

Five-Star Business Finance | BUY

All-round show

Five-Star Business Finance (Five-Star) delivered yet another strong quarter with sustained growth momentum (+9% QoQ, +44.2% YoY AUM growth), healthy profitability metrics (RoA at 8.55%, RoE at 17.22%) and continued improvement in asset quality with GS3/NS3 at 1.35%/0.67% (-6bps QoQ, -11bps QoQ). Further, Five-Star's early bucket delinquencies continues to improve with 30+ DPD at 8.59% (-1.09% QoQ) and current book at 86.5% (vs 84.8% in 1QFY24). Management is confident of the sustained improvement in the early delinquencies and expects further improvement of the ODPD portfolio to 90% in the next few quarters. Disbursements saw robust growth (+6.4% QoQ, +50% YoY) on the back of healthy customer acquisition driven by branch expansion (added 70 in 2QFY24) and deeper penetration. Average ticket size has now reached pre-covid levels to INR 0.34mn, up from INR 0.25mn during the pandemic. Cost of borrowings remained steady at 9.7% (-1bps QoQ) with yields at 24.2% (-20bps QoQ). Therefore, NIMs remained stable at 17.68% (-6bps QoQ).

On competitive intensity, management indicated that players continue to enter in either <INR 0.1mn (turnaround time is quick and underwriting is faster with exposures being unsecured) or >INR 1mn (lucrative for the bigger players given the effort and time spent) but not in Five Star's preferred ticket size of INR 0.3-0.5mn. While competition may increase over a period of time, ability to ensure underwriting and collection are factors which will differentiate Five Star over newer entrants. In our view Five Star, remains uniquely positioned to operate in this segment given its single product focus, long-standing track record, strong collections focus. We forecast Five-Star to deliver 32% CAGR in earnings over FY23-25 with RoEs likely to hit 18.6% in FY25E. Given continued delivery on asset quality, growth and profitability, we maintain our target price at INR 840 (valuing the company at 4.0x FY25e P/BV). Maintain BUY.

- Sustained growth momentum:** Five-Star's AUM saw robust growth (+9% QoQ, +44.2% YoY) on the back of a) strong growth in disbursements (+6.4% QoQ, +50% YoY) and b) healthy customer acquisition driven by branch expansion (added 70 in 2QFY24) and deeper penetration. Further, the management revised its branch expansion target to 120+ in FY24E given the strong demand momentum. With 83 branches added in just in H1FY24, the management is more confident than ever and maintains its growth guidance of 35% over next couple of years.
- Spreads sustaining; operating efficiencies playing out:** Operating profit increased to INR 2.8bn (+6.3% QoQ, +38% YoY) driven by healthy growth in NII (+8.3% QoQ, +34.3% YoY) and stable operating expenses (+10% QoQ, +39% YoY). Reported NIMs remained stable at 17.68% (-6bps QoQ) with cost of borrowings at 9.7% (-10bps QoQ) and yields at 24.2% (-20bps QoQ). On the opex front. Five-star continues to expand its branches (70 branches in 2QFY24) with management revising its branch target for FY24E to 120+. Overall, cost to income at 33.4% continues to be within guided levels.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	840
Upside/(Downside)	13.7%
Previous Price Target	840
Change	0.0%

Key Data – FIVESTAR IN

Current Market Price	INR739
Market cap (bn)	INR215.9/US\$2.6
Free Float	37%
Shares in issue (mn)	291.4
Diluted share (mn)	
3-mon avg daily val (mn)	INR775.2/US\$9.3
52-week range	877/448
Sensex/Nifty	63,875/19,080
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	6.1	43.5	0.0
Relative*	9.3	37.3	0.0

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	3,590	4,535	6,035	8,061	10,467
Net Profit (YoY) (%)	37.0%	26.3%	33.1%	33.6%	29.8%
Assets (YoY) (%)	33.1%	9.5%	37.2%	28.6%	28.0%
ROA (%)	7.1%	7.5%	8.0%	8.1%	8.2%
ROE (%)	16.8%	15.0%	15.0%	17.0%	18.7%
EPS	14.0	15.6	20.7	27.7	35.9
EPS (YoY) (%)	36.7%	11.2%	33.1%	33.6%	29.8%
P/E (x)	52.8	47.5	35.7	26.7	20.6
BV	90	127	149	177	208
BV (YoY) (%)	18.9%	40.9%	16.9%	18.6%	17.9%
P/BV (x)	8.18	5.80	4.96	4.18	3.55

Source: Company data, JM Financial. Note: Valuations as of 31/Oct/2023

JM Financial Institutional Securities Limited

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Strong asset quality metrics, improving further:** Five-Star's early bucket delinquencies continue to improve with its strong focus on collections and risk management framework. Its 30+dpd book at 8.59% (-1.09% QoQ) has resulted in an all-time high current book of 86.5% (vs 84.8% in 1QFY24). GS3/ NS3 continued to improve to 1.35%/0.67% (-6bps QoQ, -11bps QoQ). In our view, razor-sharp focus on collections should keep credit cost low. We build in an average credit cost of c.1.0% over FY24-FY25E.
- **Valuation and view:** A high yield portfolio, controlled opex and low credit cost should help sustain Five-Star's strong return metrics. We expect RoE to expand to 18.6% by FY25E. We maintain our target price at INR 840 (valuing the company at 4.0x FY25e P/BV). Maintain BUY.

Five-Star – 2Q24 trends

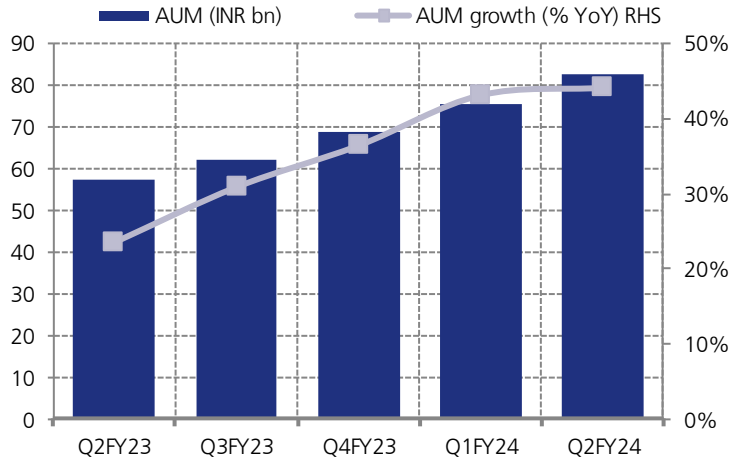
Exhibit 1. Five-Star 2Q24: Results summary

Earnings Table (INR mn)	2Q'23	1Q'23	2Q'24	YoY (%)	QoQ (%)
Net Interest Income	2,964	3,676	3,982	34.3%	8.3%
Non-Interest income	45	198	183	302.0%	-7.8%
Total Income	3,009	3,874	4,165	38.4%	7.5%
Total Operating Expenses	996	1,263	1,389	39.4%	10.0%
Operating Profit (PPP)	2,013	2,610	2,775	37.9%	6.3%
Provisions & write offs	85	152	106	24.2%	-30.5%
PBT	1,928	2,458	2,670	38.5%	8.6%
Tax	486	622	676	39.0%	8.7%
PAT	1,442	1,837	1,994	38.3%	8.6%
Balance sheet (INR bn)					
Assets Under Management	57	76	83	44.2%	9.0%
Disbursements	8	11	12	50.0%	6.4%
Borrowed Funds	25	43	48	91.0%	11.6%
Total Assets	66	90	97	46.0%	7.9%
Ratios Analysis (%)					
Cost to Income (%)	33.1%	32.6%	33.4%	0.25%	0.75%
Effective Tax Rate (%)	25.2%	25.3%	25.3%	0.09%	0.03%
Credit Quality					
Gross S3 (INR mn)	660	1,072	1,118	69.4%	4.3%
Net S3 (INR mn)	368	598	557	51.4%	-6.9%
Gross S3 (%)	1.15%	1.41%	1.35%	0.2%	-0.1%
Net S3 (%)	0.64%	0.79%	0.67%	0.0%	-0.1%
Coverage ratio (%)	44.2%	44.2%	50.2%	5.9%	6.0%
Capital Adequacy (%)					
Tier I (%)	67.7%	60.3%	59.4%	-8.25%	-0.87%
CAR (%)	67.7%	60.3%	59.4%	-8.25%	-0.87%
Du-pont Analysis (%)					
NII / Avg. Assets (%)	18.1%	16.6%	17.1%	-1.0%	0.4%
Non-Interest Inc. / Assets (%)	0.3%	0.9%	0.8%	0.5%	-0.1%
Op. Cost / Assets (%)	6.1%	5.7%	6.0%	-0.1%	0.2%
Provisions / Assets (%)	0.5%	0.7%	0.5%	-0.07%	-0.23%
ROA (%)	8.8%	8.3%	8.6%	-0.3%	0.2%
ROE	14.7%	16.6%	17.2%	2.6%	0.6%

Source: Company, JM Financial

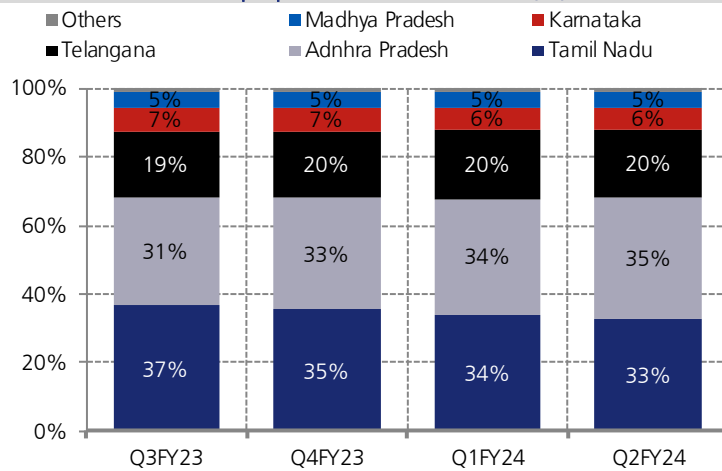
Five-Star – Key quarterly trends

Exhibit 2. Five-Star: Quarterly trends in AUM and AUM growth (%)



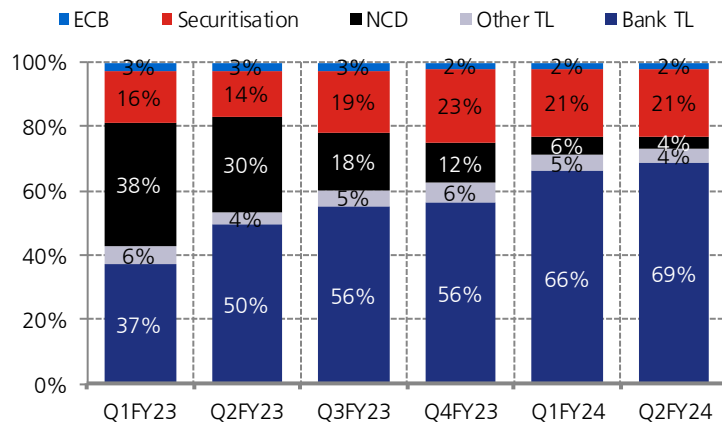
Source: Company, JM Financial

Exhibit 3. Five-Star: Trend in AUM proportion from core-states (%)



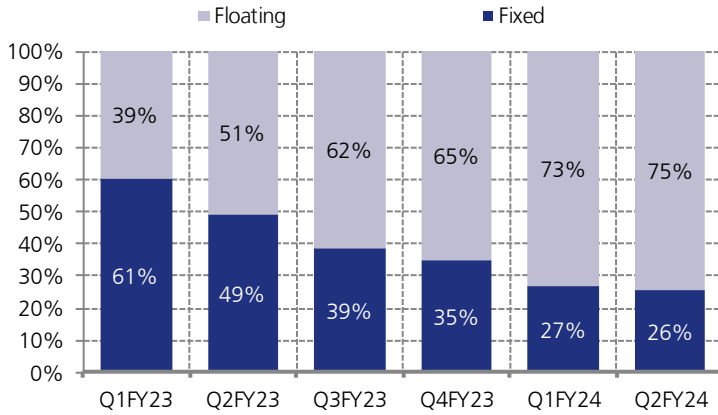
Source: Company, JM Financial

Exhibit 4. Five-Star: Trend in borrowing mix (%)



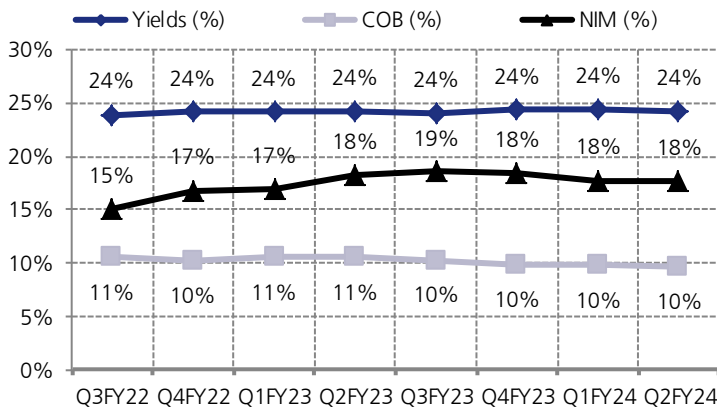
Source: Company, JM Financial

Exhibit 5. Five-Star: Trend in fixed vs floating borrowings



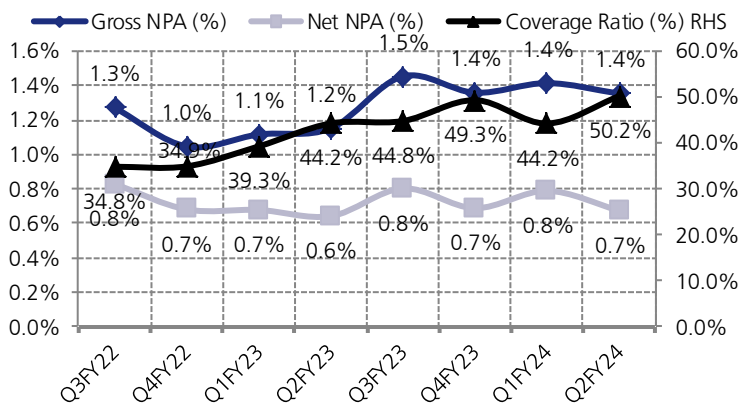
Source: Company, JM Financial

Exhibit 6. Five-Star: Trend in yields, cost of borrowings and NIMs



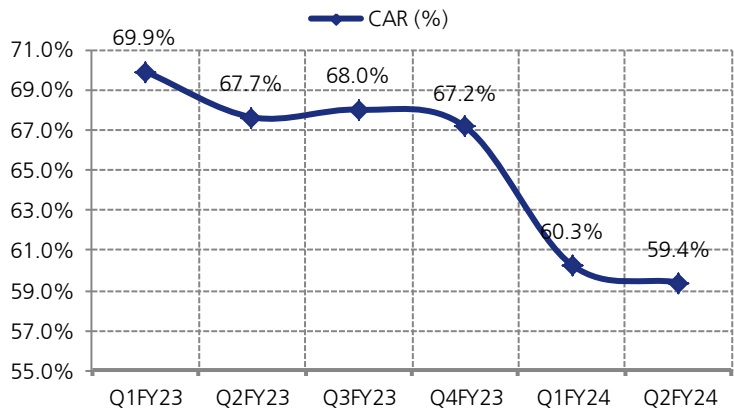
Source: Company, JM Financial

Exhibit 7. Five-Star: Trend in GNPA, NNPA and PCR



Source: Company, JM Financial

Exhibit 8. Five-Star: Trend in CAR (%)



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	6,897	9,032	12,325	16,923	21,872
Non Interest Income	364	524	301	308	347
Total Income	7,261	9,556	12,627	17,231	22,219
Operating Expenses	2,144	3,058	4,378	5,879	7,403
Pre-provisioning Profits	5,116	6,497	8,249	11,352	14,816
Loan-Loss Provisions	252	163	490	575	822
Others Provisions	100	293	-289	0	0
Total Provisions	352	455	201	575	822
PBT	4,764	6,042	8,047	10,777	13,994
Tax	1,174	1,507	2,012	2,716	3,526
PAT (Pre-Extra ordinaries)	3,590	4,535	6,035	8,061	10,467
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	3,590	4,535	6,035	8,061	10,467
Dividend	0	0	0	0	1,256
Retained Profits	3,590	4,535	6,035	8,061	9,211

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	256	291	291	291	291
Reserves & Surplus	22,925	36,812	43,104	51,165	60,376
Stock option outstanding	0	0	0	0	0
Borrowed Funds	34,252	25,588	42,473	58,188	79,717
Deferred tax liabilities	0	0	0	0	0
Preference Shares	502	739	1,160	2,238	2,865
Current Liabilities & Provisions	0	0	0	0	0
Total Liabilities	57,936	63,431	87,028	1,11,882	1,43,250
Net Advances	43,587	51,024	68,222	92,592	1,24,446
Investments	0	2,482	1,446	1,963	2,638
Cash & Bank Balances	13,557	8,799	15,809	16,666	18,045
Loans and Advances	0	0	0	93	124
Other Current Assets	192	339	570	-694	-3,620
Fixed Assets	230	319	449	577	739
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	370	467	533	686	878
Total Assets	57,936	63,431	87,028	1,11,882	1,43,250

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	44.9%	-25.3%	66.0%	37.0%	37.0%
Advances	13.8%	17.1%	33.7%	35.7%	34.4%
Total Assets	33.1%	9.5%	37.2%	28.6%	28.0%
NII	30.2%	31.0%	36.5%	37.3%	29.2%
Non-interest Income	-10.2%	44.0%	-42.5%	2.3%	12.6%
Operating Expenses	24.8%	42.6%	43.1%	34.3%	25.9%
Operating Profits	28.3%	27.0%	27.0%	37.6%	30.5%
Core Operating profit	28.3%	26.2%	29.9%	37.8%	30.7%
Provisions	-28.7%	29.4%	-55.7%	185.2%	43.0%
Reported PAT	37.0%	26.3%	33.1%	33.6%	29.8%
Yields / Margins (%)					
Interest Spread	9.07%	10.11%	12.46%	13.44%	13.55%
NIM	13.80%	15.12%	16.68%	17.20%	17.05%
Profitability (%)					
ROA	7.08%	7.47%	8.02%	8.11%	8.21%
ROE	16.8%	15.0%	15.0%	17.0%	18.7%
Cost to Income	29.5%	32.0%	34.7%	34.1%	33.3%
Asset quality (%)					
Gross NPA	1.03%	1.04%	1.37%	1.42%	1.52%
LLP	0.86%	0.96%	0.49%	1.00%	1.04%
Capital Adequacy (%)					
Tier I	58.86%	75.20%	67.17%	62.48%	57.93%
CAR	58.86%	75.20%	67.17%	62.48%	57.93%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	13.59%	14.88%	16.38%	17.02%	17.15%
Other Income / Assets	0.72%	0.86%	0.40%	0.31%	0.27%
Total Income / Assets	14.31%	15.75%	16.78%	17.33%	17.42%
Cost / Assets	3.23%	3.89%	4.60%	4.60%	4.55%
PPP / Assets	10.08%	10.71%	10.96%	11.41%	11.61%
Provisions / Assets	0.69%	0.75%	0.27%	0.58%	0.64%
PBT / Assets	9.39%	9.96%	10.70%	10.84%	10.97%
Tax rate	24.7%	24.9%	25.2%	25.2%	25.2%
ROA	7.08%	7.47%	8.02%	8.11%	8.21%
Leverage	2.5	1.7	2.0	2.2	2.4
ROE	16.8%	15.0%	15.0%	17.0%	18.7%

Source: Company, JM Financial

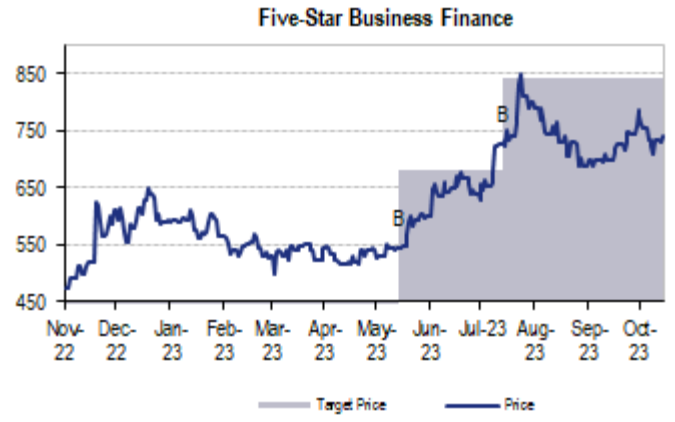
Valuations					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	256.4	291.3	291.4	291.4	291.4
EPS (INR)	14.0	15.6	20.7	27.7	35.9
EPS (YoY) (%)	36.7%	11.2%	33.1%	33.6%	29.8%
P/E (x)	52.8	47.5	35.7	26.7	20.6
BV (INR)	90	127	149	177	208
BV (YoY) (%)	18.9%	40.9%	16.9%	18.6%	17.9%
P/BV (x)	8.18	5.80	4.96	4.18	3.55
DPS (INR)	0.0	0.0	0.0	0.0	4.3
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.6%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
31-May-23	Buy	680	
30-Jul-23	Buy	840	23.5

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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