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**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 December 31, 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 January 29, 2026.

The transcript can also be accessed from the link: <https://fivestargroup.in/investors/>

Kindly take the above on record.

**For Five-Star Business Finance Limited**

**Vigneshkumar SM**  
Company Secretary & Compliance Officer

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## “Five-Star Business Finance Limited 3QFY26 Earnings Conference Call”

**January 29, 2026**



**MANAGEMENT:** **MR. LAKSHMIPATHY DEENADAYALAN – CHAIRMAN AND MANAGING DIRECTOR, FIVE-STAR BUSINESS FINANCE LIMITED**  
**MR. SRIKANTH GOPALAKRISHNAN – JOINT MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER, FIVE-STAR BUSINESS FINANCE LIMITED**

**MODERATOR:** **MR. RAGHAV GARG – AMBIT CAPITAL PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Five-Star Business Finance 3QFY26 Earnings Conference Call, hosted by Ambit Capital Private Limited.

As a reminder, all participants' 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Raghav Garg. Thank you, and over to you, sir.

**Raghav Garg:** Thank you, and good morning, everyone. On behalf of Ambit Capital, I would like to welcome you all to the third quarter FY26 earnings call for Five-Star Business Finance Limited.

Joining us from the Management today, we have Mr. Lakshmi Deenadayalan – Chairman and Managing Director; and Mr. Srikanth Gopalakrishnan – Joint Managing Director and CFO. I would like to thank the Management for the opportunity to host this Earnings Call.

We can now begin with the opening remarks from Mr. Lakshmi Deenadayalan, and post that we can open the floor for questions. Thank you, and over to you, sir.

**Lakshmi Deenadayalan:** Hi, Raghav, and thank you for that. Good morning, everyone. Welcome to the Five-Star Earnings Call.

To begin with, we all know small-ticket loans are facing its tough times. During tough times, we take a 3-step approach. Understand the tough times well or the crisis well. Second is, fix the problems. Third is, move ahead.

So, Five-Star also follows the same 3-Stage approach during the tough times. We have understood these tough times or crisis very well and we are in the last leg of fixing the problems, keeping long-term perspective in our mind, not short-term. Third is, moving ahead. That is none other than accelerating the growth.

I am happy to inform that the actions taken over the last couple of quarters across underwriting and collections have ensured continued stability in softer bucket collections in Q3, which is an encouraging trend, as it would, over time, have a positive impact on our portfolio quality. We have seen the first reflection of this in Q3, where the current proposition of our portfolio has gone up from 81.67% in September to 81.77% in December. Though it is a marginal rise, it is a clear positive signal for us.

Our focus on collections is also reflected in our collection metrics, with both unique customer collection efficiency and overall collection efficiency remain stable at 95.1% and 96.6%, respectively, compared with last quarter. We compute the overall and unique customer collection

efficiency in the most conservative manner by including the entire stock of Stage-3 or NPA loans into consideration.

If the NPA loans are excluded, the unique customer collection efficiency goes up from 96.5% in Q2 to 97.26% in Q3. Additionally, the unique customer collections on the current book, which is the most important bucket for any lender, have gone up from 98.5% in Q2 to 99.01% in Q3. It is also important to note that these metrics have been achieved without any major addition to the denominator, and hence these metrics clearly reflect the improvement in the performance of the book in the softer buckets, showing a clear signal of revival.

On the other hand, the slippages in Stage-3 or NPA continue to remain slightly elevated, which reflects the persistence of some level of stress among our portfolio of borrowers. While this has caused some spike in our Stage-3 or NPA assets, I do not see any fundamental issue given the secured nature of our loans, and I am confident that we will be able to roll back these customers or settle their loans without any principal loss through concerted collection efforts. And the improvements are expected to be visible in Q4 and thereafter.

During Q3, our recoveries from NPA or technical write-offs amounted to about INR 23 crores in a quarter, and given this trajectory, we are confident of maintaining a healthy recovery trend in quarters to come. Despite the slight elevated slippages, the credit cost has only gone up marginally from 1.34% in Q2 to 1.44% in Q3, reflecting adequate provision coverage on our loans.

We do not subscribe to the philosophy of taking huge technical write-offs to bring down our Stage-3 or NPA assets. We believe that this leads to a negative borrower behavior and consequently causes a break down in the credit culture. On the contrary, we believe in taking a prudent level of technical write-offs, irrespective of some spike in Stage-3 or NPA assets, but at the same level, we would spur our recovery efforts to bring down the levels of Stage-3 and NPA, which will ensure that the borrowers remain serious about paying up on their loans.

Given our clear focus on collections and controlling the slippages, we have gone slow on disbursement, leading to growth moderating even during the current quarter. Our focus clearly is on getting our collection strategy and actions completely in place before moving over to the business acceleration. I am very confident that over the next couple of quarters, we should be back on track, both on growth and asset quality.

Now moving to the other aspects, we continue to invest in people and in physical infrastructure, reflected in the additions of 35 branches and 678 business and collection officers during Q3, in line with our collections focus.

The number of collection officers increased to 2,452 as of December, as against 1,329 last year, December 2024. We are also, in parallelly, building a full-fledged collection vertical right up to

the senior people at HO, and this, once fully set up, will have a very positive impact on our collections and asset quality going forward.

Our disbursements during the quarter stood at INR 976 crores, which is about 18% lower compared to the previous quarter. This is in line with our strategy of getting our collections fully in place before accelerating our disbursements. The additional underwriting controls that have been implemented are also helping us onboard the right customers who would help maintain strong asset quality in the quarters to come.

On the borrowings, during the quarter, we availed incremental debt of INR 460 crores, and the cost of incremental debt came at 8.19%, which is slightly lower than the cost of incremental debt borrowed during the previous quarter.

Over the past 1 year, the cost of funds on the book has dropped by over 50 bps, from 9.63% to 9.12% from Q3 last year to Q3 this year. And given our cost of incremental debt, we should see progressive improvement in the cost of funds in the quarters to come. This helps compensate for the lower yields and largely protects the spread.

We continue to have a robust liquidity on the balance sheet of INR 2,276 crores. For the quarter ended, we achieved a PAT of INR 277 crores, 3% lower as compared to the PAT for the previous quarter. The drop is on the account of one-off in the last quarter, coupled with a marginal impact due to the implementation of new labour code.

Comparing with last Q3, we have moved up from INR 274 crores PAT to INR 277 crores PAT this quarter. Our ROA and ROE remain healthy at 7% and 15.8%, respectively. With our concrete actions, both on collections and growth fronts, I am very confident the company would get back stronger performance over the next 1 to 2 quarters.

Thank you and over to Srikanth for more detail into it.

**Srikanth Gopalakrishnan:** Good morning to all of you. As Mr. Pathy had clearly highlighted the various actions that the company has taken, and also in line with what we had indicated to you in the previous quarter, our efforts during the current quarter were fully attuned to continuing the stability that we had achieved in collections. And we are happy to inform you that we have managed to keep our collections in the softer bucket stable even during the current quarter.

As was said earlier, our current proportion has gone up by 10 basis points during the current quarter, which clearly shows stabilizing our improvement in the collections in the current book.

Despite slight elevation in the slippages, which obviously we will be taking necessary actions to contain them, our focus has clearly been on keeping the customers in the softer buckets, that is less than the 60-day bucket, to pay on time, because this is what will make them less vulnerable from a slippage perspective.

In fact, one of the data points that we would like to give you is that during the current quarter, our Stage-2 assets stood at INR 1,249 crores, almost the same as what was there in Q2. So, barring the slippages that went into Q3, there were no fresh slippages that came in from the Stage 1 to Stage-2 in a very meaningful manner, which clearly shows that the slippages in the softer buckets are remaining in control.

On the yields, the yields are moving in the same trajectory that we have guided in the past, about 20 basis points of drop every quarter, primarily on account of lower yields on incremental disbursements, but we have managed to counter this well with similar drop in our cost of funds, so the spread remains almost stable at about 13.9%.

There has been a marginal increase in Opex due to lower disbursements and lower growth, and coupled with credit costs, we have seen our NIMs compress by about 50 basis points on a year-on-year basis, and our ROA has come down by about 1% from 8% to 7%.

For the quarter, we clocked a PAT of INR 277 crores, 1% higher on a year-on-year basis. For the 9 months ended December 2025, our PAT stood at INR 830 crores, as against INR 793 crores for the same period a year ago, which is an increase of 5%.

We managed to get a good amount of debt from marquee names even during the current quarter, so we had availed about 460 crores of incremental debt, though the sanctions received were almost at INR 1,225 crores. And as Mr. Pathy pointed out, it came in at a very attractive all-inclusive cost of 8.19%.

And I am also happy to inform all the investors and analysts that during this quarter, we have signed a loan agreement with Asian Development Bank, one of the largest and most eminent global DFIs, for a sanction limit of \$100 million, which will be availed over the next couple of quarters. We stand very good from a liquidity buffer and unavailed sanction lines perspective. Liquidity buffer was at INR 2,276 crores and unavailed sanction lines were little less than INR 1,500 crores.

Our net worth as of December stood at INR 7,083 crores, crossing INR 7,000 crores for the first time. Even in difficult times, we clocked an ROE of close to 16% and we would like to assure all of you that we are taking concerted efforts to set our collections in place, and we believe that we will start seeing the results of these efforts sooner, which will give us the confidence to push up growth and lead to an optimal level of growth in the quarters to come.

With that, we will take a pause, and we will be happy to take any questions that any of you may have.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment, while the question queue assembles.

The next question is from the line of Viral Shah from IIFL Capital. Please go ahead.

**Viral Shah:** Yes, hi. Good morning, and thank you for the opportunity to let me ask the question. So, I had a couple of questions. So, Mr. Pathy, if you can say give the numbers on the unique collection efficiency on the current customers, right, and also without the NPA customers for the last 3 quarters.

**Srikanth Gopalakrishnan:** So, Viral, we do have the numbers for the last couple of quarters, but just bear with us while we get the number for Q1. Mr. Pathy said, I think the current collection efficiency has gone up from 98.5% to 99% in this quarter, and the unique customer collection efficiency, excluding the NPA book, went up from 96.5% to 97.3% during this quarter. I will just come back to you with the Q1 numbers.

**Viral Shah:** Got it, Srikanth. Thank you. Secondly, I wanted to check with regard to the growth. I understand you mentioned that now after, say, achieving somewhat degree of stabilization on the asset quality front, we will start focusing on growth.

Now, when we talk about that, right, next year if I look at the disbursement growth, if I bake in say a 20%, given how sharp the rundown has been on the disbursement front since last 1.5 year, right, it's fair to expect mathematically that at least next year the AUM growth will be more like 20%? And there on maybe, of course, our medium-term target remains, but it will be more of a backhanded thing. So, just wanted to get a sense on that front, before I get to my last question.

**Srikanth Gopalakrishnan:** See, Viral, at this point of time, we will probably come out with our numbers post Q4 results, because like we said, we are also setting up our collections in place, and depending on how the collections set up, it will give us the confidence to accelerate on the disbursement side. See, as all of us know, disbursement is the easier part in the lending business, while collections is the most difficult part.

So, once we are able to get our collections strategy and actions in place, we will probably come back to you with the guidance on the growth for FY '27 and years thereafter. But at this point of time, bear with us. You will have to give us another quarter for us to come out with exact numbers.

**Lakshmi Pathy Deenadayalan:** So, Viral, Pathy here, let me add to what Srikanth says. In today's earnings call, no numbers should be discussed, no guidance can be discussed from a growth perspective. As I said, we are in the last leg of Stage-2, where we are fixing our problems, keeping long term in our view. So, that is our focus.

Once that is done, I think the rest remaining is just only the business, right? We have infrastructure, we have people, we are recruiting people. Once we put our collections in order and see this for 2, 3 quarters, stabilizing and improving across all fronts, then the left out is only business. We can talk business a little later.

**Viral Shah:** Got it. No, that makes sense. I just wanted to understand from an infrastructure standpoint, right? Over the last, I would say, 1 year, despite we kind of pulling back in terms of growth, we have been investing on infrastructure, right, even ex of collection people? So, which is why I think once we see an improvement, what is the extent of improvement that we can anticipate is what I was trying to get a sense of. But fair enough, I am not looking for numbers. But just more qualitatively, we are very much on, I would say, top of it once we have asset quality under complete control, right?

**Lakshmi Deenadayalan:** Yes, exactly. I think you made a very valid point. We added 35 branches in last quarter also, and we added 678 employees in last quarter also. So, that clearly shows the business is here to stay for a long period of time. When you want to accelerate, is the prudent way any lender has to look into it. As I said, we wanted to understand fully, fix it fully, then accelerate the growth. That is what the prudent lenders that we have been.

**Viral Shah:** Fair enough. I understand and I agree. My last question, Srikanth, is to you. Just on the cost of fund piece, Srikanth, what is the incremental room for you to, say, reduce the cost of funds? Over the last, I would say, 3 quarters, we have already seen a close to around 50 bps reduction in cost of funds on an overall book basis. So, what is the further room that we have on an overall basis?

**Srikanth Gopalakrishnan:** So, Viral, I think the last repo rate cut which happened of 25 basis points, for now I am not talking about the MCLR drops that may happen, because that is definitely not within anybody's control. But we have at least 25%-30% of our book, which are linked to repo rate, t-bill and external benchmarks.

So, that transmission should start happening, which we have not seen it much, because this repo rate cut itself happened only in November. So, I think if I have to put a number, maybe another 10 to 15 basis points benefit should certainly be there, purely on account of actions taken by RBI. But the good part is also that we are borrowing at rates which are much lower than what is the cost of funds on the book, which should also give us a kicker in terms of benefit and cost of funds.

So, again obviously we will be working out a detailed business plan in the next couple of months. But for now I would say at least we have another 10-15 basis points benefit that will come over in the next 3 to 6 months.

**Viral Shah:** Got it. And just on the ADB piece, Srikanth, if you can just share what is the fully loaded cost that we have signed the agreement with?

**Srikanth Gopalakrishnan:** So, this will be slightly on the higher side, Viral. Obviously, the fully loaded cost will also be determined by the hedge rate when we avail the facility. But I think the number should be anywhere about 25 to 30 basis points costlier than what we are borrowing. So, maybe somewhere around 8.75 to 8.80%.

**Viral Shah:** Got it. Makes sense. Thank you so much, and all the very best.

**Srikanth Gopalakrishnan:** Thank you.

**Moderator:** Thank you. The next question is from the line of Abhijit from Motilal Oswal. Please go ahead.

**Abhijit Tibrewal:** Yes. Good morning, sir. Thank you for taking my question. Pathy sir, just one question here. We went through the opening remarks you shared very detailed. But I think you started by saying that we all know small-ticket loans are facing tough times. Then you explained the 3-step approach, and the fact that we are maybe the fag end of the second step, which is fixing the problems.

So, in the past, we have shared that this crisis that we are seeing right now is predominantly in the small ticket size, less than 3 lakh segment. So, for the benefit of all of us, given that we are in the fag end of the second stage, if you could just help us understand what actually led to this crisis. Was it just customer over-leveraging and spillover of MFI stress, which is the crux of this problem?

And then when we say fixing the problems, beyond setting up dedicated collection verticals, what other steps are we taking to fix the problem?

**LakshmiPathy. Deenadayalan:** So, Abhijit, let me go very short on this. We can connect offline for a very detailed discussion about this big subject. See, we all know this crisis started on an over-leverage. But today, the crisis has moved from over-leverage to behavioral crisis. That is what I said in my opening comments. There are 2 ways to address this tough times.

The one way is clean your book fully and start afresh. I do not think that is a prudent one. The prudent approach, what Five-Star is taking right now, is fighting back in these tough conditions with the customers and explaining about the good credit culture. So, that is why it is taking little time for Five-Star to show a good revival in collections as well as moving towards accelerated growth.

So, my short answer to this, today we are seeing a behavioral crisis. If one lender writes down a loan, that affects the other lender psychologically. So, it takes some time for the lender to prove himself before the customer that what kind of security that we have, what kind of collections infrastructure we have.

So, that seriousness has been slowly, steadily, has been built in the customer's mindset, which I said in last earnings call also. And we are doing it for the benefit of small-ticket lenders, because this credit culture should not break down. It should continue going forward. So, that is why it is taking little longer time for Five-Star.

**Abhijit Tibrewal:** Then what steps are we taking on the fixing front, except for this full-fledged collection vertical that we are now setting up? What other steps are we taking for fixing the problem?

**Lakshmi Deenadayalan:** See, 2 things are, underwriting steps have been taken. Second thing, collection vertical step has been taken. Abhijit, you can connect offline with Srikanth to go more detailed into that.

**Abhijit Tibrewal:** Sure, sir. And then the last question, which I had, is, I think, what you alluded to in your opening remarks about current or the 1 plus DPD, right, which improved about 10 basis points, which actually suggests that the early bucket delinquencies are stabilizing.

So, 2 subparts to this question. First is, now that we are almost closing January now, have the collection trends been stable on a slightly improving trend versus what you saw in December? And then within that, are there particular states where the problems are more pronounced versus others and where maybe things will recover slightly, maybe 1 or 2 quarters later, versus a broad-based improvement that you might start seeing from this quarter onwards?

**Lakshmi Deenadayalan:** So, Abhijit, yes, January gives us a very opening month of this March quarter have done well. We have to compare that with October, not with December, because within the quarter also, the first month and the last month has a slight difference.

So, when you compare with October, we are really doing well in January also, in spite of a lot of holidays that we had - New Year, Republic Day, Makar Sankranti, Pongal holidays. This is a holiday month when we compare in south. I do not know about north. But inspite of that, we are holding up our collections very well in January.

**Abhijit Tibrewal:** And sir, some state-specific color, if you could share, where the problems are much more pronounced versus the national average?

**Srikanth Gopalakrishnan:** So, Abhijit, I think the good part that we are seeing in January is that the slippages are a lot more muted compared to, let us say, October, which was the first month of the previous quarter. So, I think that augurs well from a Stage-3 perspective.

On stage 1, the numbers are fairly in line. But then, if the first month, especially a month riddled with holidays, can give this kind of a result, I think Feb and March should be more exciting months and we should see a better trajectory. So, I would say across all the stages, things are looking up.

**Abhijit Tibrewal:** Got it, sir. Thank you for patiently answering all my questions. And I wish you and your team the very best.

**Srikanth Gopalakrishnan:** Thank you.

**Moderator:** Thank you. The next question is from the line of Renish from ICICI Securities. Please go ahead.

**Renish Bhuva:** Yes. Hi, sir. This is Renish from ICICI. Just 2 things. One, to Mr. Pathy, let us say whatever initiatives we have taken in the last 6 to 12 months in terms of tightening the credit filters, beefing up the collection vertical. So, any initial indicators that whatever loan we have disbursed in the past 6 to 12 months, the credit behavior of those customers are far better than the book customers? Any qualitative understanding around that?

**Srikanth Gopalakrishnan:** Renish, for sure, the behavior is better. But I do understand that some of these things stem from loans which are for much shorter tenure. See, for us, we generally do not see many delinquencies in the less than 12-month bucket. We also track this very closely, what we call as an early arrear report.

So, you will generally not see that much. But I can say that relatively, the last 6-8 months, the loans that we have given, post additional filters being put in are looking a lot better. People are paying on or before the due dates. People are paying a lot more through NACH, which are also qualitative points that will help us ease the collection pressures when, let's say, delinquency hits and all that. So, the short answer is, yes, we are seeing good improvements in the recent book that we are onboarding.

**Renish Bhuva:** And just a follow-up on that. So, it is right to assume that, earlier, we used to have 25%-30% overlap with MFI customers. And I am assuming, under new regime, that overlap will be minimal or maybe nil as well.

**Srikanth Gopalakrishnan:** It's reducing, Renish, but not in very meaningful numbers. See, the way you also need to look at it is, we are the next level of reach for the MFI customers. While MFIs cannot go beyond, let's say, INR 1 lakh, INR 1.5 lakhs. When the MFI customers want a higher loan, they come to institutions like Five-Star. So, you will always see that overlap being a lot more pronounced compared to many of the other lenders.

**Lakshmi Pathy Deenadayalan:** So, Renish, let me be very clear with you and everyone who is listening this. See, in earlier days, we call MFI lenders lending to productive poor. That is why MFI culture started in our country. But today, I think MFI lending equal or even 1 leg above where Five-Star lends. So, except you and me, everyone gets a loan from MFI customers, right?

I think there is no more productive poor or middle class or lower middle-class people only get MFI. That's the trend that I am seeing, right? Even a customer has INR 1 lakh earning has MFI loan. What does this mean? Right? Nowhere MFIs' philosophy, what we have been talking for decades have gone.

So, we have not moved up the ticket size, but they have moved up the customer segment and they are equally lending to the small business and small ticket loans. So, you will not see MFI overlap with small ticket lenders, maybe you will see more MFIs lending to small ticket business customers like Five-Star.

**Renish Bhuva:** Okay. So, basically, you are saying that MFI will now become a competition for our product?

**Lakshmi Deenadayalan:** No. MFIs, I have told in detail, maybe we can connect offline for detail. They have 3 hurdles to cross before lending to small ticket loans like Five-Star. The first hurdle is the ticket size, second hurdle is the underwriting, third hurdle is the tenure.

I think people who want working capital loans, their first preference may be the gold loans and MFI loans. But people who wanted to set up a shop, set up infrastructure, and wanted that loan to be a longer tenure, that is where Five-Star and other small-ticket secured loans come into the picture. So, it is the end use that differs between MFI gold loan and Five-Star.

**Srikanth Gopalakrishnan:** So, Renish, I think the point that Mr. Pathy was trying to make was not from a competition perspective, it is from an overlap perspective where we believe that the overlap will continue to be pronounced, because MFIs are also reaching out to those customers who probably in the past, they would not have reached out to. But they can never give the quantum of loan or the type of loan that Five-Star gives. So, competition is not the problem, but overlap will always be there.

**Renish Bhuva:** Got it. Got it. It is very, very helpful and very clear. Just the last, Srikanth, I know you are not giving guidance at this point in time, but maybe just need a qualitative comment around it. So, let us say, when we look at the incremental cost of borrowing versus the book cost, right, there is a huge 80, 100 basis points gap there, which fairly means that maybe over the next 3, 4 quarters, the NIM expansion will continue.

And as you said, December has been fairly good month, and when we look at the numbers as well, Stage 1 has come down, Stage-2 is flat, and obviously, Stage-3 is higher, because there might be higher performance from Stage-2. So, in that sense, if your early buckets are taken care of, maybe by Q4 things will be much better.

So, in a nutshell, is it fair to assume that ROA and ROE have bottomed out in this quarter, and maybe next quarter onwards, though there might be a further increase in credit cost, but your NIM expansion will sort of offset that impact. And hence, the profitability will remain intact and it should ideally improve from FY '27. Is that the fair assumption?

**Srikanth Gopalakrishnan:** Renish, that's a fair assumption. But the one point which we are also contemplating at this point in time is also on the Opex, which is something that we have kept extremely tight over the last many years. But with many companies coming into this segment, and there is a competition that is coming in with attrition going up, I think it will also be imperative for us to spend a little more on Opex to retain the right kind of employees for the kind of growth that we want.

So, the only point that we need to keep in mind is how this Opex is going to sort of eat into some of the benefits that we will get either on account of the cost of funds and all that. So, which is why we will also have to delve a little more deeper into that subject, before we can give you an

answer. Maybe over the next 2, 3 months, I think we will probably be in a better position to give you a sense on this.

At this point of time, there are quite a bit of moving parts, and we are trying to set those which are most important right first, and then we will come back to the others. Possibly, we could connect after a couple of months and then see how Q4 or FY '27 sort of shape up.

**Renish Bhuva:** Got it. And just last clarification. So, you did mention about current bucket collections efficiency in the month of December. So, incremental stress asset formation at least in the month of December is lowest in last 6 months?

**Srikanth Gopalakrishnan:** Sorry, Renish, I did not get it. Renish, can you please repeat?

**Renish Bhuva:** Yes. Sure. So, Pathy sir did mention about the collections efficiency being improving to 99.05%. I think it was 98.5% in last month or last quarter, I am not too clear about it. So, which means the incremental stress asset formation is coming down. And if let us say, this 99%, so ideally it should be lowest in the last 6 months?

**Srikanth Gopalakrishnan:** Yes. I would say it is even the lowest in the last 3, 4 quarters, because if you look at the addition to the Stage-2 assets, in absolute terms, I am not talking in percentage terms. This quarter has probably seen the lowest addition to Stage-2 assets in the last maybe 4 to 5 quarters. What used to be about INR 130 crores, INR 140 crores, this quarter I think it's almost like INR 70 crores, INR 80 crores. So, it seems the lowest addition, and that's where our focus is also to keep the customers in these softer buckets.

**Renish Bhuva:** Yes, yes. So, I was actually trying to highlight that only, so that entire quarter, obviously, it has become half at INR 80 crore. But I am sure December, it would be the lowest, at least in this 3 months as well.

**Srikanth Gopalakrishnan:** That's right. You are right.

**Renish Bhuva:** Okay. Okay. This is good enough. Thank you, and best of luck.

**Srikanth Gopalakrishnan:** Thanks Renish.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

**Kunal Shah:** Hi. Couple of questions. So, firstly, as you mentioned, like, now it's becoming more of a behavioral problem. Earlier, it was more of overleveraging. So, when I look at it both in terms of the repeat customers, are we getting more prudent in terms of underwriting to these repeat customers, given the behavioral issue?

And how about the rejection rates? How they have gone up over past 3 quarters? Is it stabilized? Has it gone up in Q3 compared to where we were in Q1?

**Srikanth Gopalakrishnan:** Kunal, our repeat customers' proportion or our repeat customers' process tend to be the same. So, we have never been and we are not in a hurry to give repeat loans. So, the customers should have had 2 years of track record with us before they can even come for a repeat loan. And there is a completely fresh underwriting that we do before giving a loan to the customer. So, we have always been extremely prudent in terms of repeat customers.

And typically, you do not see too much of a behavioral issue in repeat customers, because we have seen their behavior with Five-Star for 2 years, so they know what the company expects from them, and we know how their behavior is going to be. So, I do not think we are seeing much issue from a repeat customers' perspective.

On your question on rejection rates, yes, the rejection rates have gone up in the last couple of quarters, but it is not consistently going up. It is probably staying somewhere at around the 38% to 40%. This number used to be closer to 30% or so prior to maybe Q2 or thereabouts. But in Q2 and Q3, we are seeing fairly stable rejection rates at about 38% to 40%.

Our belief is maybe we will see few basis points drop over the next few quarters once our people start understanding the kind of files that the company is comfortable lending to, and then they will start onboarding the right files. Today, it's still at a little early stage from an onboarding files perspective, but that should get settled. So, we are not really worried about that.

**Kunal Shah:** Sure. And second question was with respect to the overall ECL provisioning. When we look at it across the buckets, sir, there is a sequential decline out there in be it terms of Stage-3, Stage 1 as well from 0.26% to 0.21%. And maybe the last 2 years pool would fall maybe into this, and the earlier, maybe better behaving pool would move out. How should we look at the overall coverage? Will there be a requirement for the higher coverage, maybe from the current levels of 1.83 of the AUM as we go forward into the next 3 to 4 odd quarters?

**Srikanth Gopalakrishnan:** No, Kunal, I think while you are talking about stages separately, the way you also need to look at it is what is the overall coverage, like you touched at the end. See, whenever we are having a write-off, these are loans which are fully provided. And if you would recall, at one point of time, we were carrying almost a 50% provision coverage on the Stage-3 assets, which was largely through overlays and where we have been conservative.

Today, the provisions are getting used for the write-offs. So, it is not like we are bringing down the provisions. That is why despite Stage-3 coming down from 45% to 40%, Stage-2 coming down from 4.9% to 3.9% and Stage 1 coming from 0.26% to 0.21%, our overall coverage has just dropped by 6 basis points. So, our belief is that at an overall level, and if you just go back 1 year, this number was at 1.66%. So, we are already carrying almost 17, 18 basis points higher on an overall book level.

And this is something we have also told you in the past. Our belief is that maybe around 1.5% to 1.6% is probably the appropriate level of provision for a secured book. Most of our peers who are operating in secured assets do not even carry this kind of provision. But we keep taking a look at this and ensure that we carry an appropriate level of provision. For the foreseeable future, you will see this number hovering maybe around 1.7% to 1.8%.

**Kunal Shah:** Yes. Sure. No, that's where the question was like, this quarter also it appears more than INR 60 crores has been written-off, because any way on the ECL side, it's been down and overall provisioning number is INR 57-odd crores. So, maybe would not it be prudent to maybe utilize these write-offs, and at least try to maintain the coverage in that band rather than getting the overall coverage down on every write-off, yes.

**Srikanth Gopalakrishnan:** But Kunal, then that's a double-edged sword, right? See, because today, we have probably written-off all loans which are more than 450 days. And then you start creating more provision on a less than 450-day asset, you are also setting a precedent which at some point of time the auditors are going to hold against us saying that, during this quarter you maintained so much, you continue to maintain.

So, I think the question is, as and when you have the deeper delinquent loans go away from your book, your provision coverage will naturally come down. But at an overall level, we are still at a very healthy provision, and that is something that we will continue to carry.

It will be a question of how the move happens from a book perspective, what kind of write-offs are we doing. So, you will see some movement. So, I think I would not give too much of importance to difference within the stages rather than being at an overall book level.

**Kunal Shah:** Sure. Got it. Yes. Thanks. That's helpful.

**Moderator:** Thank you. The next question is from the line of Parag from White Oak Capital. Please go ahead.

**Parag Jariwala:** Thank you. So, I have 2 questions. One, you mentioned in the call that basically you are trying to even improvise the behavior of the customers, because now the microfinance problem has become a behavioral problem as well. So, I just want to know that what methods currently are we employing? I mean is it educating the customer and all is the primary focus or we are also going for repossession or some kind of other harsher way like giving legal notice and all?

And if we have done any repossession during the last 6, 9 months, I just want to know what the success rate of selling down or recovering? So, that's the first question.

Secondly, in last few calls, you highlighted that you want to slowly build the affordable housing book as well. So, what is the status there? Or you want to kind of wait for this asset quality problem to settle down before growing that book? So, these are my 2 questions. Thank you.

**Lakshmi Deenadayalan:** Yes, Parag, I will go from second. Yes, affordable housing has been put in place from last quarter onwards. But as I said, even in the LAP book, we are not in a hurry of accelerating things. And for sure, for the new product, we are not at all in hurry in accelerating things. I think we have disbursed close to, or we gave sanctioned close to 100 files of housing, which has given us an encouraging feedback.

So, when we accelerate the LAP book, we will be also accelerating the housing book. Maybe we may think of even putting up a separate team to make it more serious from a growth perspective on the new product. That's on the second question.

On the first question, there are lot of things that we can explain, but we can take offline for what all efforts that we have put in place. See the behavioral aspect, what I said, I never meant for a Stage-3 or NPA customer. I meant on standard customers.

See, in a village or in a town, for example, a lender has written down a loan and lender is not turning up on collections, that has an effect on the next house, right, where some other lender would have lent, right? So, that is the behavioral aspect that is causing the other, most importantly, the secured lenders in that locality. So, it is taking more time for us.

Obviously, I told it in last quarter itself, and the encouraging signs are, behaviorally, people are behaving very well now. And the simple method is keep connecting with the customers very often. Maybe meet them 4 times in a month, continuously meet them and explain them about the other lenders versus Five-Star, the secured nature, and how important the credit score is for you as you move up in the ladder for your business growth or a housing need.

So, all these things take much longer time for customers to understand that differentiating between one lender and another lender. So, now you see the efforts what we have been putting in for last 6 months have shown the results for us.

So, I think mostly, we are good to go with the behavioral crisis. It should be behind us after this quarter. That's why I said once we fix in, we are in the last leg of fixing in the problems. Once we fix in the problems, the next stage is just growing, accelerating our growth.

Yes. We will move ahead.

**Moderator:** Thank you. The next question is from the line of Nischint from Kotak Securities. Please go ahead.

**Nischint Chawathe:** Sir, maybe you answered this, but how long do you really wait before writing off a loan if the customer is not delinquent? I think you just mentioned 450 days. But given the way where we are probably in the cycle and probably where the customer is behaving, would you really want to wait for that long?

**Srikanth Gopalakrishnan:** On a secured loan, it's quite soon, Nischint. In fact, in the past, we used to write-off beyond 24 months of NPA, beyond 18 months of NPA and all that. We have actually brought it down to 15 months right now, which is quite soon. So, I do not think at this point of time, we will look at accelerating this. But again, it will be determined by what we want to do on a quarter-on-quarter basis.

But from a principle perspective, I think we are comfortable with 450 days where we are writing off. And incidentally, in the state of Karnataka, we have been a little more aggressive also. It's even less than 450 days where we have written off some of the loans. So, it's a case-to-case state-specific call also that we could take.

**Nischint Chawathe:** Got it. And would you prefer to sort of just make some higher buffers or provisions and clean up the books, maybe not a write-off, but just keep a buffer and sort of move on with business as usual?

**Srikanth Gopalakrishnan:** See our belief is that our provisions are still quite high, given the write-offs that we have been doing, because these write-offs also have an impact on the loss given default that you have. So, that's why I was telling, we believe a prudent provision cover for a secured book will be more around 1.5%, 1.6% level. We are already at 1.8%. So, I think the buffer is already built into this. It depends on how things pan out, whether we would want to release more provisions or keep it at this level is a call that we will take in the quarters to come.

**Nischint Chawathe:** Because the incremental trends are looking fine. So, it's probably just a decay, which kind of increases, right? So, beyond the point, you just maybe provide for it and ensure that the P&L is insulated.

**Srikanth Gopalakrishnan:** Nischint, it's a call that Board and Management will take. Like I said, we will ensure that we continue to create an appropriate level of provision.

**Nischint Chawathe:** Got it. We will leave it at that. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Chirag from MS Capital. Please go ahead.

**Chirag Fialoke:** Good morning. Thank you for the opportunity, Srikanth and Mr. Pathy. Just 2 questions. One, just bookkeeping wise, what was the write-off that was taken this quarter? Could you just help us with that number?

**Srikanth Gopalakrishnan:** So, about INR 63 crores.

**Chirag Fialoke:** Understood. INR 63 crores. Thank you so much, Srikanth. And the second, maybe slightly unfair sort of a question. But of the GNPA pool today, the INR 400-odd crores, 10,000, 12,000 customers, just could you give us a qualitative sense on what proportion of these do you think will become a D1C1 kind of regular paying from here on. Might still stay in GNPA, but you can

still collect versus what proportion do you think you will have to take legal recourse or you will have to sort of go into repossession? Is there any sense of the stress pool, how much is it where you can sort of start collecting versus where you will have to go for a legal recourse, if my question was clear?

**Lakshmi Deenadayalan:** Yes. See, once the customer has moved to Stage-3, which we call NPA, we do not get into a concept of D1C1 at all, because we go and ensure that whether we do a partial settlement or a full settlement thereafter. So, there is no concept of collecting one due from NPA customers, because then again, the behavior aspect changes there.

So, once the customer becomes NPA, we strongly believe that there's no concept of collecting a due from them. We have to be very clear on settling the loan or partly paying the maybe 5, 6 installments together. So, then only the behavioral from an NPA perspective has been maintained.

Once the account becomes NPA, it's been taken over from the legal recovery team. As I said, they do 2 aspects. One is they continuously start the legal recovery process, fixing arbitrator, taking an arbitrator decree, then going into an EP and bringing the property to auction.

Simultaneously, the legal recovery team continues to have a dialogue with the NPA customers to either make a partial payment or full settlement before any kind of court order comes in, because that puts them in a real shame at the local village or a local town.

So, in short, there is no concept of D1C1 in Stage-3 assets, either we prefer to settle the loan or accept their part payment. And legal recourse does not stop, it starts from the day when it becomes an NPA.

**Chirag Fialoke:** Understood. And just to be clear, so you are saying the partial payments that happen, right, at that point in time, obviously, the loan will move away from being a GNPA to being a standard loan. That's what you mean by partial settlement that there should be large enough.

**Lakshmi Deenadayalan:** Yes, you are right. There are many cases or many instances where the customer pays all the arrears at one go. So, he comes to the current bucket. But once taken over by a legal recovery team, that account does not form a part of the collection or the business team. Once gone to the legal recovery, even customers are in current bucket, they stay in the legal recovery team itself. But as I said, the motto of our legal recovery team is not to collect EMIs from current accounts. They push them for the settlements.

**Chirag Fialoke:** Understood. So, the INR 400 crores, what is your sense in terms of how much of it is like a behavior problem where probably 3-, 4-year legal recourse is not what will end up happening, but what will end up happening will be an earlier settlement? Or do you think this is all extremely stressed, will take 3 to 4 years to get sort of cleaned up? I am just talking about the GNPA pool right now.

**Lakshmi Deenadayalan:** So, it started as a stress 3 quarters before, maybe last March quarter and this June quarter it started as a stress in the customers' family, because the cash flows are intact, but the overleverage and the EMI capability of that family has shot up 5x, 10x more than what they are meant to do, so it started as a crisis, debt crisis in the family. But when other lenders does not get into a collection mode rather than they go into a cleanup mode, then it slowly moves into a behavioral aspect.

So, that is where we came across 2 quarters ago that the behavioral aspect is more pronounced than the overleverage issues. So, that we are setting things right. We are in control of our customers, atleast, for our customers. And we are bringing back a good behavior and good credit culture. That is why you see across buckets, except that slippages, except that all buckets are behaving better.

I think going forward, this behavioral aspect, to our customers, we are in a strong belief that they have been rectified and they have recovered from the behavioral aspect.

**Chirag Fialoke:** Understood. Thank you so much for the opportunity. Wishing you all the very best. Thank you.

**Moderator:** Thank you. The next question is from the line of Adityapal from MSA. Please go ahead.

**Adityapal:** Thank you so much for the opportunity. Just want to double click on the curing bucket. I think the last participant was also asking about that. If I were to look at all the buckets, what would be your curing rate? The reason I am asking this is that if I look at over the last 4 quarters, the proportion of your 30 DPD has actually tilted more towards the later end of the buckets, which is causing concerns to me that. This is what I think that the credit cost has not bottomed out and will go up maybe in the next couple of quarters.

Srikanth, if I am wrong with that, you can please correct me.

**Srikanth Gopalakrishnan:** Aditya, these are certain housekeeping questions that we can probably take it offline. We will connect at some point of time maybe after the call, and then I will clarify to you.

**Adityapal:** All right. Yes. So, that's about it. Thank you so much, and wishing you all the very best.

**Srikanth Gopalakrishnan:** Yes. We will move ahead. We will move ahead to the last question for the day.

**Moderator:** Thank you. The next question is from the line of Sanjay from Bastion Research. Please go ahead.

**Sanjay Ladha:** Hi sir. Thank you for the opportunity. Sir, just wanted to check, as you have highlighted in the call as well, but over the last 6, 7 quarters, our Stage-2 and greater than that NPA has been increasing trend. And this is not settling off, because as we are a secured lender and what we are hearing from the industry players is that the stress is going down in the MFI sector overall. But in our case, that things is prolonging over a couple of quarters more. How should we read that?

And could you give why is the diversion between the unsecured part of the book, which is cleaning up right now, but the secured part is still going up or something sort of that, if my understanding is right, and please clarify on that as well.

**Srikanth Gopalakrishnan:** Sanjay, I think you also have to go to the genesis of this problem. The unsecured lenders started facing this problem beginning of last financial year, that is June quarter of 2024, which is when they started seeing this problem. Five-Star as an institution, we never saw this problem even during the entire financial year of FY '25.

The problem for us was more tail ended, and it started creeping up only in the June quarter. And while maybe the other lenders, like Mr. Pathy said, had resorted to certain cleanup of their books, Five-Star does not believe in doing that, because that impacts the credit culture, impacts the borrower's behavior. So, from that perspective, we are still taking a lot of efforts to collect from these customers. And as we speak, their efforts are actually bearing fruit.

So, the question is we saw this problem for us much later than when the unsecured lenders started seeing this problem for them. And even for us, the time line or the horizon of this problem will be much protracted as compared to the other lenders. So, like we said, we have seen problems for 2 to 3 quarters. And we believe that we are probably, like, in the 3 stages that Mr. Pathy outlined in his opening remarks, we are at the end of getting our actions right.

And from here onwards, we should start seeing improvements coming through. So, one, we saw the problem much later than the unsecured lenders, and it has been for a much shorter duration as compared to the unsecured lenders.

**Sanjay Ladha:** Why am I asking is, in the past what I have looked for the book, and what I know from in the numbers on your side, there is no period of time which you have taken 3, 4 quarters over a long period of time. So, the stress is continuing for a longer period of time, compared to the history which we have in the past. So, therefore, because as we speak, rightly said that we are as a secured lender, so the problem is not that way. But this time the stress has been longer than compared to our history.

**Lakshmi Pathy Deenadayalan:** Yes, you are right, which we have told 2 quarters before itself, this is the lenders-made crisis. This is the first lender-made crisis ever, any lender would have seen. The earlier crisis was not lender-made crisis, it's a health crisis and economy crisis, and De-mon was a short-lived crisis. So, this is a lender-made crisis. If you want to be short-lived, as I said, the only way for short-lived this crisis is clean up the entire book and start afresh. We do not want to do that.

We do not want to do that. I said in the opening remarks itself, it's a very easier way. To answer your question, this quarter, you will see INR 1,000 crores of write-off and we start afresh. We do not want to do that, because that has not P&L implication. That also has an implication in the credit culture and the behavior of the customers whom the others are going to lend in the future.

So, we want to be a very prudent and a straightforward lender, educating the customer that how important the EMI has to be paid back, and how important your credit score is for you to go up. So, it takes a little bit more time. Be patient with us. As I said, the fruits are we were able to see in the current quarter itself. Maybe 1, 2 quarters, we will see back our good quality as well as the good growth.

**Sanjay Ladha:** Sir, my last question would be on that, in the call, you said that we have taken larger steps. We are doing all the right things which we have to do. And from that perspective, I am asking that since the industry is growing at a healthy pace, we see the disbursement growth is going down. You already alluded that you would see the growth going forward. But since all the steps has been taken, from a couple of quarters away, did we see the past growth, which we used to do at 30%, is the...

**Srikanth Gopalakrishnan:** Sanjay like we said, see, at this point of time, like, what we have been telling, we are setting our collections in place. We can keep talking about why we are facing the stress for maybe 1 more quarter than what others face. But yes, we started seeing this late, and we have taken cognizance of the problem. We know why the problem was caused. We have taken the necessary actions to address this problem. The actions are already showing us the results. So, we are almost at the fag end of getting our strategies and actions in play.

Now post this, I think we will definitely start accelerating on disbursements and growth. What that number will be, like we said, we will probably come back to you over the next 1 or 2 quarters. This is probably not the right time for us to give you a number, because we also need to get the complete confidence that this entire stress is behind us. And then it will give us the confidence to push up on the growth. So, you will have to wait for maybe another quarter for us to come back to you with what our growth plans can be for the future.

**Sanjay Ladha:** Thank you so much, sir, for answering the question. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now hand over the conference to Mr. LakshmiPathy sir for closing comments. Thank you, and over to you, sir.

**LakshmiPathy Deenadayalan:** Yes. Thank you all for patiently listening our voices, which we reflect the ground-level activities what we have been doing. So, let me repeat what I said in the opening remarks.

We do not look for a short-term recovery. We want to be a long-term and fully recovered lender from this debt crisis and behavioral crisis. So, we are very confident in saying that we are at the fag end of putting all right things and seeing all right results in our favor.

The last, but the most easiest, is to accelerate the growth. Let me not comment on numbers, let me not comment on guidance on that, as I said in the opening remarks itself. Maybe next quarter, we will start working on accelerating growth.

So, thank you all. So, see you soon on the Q4 best collections numbers with a very optimistic note. Thank you.

**Moderator:** Thank you. On behalf of Ambit Capital Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your line.