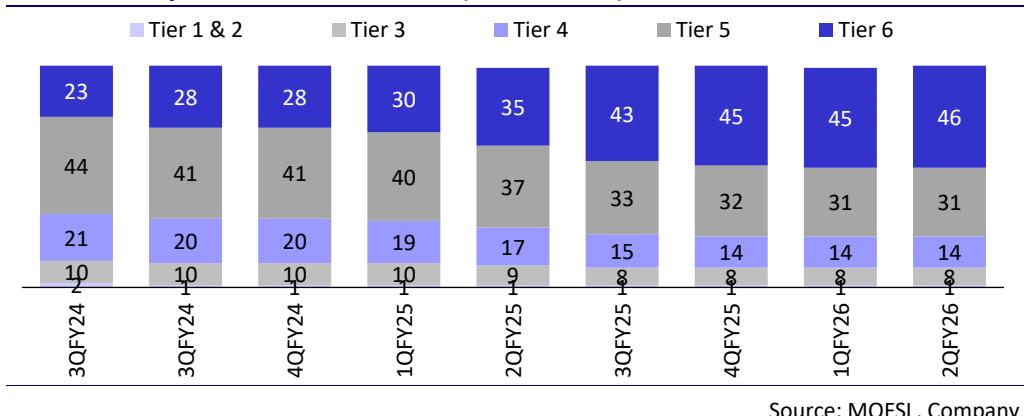


Exhibit 13: One-year forward P/B

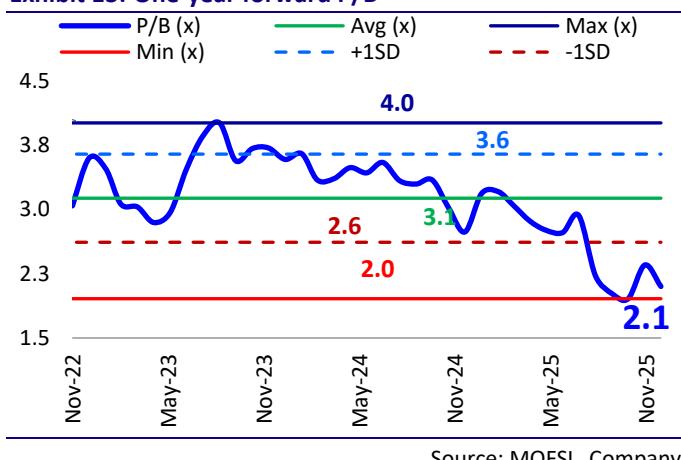
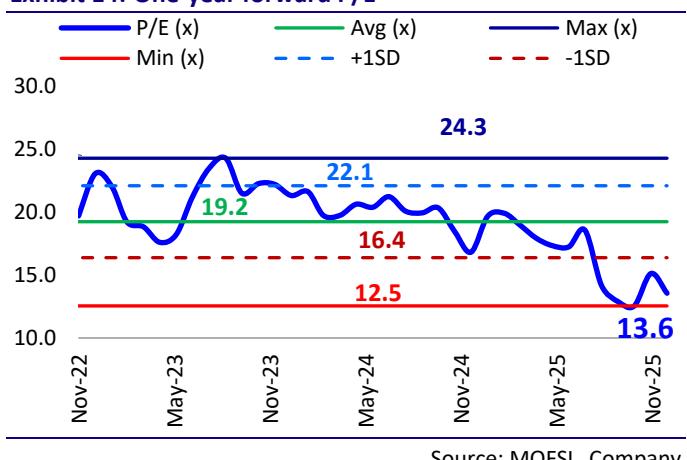


Exhibit 14: One-year forward P/E



DuPont Analysis

% of avg. assets	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	22.3	20.0	19.8	19.9	20.8	21.2	20.1	19.7	19.3
Interest Expended	6.5	6.5	5.0	3.5	4.6	5.1	4.8	4.7	4.8
Net Interest Income	15.8	13.5	14.9	16.4	16.2	16.1	15.3	15.0	14.5
Other Income	1.2	0.7	0.9	0.4	0.8	0.8	0.8	0.8	0.7
Total Income	17.0	14.3	15.7	16.8	16.9	16.8	16.2	15.8	15.2
Operating Expenses	5.1	4.2	5.0	5.8	5.4	5.2	5.1	5.1	5.0
Operating Profit	11.9	10.1	10.7	11.0	11.5	11.6	11.1	10.6	10.1
Provisions	1.5	0.7	0.8	0.3	0.5	0.7	1.25	1.18	1.1
PBT	10.4	9.4	10.0	10.7	10.9	11.0	9.8	9.4	9.0
Tax	2.6	2.3	2.5	2.7	2.7	2.7	2.5	2.4	2.3
<i>Tax Rate (%)</i>	25.0	24.7	24.9	25.0	25.1	25.0	25.1	25.1	25.1
PAT	7.8	7.1	7.5	8.0	8.2	8.2	7.4	7.1	6.8
Leverage	2.0	2.4	2.0	1.9	2.1	2.3	2.3	2.3	2.5
RoE	15.8	16.8	15.0	15.0	17.5	18.7	16.8	16.5	16.6

Financials and Valuation

Income statement									
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	INR m FY28E
Interest Income	7,468	10,149	12,038	14,988	21,166	27,663	31,415	36,893	44,673
Interest Expended	2,174	3,279	3,006	2,663	4,685	6,680	7,466	8,842	11,187
Net Interest Income	5,295	6,870	9,032	12,325	16,481	20,983	23,949	28,051	33,486
Change (%)	69	30	31	36	34	27	14	17	19
Fees & Commissions (Legal & Technical Fees)	297	217	294	138	219	322	501	556	609
Net gain on fair value changes	102	132	209	83	443	494	568	596	626
Non-Operating Income (including recovery of bad debts)	6	15	21	81	123	182	255	318	398
Other Income	405	364	524	301	785	997	1,324	1,471	1,633
Net Income	5,700	7,234	9,556	12,627	17,266	21,980	25,273	29,522	35,119
Change (%)	72	27	32	32	37	27	15	17	19
Employees Cost	1,271	1,637	2,361	3,464	4,286	5,211	5,993	7,191	8,629
Depreciation	101	114	122	173	246	304	362	427	503
Others	342	367	575	741	1,021	1,270	1,600	2,016	2,520
Operating Expenses	1,713	2,118	3,058	4,378	5,553	6,785	7,954	9,634	11,653
Operating Profit (PPoP)	3,986	5,116	6,497	8,249	11,713	15,196	17,319	19,888	23,466
Change (%)	76	28	27	27	42	30	14	15	18
Provisions/write offs	493	352	455	201	554	890	1,950	2,210	2,553
PBT	3,493	4,764	6,042	8,048	11,160	14,306	15,369	17,678	20,913
Tax	874	1,174	1,507	2,012	2,800	3,581	3,858	4,437	5,249
Tax Rate (%)	25.0	24.7	24.9	25.0	25.1	25.0	25.1	25.1	25.1
Reported PAT	2,620	3,590	4,535	6,035	8,359	10,725	11,511	13,241	15,664
Change (%)	67	37	26	33	39	28	7	15	18
Proposed Dividend (incl. tax)	0	0	0	0	0	589	589	736	736

Balance sheet

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Capital	254	255	291	291	292	294	294	294	294
Reserves & Surplus	19,190	22,925	36,812	43,104	51,669	62,752	73,674	86,326	1,01,253
Net Worth	19,444	23,180	37,104	43,395	51,962	63,046	73,969	86,620	1,01,548
Borrowings	23,637	34,252	25,588	42,473	63,158	79,220	91,230	1,16,321	1,49,397
Change (%)	146	45	-25	66	49	25	15	28	28
Other liabilities	451	504	739	1,160	1,768	1,940	2,715	3,802	5,132
Total Liabilities	43,532	57,936	63,431	87,028	1,16,888	1,44,206	1,67,914	2,06,743	2,56,077
Loans	38,308	43,587	51,024	68,222	96,851	1,16,868	1,38,648	1,71,565	2,14,036
Change (%)	83	14	17	34	42	21	19	24	25
Investments	0	0	2,482	1,446	1,077	2,122	2,334	2,568	2,825
Change (%)				-42	-26	97	10	10	10
Net Fixed Assets	279	249	328	449	643	1,487	1,859	2,324	2,905
Other assets	4,945	14,100	9,597	16,914	18,317	23,728	25,073	30,286	36,312
Total Assets	43,532	57,936	63,431	87,030	1,16,888	1,44,206	1,67,914	2,06,743	2,56,077

E: MOFSL Estimates

Financials and Valuation

AUM Mix (%)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
AUM	38,922	44,454	50,671	69,148	96,406	1,18,770	1,41,217	1,74,765	2,18,022
YoY Growth (%)	84	14	14	36	39	23	19	24	25
Disbursements	24,087	12,451	17,562	33,915	48,814	49,697	53,921	69,558	86,948
YoY Growth (%)	63	-48	41	93	44	2	9	29	25

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Spreads Analysis (%)									
Yield on loans	25.2	24.8	25.4	25.1	25.6	25.9	24.6	23.8	23.2
Cost of funds	13.1	11.3	10.0	7.8	8.9	9.4	8.8	8.5	8.4
Spread	12.1	13.5	15.4	17.3	16.8	16.5	15.8	15.3	14.8
Net Interest Margin	17.6	16.5	19.0	20.6	19.9	19.6	18.7	18.1	17.4
Profitability Ratios & Capital Structure (%)									
Debt-Equity ratio	1.2	1.5	0.7	1.0	1.2	1.3	1.2	1.3	1.5
Capital adequacy - CRAR	52.9	58.9	75.2	67.2	50.5	50.1	42.2	39.5	36.7
Leverage	2.2	2.5	1.7	2.0	2.2	2.3	2.3	2.4	2.5
Int. Expended/Int.Earned	29.1	32.3	25.0	17.8	22.1	24.1	23.8	24.0	25.0
RoA	7.8	7.1	7.5	8.0	8.2	8.2	7.4	7.1	6.8
RoE	15.8	16.8	15.0	15.0	17.5	18.7	16.8	16.5	16.6
Cost/Productivity Ratios (%)									
Cost/Income	30.1	29.3	32.0	34.7	32.2	30.9	31.5	32.6	33.2
Op. Exps./Avg Assets	5.1	4.2	5.0	5.8	5.4	5.2	5.1	5.1	5.0
Op. Exps./Avg AUM	5.7	5.1	6.4	7.3	6.7	6.3	6.1	6.1	5.9
Other Inc./Net Income	7.1	5.0	5.5	2.4	4.5	4.5	5.2	5.0	4.6
AUM/employee (INR m)	10.4	11.3	8.9	9.4	10.3	10.0	11.4	12.8	14.7
AUM/ branch (INR m)	154.5	169.7	168.9	185.4	185.4	158.8	170.6	192.5	220.7
Empl. Cost/Op. Exps. (%)	74.2	77.3	77.2	79.1	77.2	76.8	75.3	74.6	74.1
Asset Quality									
Gross NPAs (INR m)	532	452	530	939	1,328	2,123	3,601	3,998	4,852
Gross NPA (%)	1.4	1.0	1.0	1.4	1.4	1.8	2.6	2.3	2.2
Net NPAs (INR m)	438	371	345	476	608	1,034	2,053	2,199	2,669
Net NPA (%)	1.1	0.8	0.7	0.7	0.6	0.9	1.5	1.3	1.2
PCR (%)	17.7	18.0	34.9	49.3	54.3	51.3	43.0	45.0	45.0
Credit costs (% of gross loans)	1.6	0.8	1.0	0.3	0.67	0.83	1.50	1.40	1.30
VALUATION									
Book Value (INR)	77	91	127	149	178	214	251	294	345
Price-BV (x)	7.4	6.2	4.5	3.8	3.2	2.6	2.3	1.9	1.6
EPS (INR)	10	14	16	21	29	36	39	45	53
EPS Growth YoY	57	37	10	33	38	27	7	15	18
Price-Earnings (x)	55	40	36	27	20	16	15	13	11
DPS (INR)	0.0	0.0	0.0	0.0	0.0	2.0	2.0	2.5	2.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4

E: MOFSL Estimates

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