

# Five-Star Business Finance | BUY

## Growth momentum continues

Five-star business finance (Five-Star) continues its strong performance with sustained AUM growth momentum (+8.1% QoQ, +43.1% YoY) and healthy profitability metrics (RoA at 8.42%, RoE at 17.89%). Despite floods in Tamil Nadu and the coastal areas of Andhra Pradesh, disbursements remained resilient at INR 12bn (+0.4% QoQ, +32.8% YoY) and collection efficiency at 99.1% (vs 100.3% in 2QFY24) saw only a minor dip. While yields inched up to 24.3% (+10bps QoQ), CoB continues to see a consistent decline to 9.6% (-10bps QoQ). Despite the risk-weight circular, incremental CoB remained stable at 9.57% (vs 9.5% in 2QFY24). The company has decided to diversify its source of borrowings, which could result in ~25bps increase in CoBs in next couple of quarters. Given the uncertainty after the RBI circular in November, management took a prudent approach and maintained higher liquidity at ~20% of AUM (against aim of ~15% of AUM). This resulted in higher leverage, thereby leading to NIMs at 16.8% (-88bps QoQ). On the risk weight front, management said that only 25-30% of their portfolio saw a higher risk-weight which resulted in a 3.5-4% impact in its capital adequacy. But given its high CAR at 53.26%, the company remains adequately capitalized. Given Five-Star's established track record and unique positioning we expect continued delivery on growth, profitability and asset quality with ROEs expected to expand to 21.3% by FY26E. We maintain a BUY with a target price of INR 1010 (valuing company at 4x FY26E BVPS).

- Sustained growth momentum:** Despite floods in Tamil Nadu and coastal areas of Andhra Pradesh, Five-Star's AUM continues to grow at a robust pace (+8.1% QoQ, +43.1% YoY) on the back of healthy disbursements (+0.4% QoQ, +32.8% YoY). Customer acquisition continues to be strong with more branch additions (24 in 3QFY24) bringing the total branch additions to 111 in 9MFY24 (aligns with guided 120+ branches in FY24). On the risk weight front, management said that only 25-30% of their portfolio saw a higher risk-weight which resulted in a 3.5-4% impact in its capital adequacy. But given its high CAR at 53.26%, the company remains adequately capitalized. Management continues to remain confident of achieving 35%+ AUM growth in this fiscal. Further, for the next fiscal year, as market opportunities continue to broaden, the company expects growth to remain in similar range, while also remaining conscious of how the regulatory regime shapes up.
- Spreads remain stable; Strong operational performance continues:** Operating profit increased to INR 3bn (+8.1% QoQ, +45.5% YoY, inline JMFe) driven by a) healthy growth in NII (+5.7% QoQ, +31.6% YoY) and, b) lower growth in operating expenses (+1.6% QoQ, +18.3% YoY). Though spreads remained stable, NIMs were at 16.8% (-88bps QoQ) which was attributed to increasing leverage and higher liquidity during the quarter. Yields inched up to 24.3% (+10bps QoQ), while CoBs continues to decline to 9.6% (-10bps QoQ). Despite the risk-weight circular, incremental CoB for the company remained at 9.57% (vs 9.5% in 2QFY24). Further, management indicated that the company has decided to diversify its borrowing sources, which could result in a ~25bps increase in



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,010
Upside/(Downside)	33.4%
Previous Price Target	1,010
Change	0.0%

### Key Data – FIVESTAR IN

Current Market Price	INR757
Market cap (bn)	INR221.3/US\$2.7
Free Float	41%
Shares in issue (mn)	291.4
Diluted share (mn)	
3-mon avg daily val (mn)	INR563.1/US\$6.8
52-week range	877/494
Sensex/Nifty	71,645/21,697
INR/US\$	83.0

### Price Performance

%	1M	6M	12M
Absolute	3.0	4.9	31.6
Relative*	4.0	-2.7	9.7

\* To the BSE Sensex

### Financial Summary

(INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	4,535	6,035	8,214	10,817	14,372
Net Profit (YoY) (%)	26.3%	33.1%	36.1%	31.7%	32.9%
Assets (YoY) (%)	9.5%	37.2%	30.1%	30.4%	32.3%
ROA (%)	7.5%	8.0%	8.2%	8.3%	8.4%
ROE (%)	15.0%	15.0%	17.3%	19.2%	21.3%
EPS	15.6	20.7	28.2	37.1	49.3
EPS (YoY) (%)	11.2%	33.1%	36.1%	31.7%	32.9%
<b>P/E (x)</b>	<b>48.6</b>	<b>36.5</b>	<b>26.9</b>	<b>20.4</b>	<b>15.3</b>
BV	127	149	177	210	253
BV (YoY) (%)	40.9%	16.9%	18.9%	18.4%	20.7%
<b>P/BV (x)</b>	<b>5.94</b>	<b>5.08</b>	<b>4.27</b>	<b>3.61</b>	<b>2.99</b>

Source: Company data, JM Financial. Note: Valuations as of 01/Feb/2024

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CoBs over the next couple of quarters.

- **Robust asset quality metrics:** Five-Star's current book (currently 86.7% vs 86.5% in 2QFY24) continues to inch up towards their target of ~90%, with its 30+ dpd book at 8.35% (vs 8.59% in 2QFY24). Despite the challenging weather conditions in Tamil Nadu and Andhra Pradesh, collection efficiency remained stable at 97.5% (vs 98% in 2QFY24). GS3/NS3 remained steady at 1.40%/0.65% (+5bps QoQ/-3bps QoQ) with a healthy PCR of 54.26%. Management indicated that it shall continue to maintain provisions north of 50%, given the regulator's comfort with the same. We build in an average credit cost of 0.6% over FY24E/26E.
- **Valuation and view:** Driven by a) high yield portfolio, b) onset of operational efficiencies, and c) moderating credit cost, we expect Five-Star to continue to deliver robust return metrics with ROE expanding to 21.3% by FY26E. We maintain BUY with a target price of INR 1010 (valuing at 4x FY26E BVPS).

## Five-Star – 3Q24trends

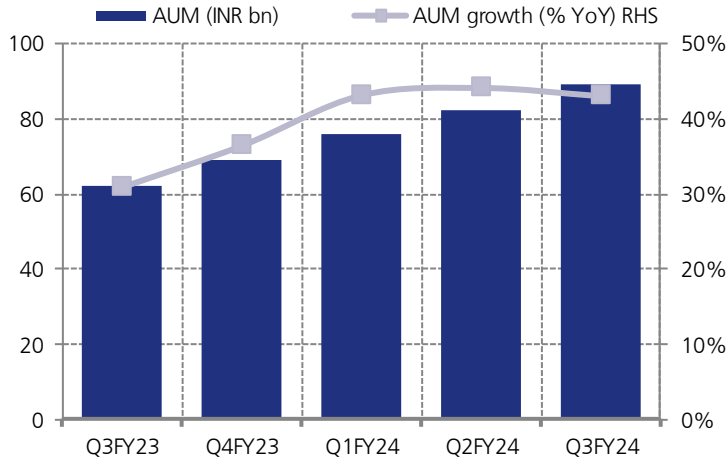
## Exhibit 1. Five-Star 3Q24: Results summary

Earnings Table (INR mn)	3Q'23	2Q'23	3Q'24	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>3,197</b>	<b>3,982</b>	<b>4,208</b>	<b>31.6%</b>	<b>5.7%</b>
Non-Interest income	59	183	205	246.2%	12.3%
<b>Total Income</b>	<b>3,256</b>	<b>4,165</b>	<b>4,413</b>	<b>35.5%</b>	<b>6.0%</b>
Total Operating Expenses	1,194	1,389	1,412	18.3%	1.6%
<b>Operating Profit (PPP)</b>	<b>2,062</b>	<b>2,775</b>	<b>3,001</b>	<b>45.5%</b>	<b>8.1%</b>
Provisions & write offs	47	106	102	116.6%	-3.7%
<b>PBT</b>	<b>2,015</b>	<b>2,670</b>	<b>2,899</b>	<b>43.9%</b>	<b>8.6%</b>
Tax	505	676	731	44.8%	8.2%
<b>PAT</b>	<b>1,510</b>	<b>1,994</b>	<b>2,168</b>	<b>43.5%</b>	<b>8.7%</b>
<b>Balance sheet (INR bn)</b>					
Assets Under Management	62	83	89	43.1%	8.1%
Disbursements	9	12	12	32.8%	0.4%
Borrowed Funds	32	48	58	82.2%	20.2%
Total Assets	74	97	109	46.7%	12.7%
<b>Ratios Analysis (%)</b>					
Cost to Income (%)	36.7%	33.4%	32.0%	-4.67%	-1.36%
Effective Tax Rate (%)	25.1%	25.3%	25.2%	0.16%	-0.08%
<b>Credit Quality</b>					
Gross S3 (INR mn)	907	1,118	1,251	37.9%	11.9%
Net S3 (INR mn)	501	557	572	14.2%	2.7%
Gross S3 (%)	1.45%	1.35%	1.40%	-0.1%	0.0%
Net S3 (%)	0.80%	0.67%	0.64%	-0.2%	0.0%
Coverage ratio (%)	44.8%	50.2%	54.3%	9.5%	4.1%
<b>Capital Adequacy (%)</b>					
Tier I (%)	68.0%	59.4%	53.3%	-14.77%	-6.14%
CAR (%)	68.0%	59.4%	53.3%	-14.77%	-6.14%
<b>Du-pont Analysis (%)</b>					
NII / Avg. Assets (%)	18.2%	17.1%	16.4%	-1.8%	-0.7%
Non-Interest Inc. / Assets (%)	0.3%	0.8%	0.8%	0.5%	0.0%
Op. Cost / Assets (%)	6.8%	6.0%	5.5%	-1.3%	-0.5%
Provisions / Assets (%)	0.3%	0.5%	0.4%	0.13%	-0.06%
<b>ROA (%)</b>	<b>8.6%</b>	<b>8.6%</b>	<b>8.4%</b>	<b>-0.2%</b>	<b>-0.1%</b>
<b>ROE</b>	<b>14.8%</b>	<b>17.2%</b>	<b>17.9%</b>	<b>3.1%</b>	<b>0.7%</b>

Source: Company, JM Financial

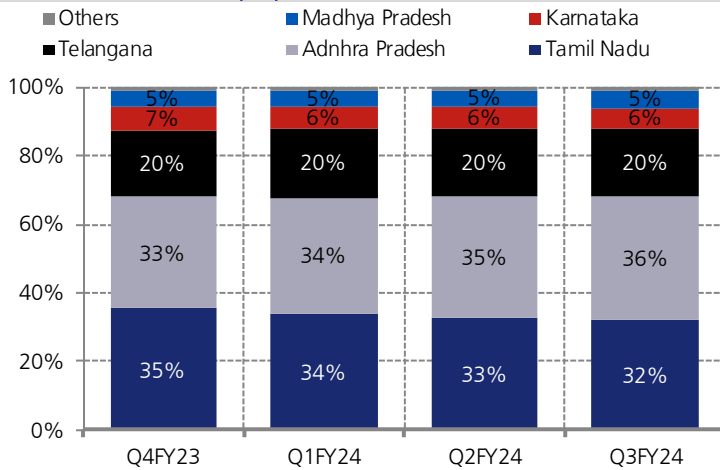
## Five-Star – Key quarterly trends

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



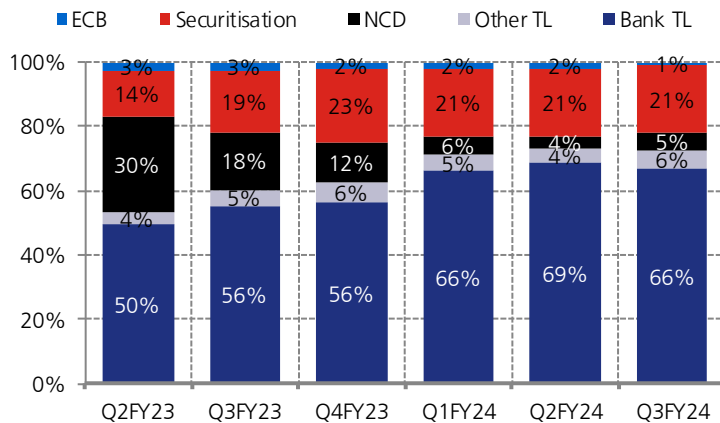
Source: Company, JM Financial

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



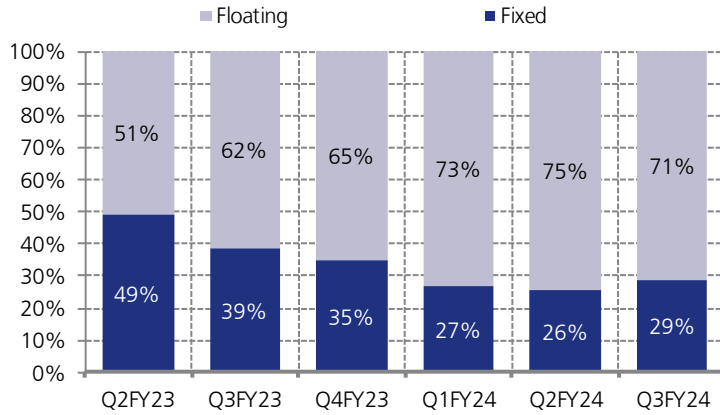
Source: Company, JM Financial

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



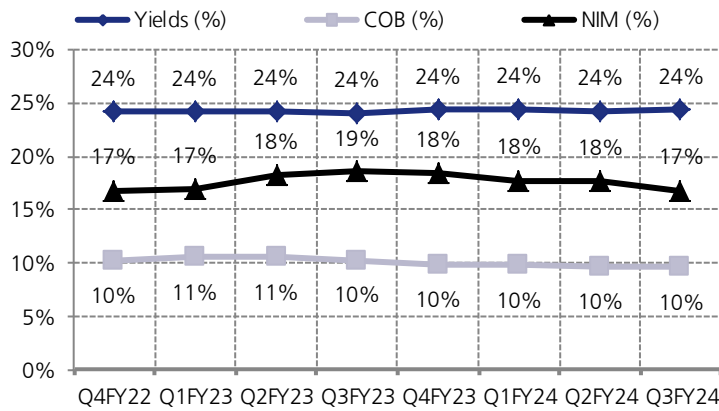
Source: Company, JM Financial

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



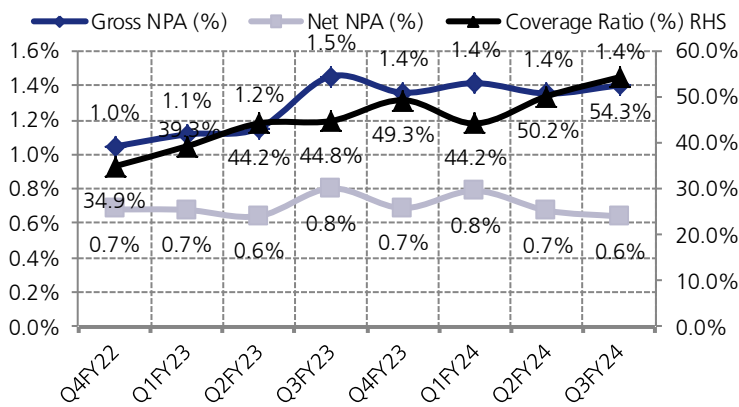
Source: Company, JM Financial

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



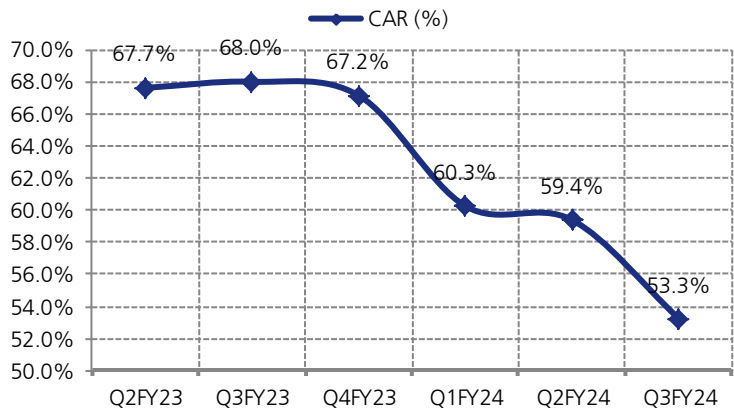
Source: Company, JM Financial

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	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	9,032	12,325	16,687	21,889	28,508
Non Interest Income	524	301	693	743	852
<b>Total Income</b>	<b>9,556</b>	<b>12,627</b>	<b>17,379</b>	<b>22,633</b>	<b>29,360</b>
Operating Expenses	3,058	4,378	5,916	7,493	9,266
<b>Pre-provisioning Profits</b>	<b>6,497</b>	<b>8,249</b>	<b>11,463</b>	<b>15,139</b>	<b>20,094</b>
Loan-Loss Provisions	163	82	482	678	880
Others Provisions	293	120	0	0	0
<b>Total Provisions</b>	<b>455</b>	<b>201</b>	<b>482</b>	<b>678</b>	<b>880</b>
<b>PBT</b>	<b>6,042</b>	<b>8,047</b>	<b>10,981</b>	<b>14,461</b>	<b>19,214</b>
Tax	1,507	2,012	2,767	3,644	4,842
<b>PAT (Pre-Extra ordinaries)</b>	<b>4,535</b>	<b>6,035</b>	<b>8,214</b>	<b>10,817</b>	<b>14,372</b>
Extra ordinaries (Net of Tax)	0	0	0	0	0
<b>Reported Profits</b>	<b>4,535</b>	<b>6,035</b>	<b>8,214</b>	<b>10,817</b>	<b>14,372</b>
Dividend	0	0	0	1,298	1,725
<b>Retained Profits</b>	<b>4,535</b>	<b>6,035</b>	<b>8,214</b>	<b>9,519</b>	<b>12,647</b>

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	291	291	291	291	291
Reserves & Surplus	36,812	43,104	51,318	60,837	73,484
Stock option outstanding	0	0	0	0	0
Borrowed Funds	25,588	42,473	58,188	82,045	1,15,683
Deferred tax liabilities	0	0	0	0	0
Preference Shares	739	1,160	3,396	4,428	5,860
Current Liabilities & Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>63,431</b>	<b>87,028</b>	<b>1,13,193</b>	<b>1,47,601</b>	<b>1,95,318</b>
Net Advances	51,024	68,222	92,592	1,24,447	1,64,636
Investments	2,482	1,481	2,010	2,701	3,573
Cash & Bank Balances	8,799	15,809	16,667	18,045	23,872
Loans and Advances	0	0	93	124	165
Other Current Assets	339	535	554	618	868
Fixed Assets	319	449	584	761	1,007
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	467	533	694	904	1,197
<b>Total Assets</b>	<b>63,431</b>	<b>87,028</b>	<b>1,13,193</b>	<b>1,47,601</b>	<b>1,95,318</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Borrowed funds	-25.3%	66.0%	37.0%	41.0%	41.0%
Advances	17.1%	33.7%	35.7%	34.4%	32.3%
Total Assets	9.5%	37.2%	30.1%	30.4%	32.3%
NII	31.0%	36.5%	35.4%	31.2%	30.2%
Non-interest Income	44.0%	-42.5%	129.8%	7.3%	14.6%
Operating Expenses	42.6%	43.1%	35.1%	26.7%	23.7%
Operating Profits	27.0%	27.0%	39.0%	32.1%	32.7%
Core Operating profit	26.2%	29.9%	36.1%	32.6%	33.2%
Provisions	29.4%	-55.7%	139.4%	40.5%	29.8%
Reported PAT	26.3%	33.1%	36.1%	31.7%	32.9%
<b>Yields / Margins (%)</b>					
Interest Spread	10.11%	12.46%	13.20%	13.65%	13.84%
NIM	15.12%	16.68%	16.95%	17.06%	16.89%
<b>Profitability (%)</b>					
ROA	7.47%	8.02%	8.20%	8.30%	8.38%
ROE	15.0%	15.0%	17.3%	19.2%	21.3%
Cost to Income	32.0%	34.7%	34.0%	33.1%	31.6%
<b>Asset quality (%)</b>					
Gross NPA	1.04%	1.37%	1.47%	1.45%	1.42%
LLP	0.96%	0.34%	0.89%	0.90%	0.87%
<b>Capital Adequacy (%)</b>					
Tier I	75.20%	67.17%	62.50%	57.57%	53.19%
CAR	75.20%	67.17%	62.50%	57.57%	53.19%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	14.88%	16.38%	16.67%	16.79%	16.63%
Other Income / Assets	0.86%	0.40%	0.69%	0.57%	0.50%
Total Income / Assets	15.75%	16.78%	17.36%	17.36%	17.12%
Cost / Assets	3.89%	4.60%	4.57%	4.45%	4.19%
PPP / Assets	10.71%	10.96%	11.45%	11.61%	11.72%
Provisions / Assets	0.75%	0.27%	0.48%	0.52%	0.51%
PBT / Assets	9.96%	10.70%	10.97%	11.09%	11.21%
Tax rate	24.9%	25.2%	25.2%	25.2%	25.2%
ROA	7.47%	8.02%	8.20%	8.30%	8.38%
Leverage	1.7	2.0	2.2	2.4	2.6
ROE	15.0%	15.0%	17.3%	19.2%	21.3%

Source: Company, JM Financial

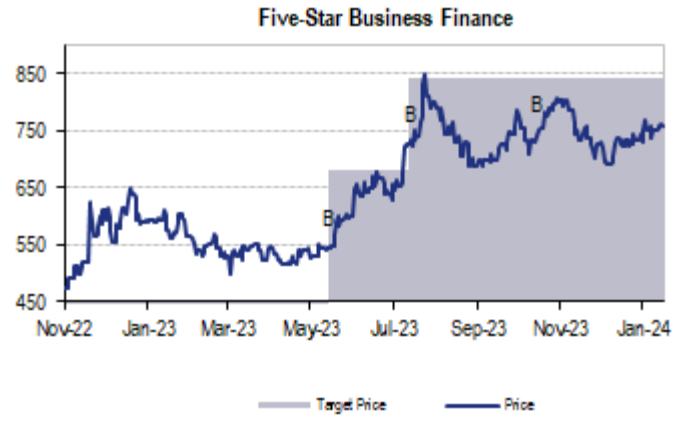
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	291.3	291.4	291.4	291.4	291.4
EPS (INR)	15.6	20.7	28.2	37.1	49.3
EPS (YoY) (%)	11.2%	33.1%	36.1%	31.7%	32.9%
P/E (x)	48.6	36.5	26.9	20.4	15.3
BV (INR)	127	149	177	210	253
BV (YoY) (%)	40.9%	16.9%	18.9%	18.4%	20.7%
P/BV (x)	5.94	5.08	4.27	3.61	2.99
DPS (INR)	0.0	0.0	0.0	4.5	5.9
Div. yield (%)	0.0%	0.0%	0.0%	0.6%	0.8%

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
1-Nov-23	Buy	840	0.0

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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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