

August 4, 2025

**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, 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 July 29, 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 SM**  
**Company Secretary & Compliance Officer**

**Five-Star Business Finance Limited**

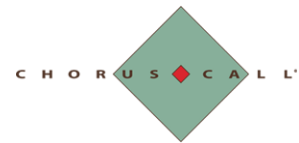
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“Five Star Business Finance Limited

Q1 FY '26 Earnings Conference Call”

July 29, 2025



**MANAGEMENT:**     **MR. LAKSHMIPATHY DEENADAYALAN – 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. AJIT KUMAR -- JM FINANCIAL INSTITUTIONAL  
SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Five-Star Business Finance Q1 FY '26 Earnings Conference Call hosted by JM Financial Institutional Securities 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 this conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ajit Kumar from JM Financial Institutional Securities Limited. Thank you, and over to you, sir.

**Ajit Kumar:** Thank you, Shruti. Good morning, everyone. I'm Ajit Kumar: from JM Financial. Welcome to 1Q FY '26 Earnings Conference Call of Five-Star Business Finance. To discuss the company's earnings, we have with us 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 JM Financial, 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, Ajit. I welcome everyone for this earnings call, and thank everyone for taking up this call in the morning. With me, Ranga, the CEO; and Srikanth, the CFO, we three jointly take up this earnings call. Let me not run through the numbers because I know the numbers are with you for some time. Instead of getting into the numbers, I want to take you through on the Five-Star's thought and aspect and remedies what we have been doing on this pain point.

So let me start. In this financial ecosystem, the pain do not start with one and end with the same. It affects the entire ecosystem, but the pain differs from lender to lender. One who has better underwriting and good collection infrastructure will have the least pain. Yes, from Five-Star's Q1 performance, the number shows the pain. If compared with others in the segment, then we will realize the stress is far lesser for us.

As I said, I want to spend some time with you all on following points. What is the cause for this pain? Where is the pain coming from? What are the remedies taken? Where are the early signs of improvement coming from? And what is our outlook for financial year 2026?

Let me begin with a very important question. Where is the -- what is the cause for this pain? Yes, you all know it is overleveraged, highly indebted low financial literacy in small ticket borrowers, which has led to this overleverage. Last 24 to 18 months, we saw high spurt in credit moving towards this segment in the form of micro finance, personal loans and credit cards. To add to this, the states like Karnataka, the ordinance, which was enacted early this year has added more pains to this.

Where is the pain coming from? We see the pain in small loan borrowers, to be more specific, below INR3 lakh ticket size and customers from risky locations and colonies. They were the target customers of microfinance personal loan lenders. We see the more pain coming from these ticket size and these segments and these localities.

Most important, what are the remedies taken by Five Star? We have slowed down our exposure to below INR3 lakh loans and started to focus on INR5 lakh to INR10 lakh segment, but our sweet spot will remain in INR3 lakh to INR5 lakh. Even in INR3 lakh to INR5 lakh segment, highly indebted customers and customers from risky locations and colonies are avoided.

With respect to overleverage, we check the leverage of customers prior to sanction of our loans, and we adopt conservative practices on debt burden ratio and LTV. However, the problem has cropped up with customers overleveraging themselves post taking our loans, which is what has caused some level of stress.

To address this, we are making some changes on customer profile and underwriting side. We are focusing on better quality customers, more financially literate customers who will not overleverage themselves even during the times of high liquidity. This also means we are focusing on higher ticket customers, who have better financial understanding and historically, we have also seen this portfolio performing much better for us. We are also avoiding certain customer profiles, certain geographical areas where we find collections problems and consequent asset quality stress.

With respect to income evaluation, we are also avoiding or giving much lower weightage to customers with high proportion of agri and other seasonal incomes. Further, wherever we find multiple member of the family involved in the same self-employed employment, we are restating the incomes to a much lower level so that we protect our downside.

Where are the early signs of improvement coming from? The lessons learned by the lenders who have caused this pain, the uncomfortable runaway pace at which the consumer credit was given for last few quarters have stopped. The new guardrails has been put in place by MFIN. This will ensure no new overleverage pain is caused in the system.

Since many or almost all microfinance and personal loan lenders have written down bad loans, this is -- technically, the overleverage has come down to small borrowers, hence secured lenders like us will start seeing pickup in collections going forward. To be more data specific, our July month collections till now comparing with April month has shown good improvement both in D1C1 and collection efficiency.

Finally, coming to our outlook for the financial year 2026. This quarter, I mean, July, August, September, this quarter, we'll see the pain to continue, but will get stabilized by quarter end. Second half year from December and March quarter onwards, we will see improvement in growth, collections and leading to better asset qualities.

Hence, we are not revising our growth and profit guidance of 25% growth and 12% to 15% profit for the financial year 2026, which we gave last quarter. If any out of control happens due to

external factors, we will come back on this. The credit cost guidance for the full year will be in the range of 1.20% to 1.25%.

To conclude, yes, we admit we have slipped from our own standards, but let me assure you all, Five-Star's secured lending product with better underwriting and good collection infrastructure, we'll be the last to get hit and first to bounce back. We will bounce back quickly.

Now on the second most important development, which I wanted to share to you all. Yes, you would have seen the exchange notification. Ranga, our CEO, is stepping down. He is resigning from our company. He's been with me for the last 10 years. He's been in the company for the last 10 years and this remarkable track record with me taking this company from nowhere to a unicorn and from a unicorn to a listed entity has spoken a lot about his credibility and capability.

For last few months, he has been sharing his desire to be an entrepreneur -- to take up the entrepreneur activity and being an entrepreneur myself, so I felt this is not right to stop him. Hence, finally, in the month of June, we both agreed and we took this to the yesterday's Board meeting, and Board have approved this. And he will be relieved from the company's activity from 14th August onwards.

Having said that, I'm an operational guy. I've been operating this company and built this business model for the last 22 years. And we have a strong second line management team across all functions. So we see no disturbance on Ranga's exit, and I'll be taking up the entire operational work. As usual, we both were sharing it, 60%, 65%, I was always doing it and he was doing 30%, 35%, and we exchange states in a year or a quarter. So little overlook has to be -- has to come from me, and we have a very strong level -- second level management, as I said earlier, across business. collections, credit, operations in all departments. So that will augur well for the growth of the company as usual.

So with this, let me hand it over to Srikanth, CFO, to take you through our numbers.

**Srikanth Gopalakrishnan:** Good morning to all of you. As Mr. Pathy said in his opening remarks, this has been a little bit of a muted quarter by our standards. We would have certainly liked to perform a lot better. But for reasons which are a bit beyond our control, the performance has been a bit muted, but we are very confident that we will be able to quickly turn around from where we are to come back to our earlier levels.

I'll just take a few minutes to give some update on some of the numbers for this quarter and for the year-to-date, which pretty much is the same. Despite the constraints that we are seeing and the crisis that has been caused by the overleverage, we continue to invest in physical infrastructure.

We have not stopped our branch opening nor have we stopped splitting the branches which have become bigger. So during this quarter, typically to a Q1 trend, we have opened about 19 branches, so which is -- which ended with 767 branches as of June 30, '25. Our customer base is at about close to 4.8 lakhs.

Consciously, we slowed down on our disbursements because during periods of stress, it is not prudent to be aggressive on lending. The focus was a lot more on collections. We -- even from the management oversight perspective, we put a lot more on collections. So the disbursements had a little bit of an impact. It was almost flat compared to the same quarter last year. Consequently, AUM growth was also a little bit muted at about 5% quarter-on-quarter and 20% year-on-year.

But this is all on account of the current crisis that we are seeing. Once we turn around and get our numbers back on track, we'll get back to our growth target as well, which is why we are not revising our growth guidance from our stated 25% level. We have ended with a portfolio of slightly short of INR12,500 crores.

On the financial metrics, consequent to the yield drop that we did on our incremental loans from November of last year, and we had guided that every year, you will probably see a compression in yields by about 60 to 75 basis points, because we did drop our incremental yields by about 200 bps. So you have seen a 20 basis points drop in the current quarter. Our yields stood at around 23.5%.

But the positive aspect that we have seen is in 1 quarter, we have been able to reduce our cost of funds by about 10 basis points, thanks to the repo rate cut by RBI and our ability to negotiate better with lenders. Our incremental debt has come in at 8.59%, 70 basis points lower compared to the last quarter, which is a very significant drop to be achieved in 1 quarter.

The cost to income has inched up a little -- has inched up quite a bit primarily because of the credit cost. If you strip the credit cost away from it, I think we are largely flat, probably a percentage point up because of the increments that we'll give, the effect of which will be caught up over the next 3 quarters.

But the credit cost has been on the higher side. It has gone up from about 0.7% to 1.3%. So we are revising our guidance a little bit to be at around 1.2% for the full year. This has resulted in an ROA of 7.24% and an ROE of about 16.57%, but we should be able to pick up these numbers as we go forward, especially on the ROE with growth coming in and leverage going up.

As I said, on the liquidity side, on the funding side, we have made very good progress during this quarter. So we have -- while the quantum raise has been a little lesser given typical seasonality of first quarter, but the cost is extremely attractive. And also during the quarter, we have had our outlook on our rating increase from stable to positive, both by India Ratings and CARE Ratings. So hopefully, that shows the trajectory of the ratings to come in the next few quarters.

Overall, for the quarter, we had clocked a profit after tax of INR266 crores, which is a 6% growth on a year-on-year basis. But compared to the last quarter, it was down by 5%, primarily on credit cost. We also maintain a good level of provision coverage. So if you look at the overall provision coverage on the portfolio, it has gone up from 1.63% to 1.94%.

And on Stage 3, we continue to maintain more than 50% of provisions. This also has a good amount of overlays that we have built on customers where we possibly saw some kind of an

overleverage stress, people who moved stages in the same quarter, moved multiple buckets in the same quarter.

So the number that you're seeing has a good amount of overlays. As we go forward and our asset quality gets better, hopefully, we will start seeing some release of these provisions or the necessity to build incremental provisions will be a lot lesser. Our net worth stood at a little over INR6,500 crores. So the task before us is cut out.

We have taken necessary remedial measures, and we are completely focusing on what to be done to ensure that Five-Star gets back to its own standards, and that is something that will keep us busy for the next 1 to 2 quarters. Hopefully, we'll keep meeting you as we go forward with better numbers.

So we'll take a pause and happy to take the questions from any of you. Thank you.

**Moderator:** The first question is from the line of Mahrukh from Nuvama.

**Mahrukh:** So I have a few questions. Firstly, that collection efficiency for the quarter is at 96.3%. So what needs to change in the macro to take it higher, right? Because this is kind of a lagged impact from leverage. So unless things change in the macro and these are secured loans, so people do want to not have their properties sold off or not having to sell their property and yet they are defaulting.

So what needs to change in the macro? And is there visibility -- good enough visibility that, that will, right? Because I think other banks and other lenders have also pointed out to incremental stress in a few segments. So that's my first question.

And then one lender said on their call that they are seeing incremental stress on South-based mortgages because they had acquired -- so AU said that and they had possibly acquired Fincare. So is it the same overlapping segment? Usually banks don't operate in your segment, but they did an acquisition, so asking. So is this like stress in the South-based mortgage segment? Or how do we view it?

**Lakshmipathy D:** Yes. Thank you. I'll go one by one. First, from the collections question, what you asked. See, from the macro perspective, as I said, I believe two things, which I feel these are the green shoots from a macro perspective. One is the microfinance lenders and personal loan lenders, they have taken up the credit growth more sensibly.

To add to it, the guardrails, which has been put in place is effectively working out is what I'm hearing from the market. So I believe no fresh overleverage has been created to any customers or any families going forward. That's the first green shoot I see.

But having said that, what will happen to the already customer who sits on high overleverage. That is where the key difference comes between a secured lender and unsecured lender. As I said in my opening remarks, you see quite a bit of write-downs happening from microfinance and personal loan lenders for last 3 quarters.

If you see Five-Star, we have not written down any number this quarter. But when a loan is getting written down, especially unsecured loan getting written down and the collection people stop approaching the customers, the secured lenders keep approaching the borrowers always.

So earlier, if there was 2, 3 lenders focusing on collections from our customers, today, it will be only the secured lenders, who will be focusing the collections on the same customers. Good thing to remember is that our economy is doing well, and we see the cash flow is not dropped at any of the middle and lower middle class people, especially who is related to real estate segment, carpenters, plumbers and all. So the cash flows are there. So now the customers will start paying the EMIs to the secured lender, where I said Five-Star will be one among them to see the collections getting uptick.

So to add to that, now we have added more collections people at the ground level. To be more specific, in last quarter alone, close to 200 collection officers have been put in place wherever we see pains, both at the branch level and even at the state level. So this will augur well for our outlook, saying that the improvement will come from next quarters onwards.

On the South based, let me not mention any of the names that what you have referred. From a Five-Star perspective, yes, we got a hit in Karnataka, but that was purely based on ordinance, which was put in place from Jan, and it got spurted out in the March, April, May due to the local politicians, police and financially illiterate customers. But even in Karnataka, I can give you the good numbers. comparing it April to June, you see a 3% to 4% uptick in collections metric in this month.

So that gives us the confidence slowly the ordinance are getting resolved and the registered lenders and secured lenders for -- like Five-Star will be in a very good position in coming months. Other than that, we see some kind of strain or stress in Andhra to be a little specific. But leaving that Telangana and Tamil Nadu in a very, very strong wicket.

**Mahrukh:** Got it. And just in terms of credit cost, in the second quarter, they stay elevated, but they'll stay similar or there's a possibility of higher credit cost?

**Srikanth Gopalakrishnan:** Mahrukh, the possibility of higher credit cost at this point is not existent. We don't expect the credit cost number to go up in second quarter. It will either come down marginally or probably stay where it is and then start decreasing from the second half of the year. But we don't envisage any increase in credit costs for the second quarter.

**Moderator:** Our next question is from the line of Renish from ICICI.

**Renish:** A couple of things. So one is this strategy, right? So you highlighted about we'll be moving towards the INR5 lakh to INR10 lakh ticket size and obviously, we'll continue to focus on INR3 lakh to INR5 lakh. But just wanted to understand what kind of a NIM yield impact do you see due to incrementally higher disbursement in high ticket?

I don't know whether this will be for, let's say, short term or structurally, we'll be moving towards that ticket size. And obviously, that ticket size currently is highly competitive with a lot of



affordable housing guys are doing the product, especially in South. So where do you see NIM yield settling with this revised strategy on the ticket size?

**Lakshmipathy D:**

Yes. See, first of all, INR5 lakhs to INR10 lakhs segment is not new for Five-Star. If you break up the Five-Star's portfolio, close to 15% of our existing customers are INR5 lakhs to INR10 lakhs. In fact, it is a little more if you take above INR10 lakhs also. So this is not a new segment that we are entering into. We are already participating in a good way. What we are trying to say is the less than INR3 lakh segment will be slowly run down.

And to the extent, the INR5 lakh to INR10 lakh segment will be focused. Suppose INR1 lakh to INR3 lakhs segment is close to 30% as you speak, we are intending to bring it down to 25% in this March that 5% incremental growth will come from INR5 lakhs to INR10 lakhs.

But let me be very clear, our main focus will be between INR3 lakhs to INR5 lakhs. That's our sweet spot. So we are not seeing any competition in pricing in INR5 lakhs to INR10 lakhs, because as you mentioned, the people are most interested in above INR10 lakh segment, even average of INR10 lakh segment. So I don't think there is much competition here. We are an existing player in this segment. And we will see that slowly we are inching up close to 20%, 25% of our portfolio in INR5 lakhs to INR10 lakhs segment.

**Srikanth Gopalakrishnan:**

Just wanted to add a couple of points. See one is when we are talking about INR5 lakhs to INR10 lakhs, we will be more closer to INR5 lakhs than to INR10 lakhs. So it is not like a segment where we are going to tread on the feet of the others. It is still a segment that is not focused by many of the players. The second, our confidence also comes from the fact that we had dropped the rates by 200 basis points.

So to that extent, there is more competitiveness in Five-Star today to reach out to this segment and meet their demand. So we really don't see the need for any significant drop in yields to cater to this segment, which will have an impact on NIM. So I think with our current yields, we should be able to improve this INR5 lakhs to INR10 lakhs. So you will not see any kind of a NIM impact.

**Renish:**

Got it. Got it. But if you can share the yield difference between these two ticket size would be helpful.

**Srikanth Gopalakrishnan:**

So Renish, today, it is not on the basis of ticket size. It is on the basis of whether the customer has a higher credit score, whether the customer is taking the loan for business purpose, which will make him qualify as a priority sector asset for a bank lending. So for that purpose, we give a 1% or a 2% subsidy. Now our belief is people who are taking a higher ticket loan will be a lot more prone towards that. Like they may have a little more registrations. They may be more easier to onboard for Udyam Assist registration. So inherently, they will get a little better rate compared to a, let's say, a sub INR3 lakh customer.

**Renish:**

Yes, yes. I mean that's what the whole point is, right? As we move to risk-based pricing, naturally, the inherent of this customer profile will be better than, let's say INR1 lakh to INR3 lakh or INR1 lakh to INR5 lakh ticket size. So will we be actually capture this risk change. And hence, there will be impact of yield. But I understand, I mean, as you rightly said, as of now, it

is not on the ticket size, and we might be offset this with the cost of borrowing benefit. I mean is that a fair assumption?

**Srikanth Gopalakrishnan:** Yes, Renish. The second is, for now, like Mr. Pathy said, we are probably planning to push this by maybe another 5%. And even if the yield differential is 1% between a priority sector and the nonpriority sector customer, you're not going to see that affecting the portfolio significantly, maybe 5, 10 basis points on the yield, which may comfortably be able to address it through the cost of funds better.

**Renish:** Got it. Got it. And just the last thing on this spike in 30 plus DPD. So if you can just take us through the flow forwards from a 30 to 90 plus in a normalized scenario, and how do you see these flow rates behaving in current cycle over the next 3 to 6 months?

**Srikanth Gopalakrishnan:** Renish, generally, the flow rates from 30 to 90 plus -- 30-plus to 90-plus is largely arrested. So you will probably see about -- historically, and I'm not taking the last quarter because last quarter has been a bit of an aberration. But if you generally look at it, you will probably see about 90%, 95% plus stabilizing in the 31- to 60-day bucket. And whatever flows in out of the 61 to 90-day bucket, we see a DIC1 of somewhere between 90% to 95%.

So you are probably looking at maybe 5% to 10% of loans that you probably slip from a 30-plus to 90-plus historically, that flow rates have seen a little bit of an impact in the last quarter or maybe the last couple of quarters, but we are confident that we'll be able to arrest the flows as we go forward and bring our flow rates back to historical levels.

**Lakshmipathy D:** And Renish, to add a point here, yes, we were talking about the flows. If you see Five-Star's recovery from 90-plus has gone up very well. You all know that we have set up a legal recovery team. Today, it is more than 100 people, 100 advocates on roll. if I can share the numbers in last financial year, on an average of INR12 crores to INR14 crores were recovered from NPAs.

I'm talking about 90-plus accounts, 90-plus DPD accounts and written-down accounts. So this year, from June, September, December, March, you will see that moving close to INR18 crores to INR20 crores of recovery every quarter. So you will see close to INR70 crores to INR80 crores of NPAs getting recovered. So that will also add, even though there is some flow from 5% or 8% flow from 30-plus buckets to 90-plus.

**Renish:** Got it. Sir, just a last thing a bit from a clarification side. So we have been talking about setting up or strengthening our collection team in the sense. So where do we stand on that front?

**Rangarajan Krishnan:** Renish, this is Ranga here. I just wanted to state that the collection team strengthening is clearly happening. Today, what we are doing is we are looking at specific pockets where there is higher collection stress, which is the pockets of both Karnataka and in Andhra Pradesh. In both this, Mr. Pathy has just spelled out that we have added almost 200 collection officers. So this is more on pin codes and branches where we are seeing more collection stress. I think that support is being given.

Today, overall, we have close to 2,000 collection officers. So that's a large enough vertical for us to relook at in terms of where we wanted to put collection strength. I think it's largely stable

today. If at all, we see any emerging stress pockets, specific pockets or branches, we will continue to keep adding those. But otherwise, largely, the structure is in place.

**Renish:** Got it. So this 2,000 officers are not only for collection. I mean there is no credit sales target for them?

**Rangarajan Krishnan:** Nothing. These are exclusive collection people today. We have also had a split between they handle what kind of accounts. The collection team today handles all the DPD accounts. So they only handle the arrear accounts. So there is more focus, specialized focus given by the collection team, while the business team handles all the collection -- I mean, current accounts only. So for the DPD that we have, this 2,000 is more than adequate, and they have an appropriate supervisory structure above them to be monitored.

I think this entire structure was both from a division of accounts and in terms of adequacy of officers, this got fine-tuned over the last 3, 4 months. Today, we are more or less adequate. I think we should take care of -- we are not seeing any new stress emerging anywhere. So wherever we saw stress, this collection team is already put in place. Hopefully, this should suffice and see us through over the next couple of months.

**Moderator:** Our next question is from the line of Nischint Chawathe from Kotak.

**Nischint Chawathe:** Karnataka is just around 6% of the business. So if you could spell out in terms of how much of the incremental stress during the quarter came from Karnataka? Was it anything meaningful?

**Srikanth Gopalakrishnan:** The NPA, Nischint, in Karnataka did go up. So there was an increase in the NPA number. But the point is given that Karnataka is only about 5% to 6% of our portfolio, it's not a very significant number. So the incremental addition to the NPAs would have been more like INR15 crores, INR20 crores from Karnataka, because the proportion of portfolio is much lower there.

We also saw some bit of an impact on the Andhra Pradesh portfolio, especially on the smaller ticket sizes, where we did see some bit of an impact on the NPA number. And given that that's a much larger portfolio, so it's a combination of 2, but I would say in absolute quantum, Andhra Pradesh costs are a little more stressed given its sizable proportion rather than Karnataka.

**Nischint Chawathe:** We had done a scrub, I think, a couple of quarters back, where we did highlight that the overlap with microfinance customers was not very large and the exposure to stressed customers, again, over there or overleveraged microfinance customers was in single digits. So I was just curious what has really changed? Have people taken loans since then or the same kind of borrowers have defaulted? Or do you see the borrower set who is kind of under stress being completely different this time around?

**Srikanth Gopalakrishnan:** Nischint, one thing that came, and we did last in December, and we have actually done a scrub now. What we are seeing is the overlap has actually gone up, not just with microfinance, but even at an overall level, what used to be about close to 15% for us in December has actually crossed 20% levels. I think we are somewhere between 20% to 25% of overleveraged customers on the book.

Microfinance -- consequently, microfinance has also gone up. So what used to be about 30-odd percent of microfinance. In some states, it has gone up much higher. In some states, it has gone up. I think what we've also seen is, especially in states like Andhra and Telangana, where for almost 1.5 decades, microfinance were not there. We did see the entry of microfinance back maybe in the last year or so. And there has been a little more possibly higher quantum lending by microfinance in those states, which has caused some stress in those pockets as well.

But from a behavior of the over-leveraged customers, we are not seeing too much of a stress in the higher ticket segments, like INR3-plus lakh segments. We are not seeing the over-leveraged customers either defaulting with other institutions also and definitely not defaulting much with us. Where we are seeing the stress is in the lower ticket customers and more so in the overleveraged segment within -- overleveraged customers within that segment.

**Nischint Chawathe:**

Sure. And just if you could share some thoughts in terms of how the -- how kind of things move forward after Ranga's exit. Obviously, it's played a very meaningful role. And I think as a team, you have done very well. So how do you kind of plan to plug that? And how do you kind of arrest any further exit of employees?

**Lakshmi D:**

I can assure you there is no further exit of management team or employees will happen because of Ranga's exit. because, as I said, he has been with me for the last 10 years. And purely to take up the entrepreneur activity, which I said in the opening remarks, he was discussing with me for last some time. So I thought this time I should really encourage that. So I encouraged it. And at the appropriate time, we spoke to the Board, and so we are bringing it in the June quarter.

Having said that, Ranga reports to me. So I'm always an operational guy in the last 22 years of my work in Five-Star. So it is one more added few states to me. But at business and collections, I can name there are 3 strong management people, Vishnuram, who's the COO and Sathya, who's the CBO and Murali, who is the Head of Business, is already there in the system.

So along with them, I'll be the fourth person to take care of business and collection alone. So with this strength, you can see that there's no -- nothing gets affected and business will be as usual for Five-Star. And as I said, other departments like credit, IT, you can see from our management team, there are already chiefs and deputies there. So we don't see any issues because of this exit.

**Nischint Chawathe:**

Got it. And just on the incremental cost of funds, going back to Srikanth, do you think this 8.6% -- I mean, it's a very sudden drop. Do you think it is kind of a function of the mix? Is it sustainable? Or where do you see this going?

**Srikanth Gopalakrishnan:**

So the thought, Nischint, is that will it stay at 8.60%? We don't think so because we have borrowed a little lesser this quarter, and we have only taken from banks. Having said that, we would want to continue the diversification and not lose the benefits that we derived in the last year. When we go there, I think the cost would be a little higher.

But our guess is, I think it is definitely not going to go beyond the level. So 8.60% may read more like an 8.75% levels for the full year. But I think we should be able to manage at 8.75%

for the full year. At this point, I don't really see why it should cross 8.75% on the incremental borrowings.

**Nischint Chawathe:** Got it. And best wishes to Ranga for his future endeavors.

**Moderator:** Our next question is from the line of Parag Jariwala from White Oak.

**Parag Jariwala:** One question is if you can just elaborate that in 1Q, let's say, April, May, June, how has been the collections and any DPD movement has taken place, if you can? Just to know that whether the pain was more in the month of April, May or it was more in the month of June. That is one question.

Secondly, one question is that how are you approaching the DPD customers currently? I mean, are you started now proper recovery in the sense that giving notices and possessing the property? Or are you still willing to give 1 or 2 installment time and then proceed with the harsh recovery, if you may call it? So yes, these are my two questions.

**Lakshmipathy D:** Yes. Yes, Parag, let me go one by one. I think first from the performance of last quarter, April, May and June, more or less, all the 3 months were reacting a little lower comparing to our standards of collections. So there's no much difference between April was good or June was good. All 3 months was not good as per our standards.

But July onwards, since I shared my numbers, I mean, my performance with you, July looks really impressive. If this impressiveness continues in August and September, you will see much stronger stabilization in the Q2, and that will also seed us to better collections in Q3 and Q4, as I stated earlier.

On the second point, DPDs focus, when Ranga answered a question, we were very clear that now the accounts, both current customers who have no DPD and the customers who have DPD is being segregated and the customers who have no DPDs has been handled by the business team. So they are much softer customers, much easier to handle and mostly, they will get the EMIs cleared by themselves. So that leads to only DPD customers. The entire DPD customers or what we call arrear customers are handled by the entire collection team.

The 2,000 officers and more officers to join in this quarter, along with the supervisory layer, now they are starting to focus only on the DPD customers from April onwards. So you -- we would have -- we have seen a good improvement in this quarter beginning onwards. So that's where we have changed our approach.

The team that was handling both the current and arrear was now being split. The current is now handled by business team who are sourcing the files and the entire arrears has been handled by the collection specialist, who will focus and follow up with the customers more so that your EMIs are recovered on time.

**Moderator:** Our next question is from the line of Vikas Mistry from Moonshot Ventures.

**Vikas Mistry:** Sir, just harping on the same point of collection efficiency, can you quantitatively define that what has been the collection efficiency in August?

**Lakshmipathy D:** Can you come back?

**Vikas Mistry:** Yes. Just on collection efficiency, as you say that this data in December, again, the overlap is higher, and we continue to see collection efficiency dipping, but what gives you so much confidence that we will not be having higher credit cost? And can you give me quantitative figures on August collection efficiency numbers?

**Srikanth Gopalakrishnan:** So see, this -- it's still there are 3 more days to go, and you will have some good amount of collection efficiencies coming in the last 3 days. So at this point, like Mr. Pathy said, compared to the first month of last quarter, we are better off, but I don't think we'll be able to give any specific numbers at this point.

**Vikas Mistry:** Like we can connect after month end.

**Srikanth Gopalakrishnan:** After the month end, we can see if we can give some information to the entire public. Let's see. I don't know how we -- generally, we don't have a practice of publishing information to specific -- on a month-end basis or on the performance of the month. But let's see if we can do something. But what we are seeing is the trend is definitely improving compared to the first month of last quarter, it's looking better.

**Vikas Mistry:** Thanks, on the Disclosure, if you could be able to give. And second is that on overleverage. So how can you quantitatively define how much that tightening of new loan generation we have done? Let's suppose earlier we were giving loans to the customers which are having maybe 2 loans? And what is the condition right now to address this overleverage prices not happen in future?

**Srikanth Gopalakrishnan:** See, Vikas, prior to the sanction of a loan, we always had a very stringent underwriting mechanism. As we discussed, we take all the obligations of the customer. And after knocking the obligations from the incomes, we only go for a 50% debt burden ratio. So our underwriting was quite stringent. The problem is once you have given the loan, there is no way that you can protect the customer or stop the customer from not overleveraging himself. And given the profile of our customers who are not very financially literate or savvy, when liquidity is available, they will go and overleverage themselves.

So that was the problem that we saw, which is where in his opening remarks, Mr. Pathy addressed this. Today, we are moving away from this profile of customers. We are getting to a little more higher quality profile of customers, whose financial understanding is a lot better and who will not overleverage themselves for frivolous reasons even when liquidity is available.

So the question is not about how many lenders have given to them before we sanctioned the loan. That was always under our watch. The problem was how many lenders gave money to that particular customer after they have sanctioned the loan. Moving to a different profile of customers, we believe that, that will get addressed. And obviously, the guardrails that

microfinance have put in should also ensure that the overleverage problem does not drop up again.

**Rangarajan Krishnan:** One point to add here, Vikas, is if you can look at the number of officers that we have and the number of branches that we have, both have significantly gone up. But despite that, if you look at the disbursements, it's more or less flat. That only shows you that even though the sourcing is -- volume is high, we are that much more choosy in terms of whom to give and whom not to give at this point of time, which means the rejections in credit level has gone up. So it's a tightening right at the sourcing level in terms of at least potential customers who we think might get overleveraged in the future. Those are trying to get arrested right at the sourcing stage.

**Moderator:** Our next question is from the line of [Subhanu Bangal from Tree Head Capital]

**Subhanu Bangal:** My question on cost-to-income ratio. This quarter, cost income has almost significantly gone up. How -- what is the guidance going to follow up?

**Srikanth Gopalakrishnan:** Subhanu, so like we said, the cost to income has gone up primarily because of credit costs going up. So if you break up the 41%, I think it's broadly 33% cost to income and about 8% of credit cost to income. So that 33% will be largely range bound.

We should probably see somewhere around 30% to 32% of cost coming in because this quarter also has the increment impact, right? You have not seen incomes fully coming in, but the cost starts hitting from day 1. The credit cost should also normalize because we have taken a good amount of provisions. So our belief is the cost to income should stay somewhere around 35% to 37% at least for this year.

**Subhanu Bangal:** From H2?

**Srikanth Gopalakrishnan:** From H2, that's right.

**Subhanu Bangal:** Yes. My second question on AP. First is AP collection efficiency improved from the June quarter? In July?

**Srikanth Gopalakrishnan:** For July? Yes.

**Subhanu Bangal:** Yes, yes.

**Srikanth Gopalakrishnan:** So Subhanu, like I said, July is still not over. We still have 3 more days to go, and there are quite a good amount of collections that generally happen in the last 3 days. So at this point, even AP is looking better compared to April, which is the first month of last quarter. We don't have -- we'll probably be able to give you the final data only after the month is over.

**Moderator:** Our next question is from the line of Karthik Srinivas: from Unifi Mutual Funds.

**Karthik Srinivas:** I just had two questions. One, on the attrition rate at the loan officer level, what would be the ballpark attrition rate at the loan officer level and the borrower count per loan officer, has it gone up or down after we have seen some amount of stress building up? So that's question number one.

And question number two, just taking cue on the remarks that you have had on underwriting practices. I just had -- see, we submit -- how often do we submit the loan details to CIBIL or TransUnion so that the problem of overleverage is arrested at the household level. So how often do we submit the data to them?

**Srikanth Gopalakrishnan:** Karthik, on your first question, we have not seen any significant spurt in attrition over the last, let's say, 3, 4 quarters. It is slightly on the higher side. As we have said, especially if you look at the officer level, the business and collections, this number on a quarterly basis is anywhere around 17% to 18%, which means you're talking about 65% to 70% of attritions happening at the officers on an annualized basis.

That number has broadly remained the same. You will probably see 0.5% move this way, that way. Most of these comes from people who have stayed with us less than 1 year. So if the officers continue for more than 1 year, the attrition is significantly lower there. It may even drop to as low as about 20%, 25%. So nothing very peculiar to what has happened in this quarter is reflecting in attrition.

On your second question, today, we submit data to the bureau on a fortnightly basis. So which is something that we are mandated to do. And we always are very high on compliance. So we submit the data to the bureaus on a fortnightly basis.

**Karthik Srinivas:** Got it. Because since the MFI companies that we often speak to submit on a monthly basis, so how do we ensure that at the time of -- or during the course of the loan, the indebtedness at the household level is monitored. So do we take any extra steps? I understand that once we loan it to them, we can't do much about it. But do we have -- have we put in additional guardrails as to how we manage the indebtedness at the household level on an ongoing basis, maybe in our collection efforts?

**Srikanth Gopalakrishnan:** There is a regulatory necessity for even MFIs to submit data on a fortnightly basis. So this has come in, if I remember right, maybe in the last about 6 months or so. So today, every institution has to submit data to the bureau on a fortnightly basis. So it is not the earlier practice of where people submit on a monthly basis. So at best, you are probably taking a risk for 15 days and not beyond that.

**Moderator:** Our next question is from the line of Raghav from Ambit Capital.

**Raghav:** I have three questions. So one is just a clarification question that your credit cost guidance of 1.3%, that's on total assets, right, not on gross loans. Gross loans, it would be more like 1.6%, 1.7%.

**Srikanth Gopalakrishnan:** Our ratios are on total assets, average total assets.

**Raghav:** Understood. Secondly, see, how are you thinking about recoveries? I asked this because in this quarter, you haven't written off any loans like you mentioned. And if I look at the trend for the last couple of quarters, there have been some write-offs. And also in one of the previous calls, I think you had mentioned that there was some pressure on customer cash flows, if I remember it



correctly. Today, you seem to sound a lot more positive on that aspect. So is your assessment that the customer incomes are getting better and will get better and that will help in repayments?

**Lakshmipathy D:**

Raghav, let me answer this question. I think the customers' cash flows are not better, but it is staying on where it is. My answer was always there was no dent in the cash flows. Is the cash flows are getting better? No, I've not told that the cash flows are getting better. There is no dent in the cash flows. The bigger problems is not on the cash flows. The bigger problems is the overleverage in the EMI capability of that family or that person has caused the confusion in the minds of the customers whom to pay, whom not to pay.

So that is where you saw all secured, all unsecured MFI getting disturbed 3, 4 quarters before, and it pain still continues. I just saw 4, 5 days back, MFI's results, one gold standard MFI results, which still shows 8.8% of credit cost even in the month of June. So that clearly shows the pain points in MFI still continues.

So now the customers will realize and has to realize that he has to pay it promptly to the secured lenders. So now the time has come for him to differentiate between the unsecured and secured lenders, which he was clubbing for last few months.

Since the collection efforts for the unsecured guys will come down substantially because you all know that if one EMI has gone, the loan has gone for unsecured. So our collections efforts will continue even in a DPD bucket. So that is the confidence which is showing up in July and showing up in my commentary that coming months, our collections will be better than last quarter.

**Raghav:**

That I understand this is that the customer cash flows are where they were before, but there is also a higher percentage of overleverage customers or overlap with MFI. But you think that, that will not result in incremental stress in the coming quarters at best or worst case, the stress will stay at this level and probably come down in the second half. Is that how you...

**Lakshmipathy D:**

Yes, Raghav, that is our belief. That is what I said, what is happening in July month and what is happening from the data is what I see, there is a substantial write-off from these lenders. That means the customers' technical overleverage is slowly coming down. So yes, its liability to repay will only lie with the secured lenders. So Five-Star being a secured lender, we will be first to get that EMI in a normal method, what we used to get before this overleverage crisis step. That is our focus.

**Raghav:**

That's clear. Last question, see, when I look at the net slippage for this quarter, say, as a percentage of disbursement, maybe the disbursements, which would have happened in first quarter of FY '25, that number is at 7% and it has shot up versus what the recent trend was. My only question is, how should one think about NPAs and a static pool of loans in a business like yours?

**Srikanth Gopalakrishnan:**

Raghav, I think this is probably not the representative quarter that you should be considering because obviously, the slippages has been on the higher side. But we are very clearly guiding you that we should be able to control the slippages as we go forward. But I think on this, let me

better understand your data. We can connect offline. I'll better understand your data and give you some sense on what kind of slippages you should probably be assuming.

**Moderator:** Our next question is from the line of Girish Shetty from Girik Capital.

**Girish Shetty:** Just two questions from my side. One is you mentioned that you had a discussion with Mr. Ranga on the -- on his exit since few months. So any succession plan that you've done in that time? Anything you have in mind internal or external for the CEO position?

And second question is, just wanted to understand your model. So if I look at your loan book, like when it was at INR3,000 crores, INR4,000 crores kind of a level, you had a similar number of employees, like 3,000, 4,000. Now at INR11,000 crores, you have 11,000 employees, obviously, because you do a lot of focus on collections.

So just wanted to understand when your AUM reaches INR25,000 crores, INR40,000 crores, INR50,000 crores kind of level, would you be needing the same number of employees? So just wanted to understand on the scalability part of the business. Yes, those are my two questions.

**Lakshmipathy D:** Yes, I'll go one by one. On the first part on Ranga, clearly, now the focus for me and the management team will be getting back the business collection and quality for our Five-Star standards as quick as possible. So that is our first intent, and that is where our entire focus is going to be.

As I said in earlier question, the depth of management team in each department, especially business and collection department, as I said, along with me, there are three management people who are heading at Chief and head levels will be functioning with me for -- to ensure that growth collections are back on track. That is the first and the top priority that I've taken now.

Yes, the succession will be -- has been discussed in yesterday's Board, and we will take it to the Board at an appropriate level, appropriate time. But I can surely tell you that next 9 months, the focus in my mind will be only on the operational side, not on the succession side. But maybe at the end of March, I can give you a more clarity on the need and appropriate time that what Five-Star needs for a CEO role. So till that point, I'll be the complete in charge of operations. That is what Board intend to do, and that is what I'm intending to do.

On the second question, yes, you're right, for some years as the growth momentum was kicking in for Five-Star, the average employee to AUM was around INR1 crore, but our historical numbers goes up to INR1.25 crores per employee. That is what we have been saying always. At a steady level, maybe INR30,000 crores, INR50,000 crores, you will not see the same INR1 crore per employee. Maybe you'll be seeing INR1.25 crores per employee, and that also augurs well when we are moving up the ticket size.

**Moderator:** Our next question is from the line of Pranav Gupta from Aionios Alpha Managers. Your voice is a bit low. Can you please...

**Pranav Gupta:** Sir, the first question is on the DPD movement and the trends that we've seen this quarter. Based on the collections that we've seen in July, how do you think about the D1C1 collection efficiency

and flow forward from 0 DPD? Has that stabilized? Will we probably see another couple of quarters of further downward movement before it stabilizes? How should one think of that? Broadly talking on the D1C1 bucket?

**Lakshmipathy D:** Yes, Pranav, I think for this quarter, you will see much stabilization coming into the picture. You will not see much of improvements in DPDs. But as we step into second half, December and March quarter, the growth kicks in. Growth also brings in a good amount of current customers to the current bucket denominator effect.

And you see the collection efficiency and D1C1 are going up in December and March quarter, you will see the improvements coming from December and March. This quarter, as I said in my earlier opening remarks, you will see a much stronger stabilization at the quarter end.

**Pranav Gupta:** Right, right. And just a follow-up on this. You mentioned one could see much higher recoveries coming in from the NPA bucket. Is it safe to also assume that given that we've put in a lot more people in collections on the DPD buckets, you'll see pullbacks coming in from this quarter or maybe that is something that we sort of start expecting from next quarter onwards?

**Lakshmipathy D:** See, pullbacks currently, we are not committing anything on pullbacks. But currently, what we are committing is a stabilization of customers in their respective buckets. I think that is the first and foremost effort that we will put in. Of course, there will be a few customers who will be coming back to the better buckets.

What I mentioned earlier on that good amount of recovery coming in, I was mentioning about legal recovery. That is you recover your money from the deep delinquent customers, 90-plus customers and written down customers, that will see close to INR70 crores to INR80 crores getting recovered in this financial year is what I mentioned.

**Pranav Gupta:** No, absolutely. That's very clear. The second question is on the opex bit. Obviously, this quarter, we saw the cost ratios inch up a little bit purely because of business being slightly on the slower side. But over a 2-, 3-year perspective, how should one think about cost to average AUM or cost to average assets incrementally?

**Srikanth Gopalakrishnan:** Pranav, you're talking about opex or credit cost?

**Pranav Gupta:** Opex. We saw that inch up a little bit purely because of slower disbursements. But on a more medium-term basis, how should one think about cost to average assets?

**Srikanth Gopalakrishnan:** We are not changing our guidance on any of them. The only guidance we are changing is on credit cost to average assets, which we used to talk about closer to 100 basis points, 75 to 100. That number, we are pushing it to 1.2%. Other than that, the guidance that we gave on the opex, which will probably be about 5% -- at 5% levels, continues to hold good. No changes to our guidance on that.

**Moderator:** Our next question is from the line of Shrinjana Mittal from MS Capital.

**Shrinjana Mittal:** Just one question. Internally, we track an asset quality metric call early mortality account. So is it possible for you to share like what was that number for this quarter versus same quarter last year and last quarter?

**Srikanth Gopalakrishnan:** No, are you talking about quick mortality?

**Shrinjana Mittal:** Yes, quick mortality, yes.

**Srikanth Gopalakrishnan:** See, that number will be very small, yes. See, the number has gone up. So in percentage terms, that number will be extremely low. But in terms of the number of accounts, yes, there has been an inch up what used to be maybe 75 to 100 accounts has actually gone closer to 150, 160 accounts for this quarter.

So this is basically whatever has turned NPA during this quarter and disbursed in the last 12 months. So that number has inched up a little bit. But I think in percentage terms, if you look at it, it will not be very, very meaningful.

**Shrinjana Mittal:** Yes. Got it. And this stress is coming from the same set of customers, which we earlier spoke about?

**Srikanth Gopalakrishnan:** Yes.

**Moderator:** Our next question is from the line of Rakesh Kumar from Valentis Advisors.

**Rakesh Kumar:** So sir, just on this overleveraging part, like as a preemptive measure, like how soon do we get the understanding that the borrower whom we have lent is now overleveraged, because as you said that you get the CIBIL filing is happening around 15 days' time. So how soon do we get that information that the borrower is overleveraged now?

**Srikanth Gopalakrishnan:** Rakesh, we can get it whenever we want because the credit bureaus today have a scrub that they can give us on -- any time we want. But generally, doing this, it has its cost implications also. So we do it at best once in quarter, but there are times when we probably do it once in half a year. But in a time when we are facing some level of stress, I think we can get to know of this within the next quarter.

**Rakesh Kumar:** Yes. So I don't know, like you will -- as a practitioner, you will know better that should we increase the frequency of the same or not subject to the cost involvement issue? And secondly, after having known that, like how soon we can wind up our positions or maybe increase the security level of the assets from the borrower?

**Rangarajan Krishnan:** Rakesh, that's not possible because you have given out a loan based on a specific collateral. So if the borrower happens to overleverage, especially post the loan that you have given, there are only 2 things that we can do. One, I think we can try to get to know that information as soon as possible. Second, we can have a close monitoring of that account and increase our collection efforts.

But we cannot recall the loan or we cannot increase the security cover that we have, because the borrower is not giving you an additional collateral to make you more comfortable. So that's not

a practical option. But the practical option is more how do you avoid such customers in future and how do you increase the monitoring level for this customer who has gone a little bit overlevered.

**Moderator:** Our next question is from the line of Divyansh Gupta from Latent PMS.

**Divyansh Gupta:** So the first question was that, see, the MFI stress that was going on was something as a known factor. And we know that typically people will default on the unsecured first and then finally, they will stop paying the secured loans, right? So the question is that was this quarter's number was much worse than what we had anticipated because we would have seen all the cycles in the past, right?

So I just wanted to get a sense, was it a bigger surprise than what we would have estimated? And how should we understand that how much pain is more or less because people are saying at least on a recognition basis, it is at least Q2 should also be affected by at least one MFI players?

**Lakshmipathy D:** So you're right that this came in a bit surprise. Otherwise, I would have guided in March quarter itself that this is coming up. If you see December to March, our credit cost has -- our NPAs were only gone up 10, 15 bps, which is normal, right? Only in this quarter, you see the NPAs shooting up. So this was a little bit of surprise to us.

But when we did a study in April, May and June and found out the cause of the pain, that's what I started my commentary saying that what is the cause of this pain, where this pain is coming from. And based on that, what are the remedies that Five-Star has taken from June, July month onwards.

So it was a surprise for us, a bit of surprise. But also, I'm confident because finally, MFIN guardrails are put in place, personal loans and fintechs are wiped out. So this gives us confidence that no more overleverage will be created for a time being period at least to the customers of Five-Star.

And we are also moving away from the low segment, financially illiterate people. So this would all put a clear fencing that going forward, our asset quality will be much better. So yes, it was a surprise, a bit of surprise in the June quarter.

**Divyansh Gupta:** Got it. And the second question associated with, let's say, the asset quality only. Is that ex of Karnataka and Andhra Pradesh? Is the asset quality -- can you just provide a sense on the asset quality ex of Karnataka and AP? And the associated question is that Karnataka, I understand there was the whole ordinance issue, which caused confusion. Any reason why AP specifically has escalated with respect to asset quality?

**Lakshmipathy D:** Yes. I think let Srikanth get that data if he has right now. So till that, I will explain about that Karnataka and Andhra. Karnataka, as you rightly say, it's the ordinance impact, which started in Jan and which is slowly coming down. As we see this month, we are quite 2%, 3% better than where we are in April month collections. So slowly, I think Karnataka is bouncing back in collections first. Business, we are not looking to grow in Karnataka at least for next 2, 3 months.

We'll see how the collections trend is stabilizing there. Based on that, our business call will be taken in that state.

In Andhra, there is no ordinance that took place, but the below INR3 lakh segment was much larger there. So -- and we were gone to some riskier localities, colonies and minority communities where people got confused and got impacted due to unsecured lenders, not paying to unsecured lenders. So they're showing a similar trend to a secured lenders. Hopefully, this month, people will realize and come back on paying their EMIs a bit regularly. That is our hope. So that is where there was a stress in Andhra in last quarter.

**Divyansh Gupta:** Got it. And does that then mean that on an ongoing basis for future, we are going to avoid these, let's say, high riskier place? One question.

**Lakshmipathy D:** Yes, I said in the opening remarks itself, we'll be avoiding INR1 lakh to INR3 lakhs segment where the risk is higher at current period of time. I will not say always, but at current period of time, the INR1 lakh to INR3 lakh segment is avoidable by Five-Star, and we are moving that whatever dip you see in that segment will be added in INR5 lakhs to INR10 lakhs segment.

**Divyansh Gupta:** Got it. And on the CIBIL check, do we do -- while we do -- we will do CIBIL check for the people that are getting in -- with whom we are getting in the loan agreement with. We also do a CIBIL check of all the family members is a fair assumption, right?

**Lakshmipathy D:** Of course, as Five-Star business model always we see -- we say that we lend to a family rather than to an individual. If you see Five-Star each agreement, you will at least see 3 to 4 co-applicants along with the applicant. So the entire earning family members will be taken into agreement. And for the entire people, the CIBIL Highmark credit bureau checks will be done.

**Divyansh Gupta:** Understood. And just the last question, while I'm assuming the data is getting accumulated or processed, is it fair to assume that given, let's say, the situation of NPAs and, let's say, the leadership transition, housing launch is delayed? Or are we still looking to launch something in housing within this year?

**Lakshmipathy D:** Nothing is getting delayed here. The planning is quite active. So let me give you some input in the next earnings call.

**Divyansh Gupta:** Sure.

**Srikanth Gopalakrishnan:** So Divyansh, on the data, if you ask Tamil Nadu and Telangana, like I think I mentioned earlier itself, they are doing much better than the company average. Tamil Nadu's NPA is sub-1.5%. And Telangana's NPA is at about a little over 2%. So both of these are below the numbers for the company. Rest of the country is slightly worse, but not unduly worried there because the proportion is small, and there have been some legacy issues because of which the NPA is looking a little higher. But the two big states of Tamil Nadu and Telangana are performing very well.

**Moderator:** Our next question is from the line of Darshan Deora from Indvest Group.

**Darshan Deora:** My first question was on the LGD or the loss given default. So given the loan book is 100% secured and back to mostly with SORP, what has been the company's actual experience in terms of the loss given default?

**Srikanth Gopalakrishnan:** In seasoned portfolios, we typically see a loss given default of anywhere around 15% to 20%. But this is also not on account of the principal that the company loses because the loss given default computations also assumes the time value, which means the accrued interest will also need to be taken into account. So primarily, we lose money only on the interest component.

But if you look at -- I think this is the data that we used to give till about 4 quarters back. On loans which were NPAs at the time of settlement, not every NPAs, that number will even be a lot better. But at the time of settlement also, if a loan is an NPA, on an average, we recover somewhere around 18% to 20% of IRR on those loans. So the company has not really lost principal on any of its assets, but some bit of IRR compromise is what we end up doing.

**Darshan Deora:** So just to understand, if I were to look at, like, say, the operating history of the company or the history of the company since it began, the actual principal write-off would be negligible?

**Srikanth Gopalakrishnan:** Negligible. So generally, we guide for a credit loss of anywhere around 25 to 50 basis points, but that is all it is.

**Darshan Deora:** Got it. Got it. And just to understand this distinction that you have made in terms of the officers where now the officers who are looking out to origination are only looking at DPD -- sorry, at regular collection and you have sort of this separate team of 2,000 people who are handling the DPD cases. This -- the existing team has been segregated into these 2 separate teams or these 2,000 people have been taken hired or this team has been picked up laterally by hiring people laterally from the market?

**Rangarajan Krishnan:** So Darshan, of this 2,000, we already had a team of close to 1,500, 1,600 over the last few quarters. We have only added the rest of it as part of the ongoing efforts in terms of giving specific support on wherever we see the stress pockets.

But I think what is new is not the -- it's more than -- it's not about the team, but it's about the account segregation between the teams, which have happened over the last 1 quarter. So earlier, what used to happen is we used to divide the segregation of accounts between the 2 teams more by vintage.

The business team used to handle accounts of less than 24 months and the collection team used to handle accounts of greater than 24 months, irrespective of the buckets. But what we have put forth now is the business team will handle current accounts, current buckets and the collection teams will handle DPD buckets.

So that's the split which has happened over the last about a quarter or so. More to give emphasis on the fact that DPD customers require special efforts and special attention to ensure that they are not going forward flows and sort of arresting and getting them back on track.

**Darshan Deora:** Got it. By the time of going IPO, the officer was in charge of -- the same officer was in charge of origination and collection. So there has been that sort of tweaking of the business model over the last 4 quarters.

**Rangarajan Krishnan:** Yes, correct.

**Darshan Deora:** Got it. And good luck, Ranga with your future entrepreneur initiatives.

**Moderator:** Our next question is from the line of Aditya Das, an Individual Investor.

**Aditya Das:** So I had a bit of a longer-term bigger picture question. So I understand 1 or 2 quarters we have increase in credit cost because of the issues in Karnataka. But over the longer term, 3, 5 years from now, I just wanted to understand how do we see the business? What is structurally the ROAs or NIM and ROEs that we expect out of this business? And like what is the sustainable credit cost that you can expect on a longer-term basis?

**Srikanth Gopalakrishnan:** Aditya. So I think whatever guidances that we have given to you in the past, and Mr. Pathy alluded to this also is for the medium term. So for now, I think given the situation that we are in, it's a little difficult for us to give you a very long-term guidance. But probably for the next 3 years, we intend to grow at a CAGR of 25% on the loan book.

We will definitely see profit growing at 15% to 18%. This year may be a little muted because last year, we dropped our rates, so which is why we were guiding for a 12% to 15% for this year, but that number will pick up over time.

ROAs will certainly drop because we will keep continuing to increase the leverage. So if you look at the next 3-year kind of a picture, we should probably be operating anywhere around 7-ish kind of an ROA. And assume if you are able to get to a 2x, 2.5x kind of leverage, we should -- rather, I would say, debt equity, maybe a 2x debt equity, which means close to a 3x kind of a leverage, we should be looking at anywhere around 18% to 20% of ROE for the next 3-year horizon.

The only change that we have made is our guidance on the credit cost, which we used to talk about 80 to 100 basis points. We are pushing that number to about 1.2% because there could be some macro level issues that keep cropping up now and then.

And for us to operate at a tight credit cost of 80 to 100 basis points, especially when we are becoming a lot bigger, we'll probably, let's say, a INR20,000 crores, INR25,000 crore portfolio by then, would mean it will be quite a bit of a stretch. So we are pushing our credit cost guidance to about 1.2%. Other than that, none of the other guidance has changed. Whatever we have been giving in the past continues to hold good.

**Aditya Das:** Okay. Just one additional question here. So if ideally we are moving the portfolio under INR3 lakhs to more like INR5 lakhs to INR10 lakhs segment, should not the credit cost be -- like the credit cost guidance should ideally remain the same or come down because those segments should ideally have better quality customers even on a longer-term basis?



**Srikanth Gopalakrishnan:** We are not planning to move the whole stock there, right? So maybe you'll probably see 5% being moved year-on-year. So which can have a benefit on the credit cost, but will it be significant or material? I think we'll probably take a look as we go forward and then maybe need be look at the guidance at a little later point of time.

Today, we would like to be a little more conservative on our guidance given what we have seen over the last few quarters and which is where we are guiding you for 1.2%. If at all, you may probably see some positive surprises going forward. But yes, at this point, we would like to continue with our guidance of 1.2%.

**Aditya Das:** Got it. And just if I could squeeze in one more question. Again, it's a little bigger picture. How -- like what do you see the opportunity size in this segment that you're really catering for now if you kind of move 5% to 10% of your portfolio to INR5 lakhs to INR10 lakhs. So what is the opportunity on a longer-term basis that you see this INR5 lakh to INR10 lakh and INR3 lakh to INR10 lakh segments? And how big can our loan portfolio really be considering all of this?

**Srikanth Gopalakrishnan:** You would have seen in our DRHP and a few other DRHPs that came post that, where the opportunity for this segment is quite high, and this is coming from the industry report that CRISIL has been doing. We also had some IFC follow-on studies on their original 2018 report. The opportunity size is very high.

Some people talk about INR22 trillion. You talk about -- I think it's a few lakh crores. So I don't think the constraint is going to come in terms of the opportunity size. As we said, we intend to grow at least at a CAGR of 25%, so which means you can work out the numbers. We ended with close to INR12,000 crores last year. So that means we'll probably be at about a little over INR15,000 crores for this year. And from there, we just have to bake in.

So our intent is, just because the opportunity is large, we don't want to grow in a very aggressive manner. We want to have a growth combined with the right quality of assets that we onboard, which we believe at around 25% levels, we should be able to achieve. So that's what we will be targeting. The market is never going to be a constraint for this 25% growth. If need be, we can grow higher, but we would like to have the quality growth.

**Moderator:** Ladies and gentlemen, this was the last question for today, and I now hand the conference over to the management for closing comments. Over to you, sir.

**Lakshmipathy D:** Yes. Thank you all for patiently listening and questioning us on the clarity about last quarter's performance. Hope you have given the clarity. As I said in the opening remarks, this is one of the quarters that you see your company standard coming down a little bit on growth, collections and quality. This quarter will be a stabilization quarter and quarters to come, you'll see back -- get back the growth collections and resulting in good quality. So with that, connecting you on the next earnings call for the Q2 numbers. Thank you.

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