FIVE STAR
Business Finance Limited

Date: November 05, 2024

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 and half year ended September 30, 2024

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 Tuesday, October 29, 2024.

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

BASKARAN SHALINI
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Date: 2024.11.05 11:59:36 +05'30'

Shalini Baskaran
Company Secretary & Compliance Officer

"Five-Star Business Finance Limited
Q2FY25 Earnings Conference Call"

October 29, 2024

MANAGEMENT:	**MR LAKSHMIPATHY DEENADAYALAN – CHAIRMAN & MANAGING DIRECTOR, FIVE-STAR BUSINESS FINANCE LIMITED** **MR RANGARAJAN KRISHNAN - CHIEF EXECUTIVE OFFICER, FIVE-STAR BUSINESS FINANCE LIMITED** **MR SRIKANTH GOPALAKRISHNAN - CHIEF FINANCIAL OFFICER, FIVE-STAR BUSINESS FINANCE LIMITED**
MODERATOR:	**MR RAGHAV GARG – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Five Star Business Finance Limited 2QFY24-25 Earnings Conference Call hosted by Ambit Capital.

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 the 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 the conference over to Mr Raghav Garg from Ambit Capital. Thank you and over to you, sir.

Raghav Garg: Good afternoon, everyone. We have with us today the management of Five Star Business Finance Limited represented by Mr Lakshmipathy Deenadayalan – Chairman and Managing Director, Mr Rangarajan Krishnan – Joint Managing Director and Chief Executive Officer, and Mr Srikanth Gopalakrishnan – Joint Managing Director and Chief Financial Officer.

Without much ado, I would like to hand over the call to Mr Lakshmipathy Deenadayalan for his Opening Remarks, post which we can open the floor for Questions:

Thank you and over to you, sir.

Lakshmipathy Deenadayalan: Yes. Thank you, Raghav. Good evening, everyone. A warm welcome to all the people who are on the line. Happy to take you through on the Second Earnings Call for this Financial Year.

So, let me straightaway jump into the “Operational Numbers and Few Updates” which I wanted to share with you all. First, let me take you through on the branches. We have opened 113 branches in the September quarter, out of that, 32 are new branches and 77 are split branches. Hope so that you people know what the split branch concept what Five Star has put in. Let me repeat, the split branches will address the concentration risk in a location. So, we will keep continuing the split branches as we go forward.

Now let me take you to the Disbursement:

We had a good disbursement of 1,251 crores versus 1,204 crores last September, registering a growth of 4% YoY and 1,318 crores in June quarter, which shows a negative growth of 5% QoQ. Yes, we have slowed down our disbursement. This is a conscious strategy to moderate our portfolio growth for the full year.

Let me take you to the Portfolio:

Our portfolio stands at 10,927 crores versus 10,343 crores in June and 8,264 crores in last September, registering a 6% QoQ growth and 32% YoY growth.

Considering the current environment and regulators views what we hear, the board has taken a call to slow down the growth. So, our guidance for the financial year '25 will stand at 25%. We will take a call in the next financial year.

Let me now move towards the Collections:

We have done well in our collections. Our September quarter collection efficiency was at 98.4% comparing with 98.5% in June. And the unique customers collection which we call, "Due One, Collect One" was at 97% in September versus 97.2% in June.

Now, taking you through NPA:

Our gross Stage-III assets was at 1.47% versus 1.41% which had an increase of 6 bps. At the current scenario, we have performed well, both in collections and maintaining a good asset quality.

Now, let me take you through on the Liability Side:

We were able to diversify our liability from banks to other forms of borrowing. Srikanth, CFO, will speak more about that. On the borrowing cost, the borrowing cost for the quarter was at stable at 9.65% versus 9.65% last June. Incremental borrowing cost was at 9.52% versus 9.47% with an increase of just five bps.

Now, let me take you through "Other Updates" which I wanted to share with you all:

- First, the rate of interest. In line with our commentary over the last many quarters, we have now decided to drop our lending rates on incremental disbursal starting from 1st November 2024 by 200 bps, that is from 24.5% to 22.5%. I am happy to say this. Since our portfolio is a fixed rate portfolio, the spread compression impact will be on the incremental disbursement.
- On the second update which would be more interesting. We have done a bureau scrub of all the primary applicants on active loans as on September 2024. Out of our total active loans of 4.3 lakhs, we find that about 14% of our loans which is 59,000 loans are overleveraged, that is, the applicant having three or more loans with other financial institutions. Of the loans, which are overleveraged, only above 1,600 loans translating to just 0.4% of the total active loans, have exhibited lower collection efficiency in the last six months. Let me repeat, "only 1,600 loans translating to just 0.5% of our total active loans have exhibited lower collection efficiency in the last six months". We are monitoring this portfolio very closely and also decided to implement stricter underwriting norms for overleveraged loans going forward.

So, with those updates and the numbers now, I will hand it over to Srikanth to go more deeper into it. Thank you.

Srikanth Gopalakrishnan: A very good evening to all of you. As Mr Pathy has highlighted, we had a good quarter in the second quarter as well despite some sectoral headwinds, especially those that are being faced by the unsecured lenders. But we being a fully secured product with strong underwriting and collections mechanism, I think we have managed to come out with a good set of results even during this quarter.

We have an active loan base of 4.3 lakhs. So, we are still not really putting too much of monies into the hands of the same borrower but diversifying our portfolio into a much larger base of borrowers. Our yields continue to remain consistent at around 24% or so. With the drop in yields that we will be doing from 1st November, you will see the incremental yields going down, but for it to get reflected in the portfolio will take some time.

The cost of funds again remained flat at 9.65%. This is ensured that our spreads have remained flat compared to the last quarter. There has been a slight drop in the net interest margin, primarily on account of leverage with the quantum of debt going up.

Our cost-to-income again pretty much stable compared on a sequential quarter and as we've been guiding in the past, we expect our cost-to-income and when we mean cost-to-income, we are also including the credit cost into this. So, including our credit cost, we will be at about 35% of cost-to-income even in a steady state scenario.

Healthy ROA is at around 8.3%. Our ROE has just crossed 19% for the first time. So, this is again on anticipated lines, compression in ROA and you'll see ROE sort of going up.

From a borrowing, we have 43 lenders who have financed to us. As we have guided in the past, we are clearly looking at moving towards other than banks to get our debt, and to that extent we have onboarded Nippon Mutual Fund and Kotak Mutual Fund as lenders to us. They have subscribed to our PTC transaction. Incidentally given that this is a public call and today it could be public news, we also had HDFC Mutual Fund and HSBC Mutual Fund subscribing to our PTCs today.

So, clearly the intent to diversify the borrowings out of the bank is showing a good traction. We have dropped on other than bank borrowings from 74% to 70% during this quarter. These come in at slightly higher rates, which is why we are seeing the incremental debt coming in at 9.52% as against 9.47% last quarter. We continue to be good on the liquidity buffer and Unavailed sanction lines. So, we had a liquidity buffer of close to 1,700 crores and close to 250 crores of undrawn sanction lines from banks and other institutions.

On the collection efficiency, there was a very marginal dip, which has also contributed to a slight increase in our DPDs. But if looked at from the context of what is happening around in the industry, I think the numbers that we have delivered are very impressive.

On the provision coverage, we continue to be attractive. We are maintaining about 1.65% of ECL on the overall AUM and about 52% of provision coverage on Stage-III assets. Like we said, we will continue to remain cautious on this and build adequate buffers in good times for any contingencies that might arise.

We clocked a PAT of 268 crores for the quarter, which is a growth of about 34% on a YoY and on a sequential basis our PAT went up by 6% from 252 crores to 268 crores. Networth is strong at about a little over 5,700 crores. So, Mr Pathy has already given the updates. The overleverage issue has not really caused much of an issue for Five Star, the borrowers of Five Star are continuing to pay to us.

So, given all of these things, I think we will continue to remain very focused, remain cautious and look at the environment closely before taking any of the decisions, because we all know what is happening around. But the silver lining for us is the portfolio of Five Star is continuing to perform extremely well and we will continue to keep monitoring this as we go forward.

So, on that note, we will take a pause, and we will open up for any questions that any of you may have. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Renish from ICICI. Please go ahead.

Renish: Just two things from my side. One, on a few business model changes what we have done, like lower growth and a rate cut. So, what kind of profitability impact do you see in FY'25, FY'26 and does it also mean that this steady state ROE which you guys might have thought about maybe when we started this business? And now given the changes which are sounding more of a structural in nature, what kind of ROE this business can now generate going ahead and the short-term impact because of the changes?

Srikanth Gopalakrishnan: So, on the first point, definitely there will be an impact on profitability more so in FY'25 on account of the lower growth, because like we said, the yields dropping, will not have much of an impact because it's going to be on a very smaller portfolio rather than we have about 11,000 crores of portfolio, which are fixed rate and running at a higher rate. But because we would grow about 4%, 5% lower than what our original guidance was, there will be an impact on profitability. See, we have not really worked out our numbers, but I don't think there is going to be a significant compression in our ROA. So, given where our assets will end at, I think we should be closer to about 8% of ROA for this year. But over a period, I think that definitely will drop to about 6% or so. But, Renish, this is not a new information that we are giving to you today. In fact, all the while we have been saying that our steady state spreads will be about 12%, which will translate to a steady state ROA of about 6% or so. So, on a steady state, there is actually no change in our guidance, only change will probably be on the growth. But at this point of time, we are not giving you growth guidance for a longer term. Like Mr Pathy said, the 25% growth is for this year, but we will continue to keep monitoring how things change, and growth is something that we can always fine-tune as we go forward. So, I don't think there is an issue from a steady state ROA, ROE as against what we have been talking. It is just that maybe it will happen in a little more faster manner than the sort of gradual manner that we highlighted you maybe when we have been meeting with you in the past.

Renish: We don't see any risk to our 12% steady state.

Srikanth Gopalakrishnan: At this point of time, no, Renish. Today, I think the way that the environment is changing, while we can be as proactive as possible, there are times when we will have to be reactive. But at this point of time, we don't really see a challenge to our 12% spreads.

Renish: My second question is on the borrower base, right? So, given the kind of things flows what we are getting on the MFI side and given our ticket sizes, maybe if you can just clarify what percentage of our borrowers base are having MFI loans and how is the behavior of that pool? And link to that, do you foresee any, let's say collection challenge in that pool aspects actually the ones who might have two, three, four other MFI loans?

Srikanth Gopalakrishnan: So, Renish, just to give you a little bit of context, what we have been telling even in the past, our belief and today with data stands lot vindicated, is the fact that the borrowers have not seen a compression in their incomes. But obviously there is some level of overleveraging that has happened. So, what is happening is, people are starting to prioritize and in the order of their priority, we stand almost on top so which means that they are repaying us. And out of this scrub which we have done, we see that about roughly 30% of our borrowers also have an active microfinance loan as we speak.

While we have not looked at what kind of delinquencies those microfinance institutions are facing, we would just have an overall number and not an institution wise number. But even on the portfolio where there is a microfinance overlap, we have not seen any deterioration. So, the lower collection efficiency that we are seeing is just on about 0.4% of our base, which is about 1,600 loans. So, at this point of time, we don't believe that the issues that are being faced by the microfinance companies from their borrowers, the similar borrowers are prioritizing us and repaying us without any issue and there is no early warning signal or whatever it is that this could also percolate to our portfolio. But like we said, we will continue to keep monitoring the overleveraged portfolio very closely and be ready for any actions if they are warranted.

Lakshmipathy Deenadayalan: So, Renish, let me repeat and give confidence to the listeners. Five Star in the last 22 years, see, we have seen five crises starting from Andhra crises what happened to MFI and then reborn, then COVID and COVID-2 and now what we all call as overleverage crisis. In all the above 4 crises, Five Star came out very successfully because I keep repeating, even though we lend to middle and lower middle-class people, during the stress time, they prioritize whom to pay, whom not to pay. So, that is why you see the other players who are suffering, whereas the mortgage players like housing and us are comfortably placed because of strong security what we have and our collection infrastructure what we have put at the ground level, both are giving a good result in this quarter, and I hope and I am confident that this will continue till this gets settled.

Moderator: The next question is from the line of Viral Shah from IIFL Securities. Please go ahead.

Viral Shah: I had two questions. One is that with regards to the growth rate percentage specifically, which is 25%, is there any logic behind that or is this just based on the discussion with the regulator or the feedback that you would have gotten?

Lakshmipathy Deenadayalan: See, as I said in opening remarks, board has considered the current environment and regulators view, which you and me hear from all sources. So, Board has taken a very conservative call that to slow down the growth in this overleverage time. So, we feel that our board has taken a right call and not grow at the time when everyone speak about overleveraging. So, we have taken a call to step down a growth a bit from 30% what we said to 25% for this financial year. As I said in opening remarks, we will revisit this in the next financial year when we feel and when the board feels the environment is good we will go back to our stronger growth as we have been doing in the past.

Viral Shah: My second question is that you mentioned that the 14% of your portfolio is basically overleveraged. Is this on a value basis or on volume basis like is it in number of the customers or by value of the loans that these customers have with you?

Srikanth Gopalakrishnan: So, this is on the basis of number of accounts, Viral, not on value. In fact, on value it will be slightly lower than this also, because if they have taken so many loans our loans also will not be at let's say 3.5, 4 lakhs. So, our amount would have been lesser. So, this is on an account basis. We have not done the analysis for the value, but very clearly, at the value basis, this number will be smaller.

Viral Shah: Also, because there would have also been a rundown on your exposures will be lower level. But as a corollary to that, if we get a color in terms of the definition that you use for the overleverage customer, is that they have three or more other loans, do you have color on what are these other loans, are they secured, unsecured, what is the value of the outstanding of other loans, any of those things?

Srikanth Gopalakrishnan: So, again primarily unsecured, Viral. So, we have seen overlaps with MFI, overlaps with gold loans, overlaps with vehicle loans and agri kind of loans. The overlap with LAP, housing or secured business loans are very, very small. And typically, the number is, yes, like we said 30% overlaps with the microfinance and maybe a similar overlap with gold, rest of the overlaps are smaller than 30%.

Viral Shah: When you mention that this overlap with vehicle loans, which vehicle, you mean to the two wheelers?

Srikanth Gopalakrishnan: Two wheelers. Yes. Some CVs could be there, but predominantly two wheelers.

Viral Shah: When you mentioned the LAP or the housing piece, do these borrowers have another house or the property against which they would have taken this?

Srikanth Gopalakrishnan: They should be having Viral, because we don't do any paripassu charge, it's an exclusive charge. So, if they have taken money from us on one property and if they have taken another housing loan, it should be on a different property. Like I said, the numbers are extremely small.

Moderator: The next question is from the line of Manik Bansal from Master Capital Services Limited. Please go ahead.

Manik Bansal: So, I am having a question on like average loan to value ratio has reduced from 40.5% in Q1 to 39% in Q2, which means that underlying collateral increased around 2,200 crores, loan book increase of 583 crores. What can be the possible reason? Is the bank focusing on prudent lending?

Srikanth Gopalakrishnan: So, the growth has slowed, right, the disbursal is lower. And on an LTV basis, when the loans run down, we don't revalue the collateral, but even assuming the same collateral value when the loan runs down, obviously, there will be a drop in the LTV. And when you are not adding higher LTVs at the pace that you have been adding in the past, this number will continue to keep dropping. So, you will always see a portfolio in a lower growth phase the portfolio LTV will continue to keep dropping a bit quarter-on-quarter.

Manik Bansal: We added 113 new branches this quarter, right? But the company's loan portfolio has grown by about 583 crores only in Q2. What can be the possible reason for this slower growth?

Rangarajan Krishnan: So, Manik, we have clarified that most of these branches are split branches. So, split branches essentially one larger branch getting broken into two so that does not automatically increase your business outcome or portfolio. So, it's more a risk management measure which we've been explaining in the past few quarters. So, over the last quarter specifically, we had focused on most of the branches, which have more than 1,500 loans and that's the effort which has happened. So, almost 77 branches, out of the 113 that we have opened are split branch category. Also, the other point to note is when you open a new branch, it takes at least three to six months for the branch to stabilize. So, these are investments that we are doing now and over a period of time, these will yield results. So, it's not an immediate and automatic increase in business.

Manik Bansal: The securitization portfolio has grown from 14% to 18%. So, there's a 4% increase on securitized borrowing. And as the company's con call shows that we have onboarded Kotak Mutual Fund and Nippon Mutual Fund. So, will this impact the cost of funds in the coming quarters?

Srikanth Gopalakrishnan: Sorry, we missed. What is the question?

Manik Bansal: So, will this impact the cost of funds or the overall borrowing mix?

Srikanth Gopalakrishnan: Like I said, Manik, this is slightly at a premium compared to our, let's say bank borrowing, but we are very clear that we want to diversify our borrowing sources. So, we end up paying about 20, 25 basis points premium on this. But generally, the way these things work is it will typically be higher cost in initial transactions, but once they get comfort, subscribing to our portfolios and seeing the performance, we are hoping that at some point of time the cost will start going down. So, we don't really see a long-term impact of these transactions on the cost of funds, but for getting the diversification impact, we have paid a little bit of premium.

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

Abhijit Tibrewal: Srikanth Sir, firstly I just wanted to understand, I am seeing on our slide 6, NIMs have expanded by almost 20 basis points QoQ. Is that the right observation?

Srikanth Gopalakrishnan: Yes, Abhijit NIMs have been expanded a little bit.

Abhijit Tibrewal: I mean, how should we understand this, because I mean, all along what our understanding is there are no yield increases that you are taking, on top of that. I mean I would say cost of borrowings what you've reported is also largely stable and leverage is indeed going up. What explains this NIM expansion?

Srikanth Gopalakrishnan: So, last point is where the difference is. The leverage for this quarter has actually come down a little bit. While it's not material, but if you look at our debt-equity, it's come down from 1.23 to 1.20. So, the pace of net worth growth is higher than the pace of the borrowing growth.

Abhijit Tibrewal: Obviously, I mean audit for the last year I am guessing would have happened by now. I mean in addition to the industry loan growth and pricing that you have spoken about, any other observations in the RBI audit?

Lakshmipathy Deenadayalan: Abhijit, I have not said this is the outcome of the RBI audit. I said the board has taken a clear view and what commentary that we have been saying for the last quarters based on that, the rate of interest has been reduced, 200 bps, which we have been saying to the market for some quarters and we have done it now with the approval of the board and this gets effected from 1st November.

Abhijit Tibrewal: But what I was trying to understand, Pathy, sir, is the audit is over now, there are no observations from RBI, right, is what I am saying.

Srikanth Gopalakrishnan: FY’23 inspection report has come. There are no material observations. There are qualitative observations obviously how we can strengthen our process around the complaints management. So, there are qualitative observations, and we have very clearly taken those suggestions from RBI and we have implemented most of it and given compliance to RBI also. FY'24 has also been completed, but we have still not got the final report from RBI. Our interaction with the inspection team during the inspection leads us to believe that there are no red flags, there are going to be no major observations or inspection findings. But again, we will just want to wait for the final report to come in before we give you a very clear answer.

Abhijit Tibrewal: I wanted to understand while you have already articulated this 200 basis points cut in our incremental lending rates that we are taking will obviously not have too much of an impact on yields this year, but given that, I mean in the past you have said, roughly around 25% to 27% of our existing loan book runs down every year, how will this impact come into the portfolio yields over a course of time?

Srikanth Gopalakrishnan: Over a period of time, what you are reading as 24%, 24.1% today will go down much more quicker than what we have been guiding in the past. So, that's what I answered Renish also initially. The impact will be on the faster pace of yield coming down on the book than what we had guided. So, originally we were thinking that the book will start being at around incremental yields in three years, but maybe today that could probably be in FY'26/27 you will start seeing some impact which is more sharper than what we would have guided. So, '25 I think we will largely be around 24% or slightly lower than that, but in '26-27 the drop will be a little more sharper than what we have been guiding in the past.

Lakshmipathy Deenadayalan: So, Abhijit, let me reiterate what Srikanth said earlier. So, our long-term guidance, three years, five years down the line, we will be in the spreads of around 12% and our return on assets will be around 6% and that's the steady state scenario that we are looking for.

Moderator: The next question is from the line of Dinesh from Finsite. Please go ahead.

Dinesh: My question is I would like to know we have split the branches and if I remember you mentioned in the previous call that we would like to reduce the number of employees per branch from somewhere around say like 20-odd we have right now from. What kind of a number we are looking at like, I mean will it be somewhere in the range of 10 to 12 because definitely some of the employees will get split, right?

Rangarajan Krishnan: Dinesh, on a steady state, yes, we expect once the branch reaches what we call as an ideal branch kind of a scenario it will have an average of about 10 to 11.

Dinesh: So, second question, I mean on the same line, we are increasing our branches, we are definitely adding more employees here and we are reducing our interest rates maybe like whatever 200 basis points and we know the situation is very tough. What kind of situation actually is this out in the market and we are reducing our growth targets as well like I mean, are we expecting the situation will become even worse in the next maybe 2-3 quarters or are you seeing maybe the last signs of the revival are there, if you could just give on the overall macro what's your view?

Rangarajan Krishnan: Dinesh, I will add a couple of things, probably invite Srikanth also to add his viewpoints. I think the first point on the interest rates, we have repeated multiple times even as part of this call like this is a well-articulated strategy that we have had, and we have been sort of talking about this for the last few quarters. The spreads that we had additionally enjoyed was because of the lower borrowing cost and we were waiting for the most appropriate time to pass this on. And today the board has given us the final approval and we are going ahead with passing of about 200 basis points benefit to the customer. So, this is exactly as we have anticipated and this does not deviate from any of the guidance that we have given on the spreads part. So, that's clear. The second part I want to also reiterate is that we are not seeing any stress scenario from our books at this point of time. And the bureau scrub that we have done is additionally giving us the confidence that if at all we will have to look at overleveraged customers who are sort of not behaving well with us from a collections perspective, it's hardly about 0.4% of the portfolio, well in control, and anyway the situation is getting very, very closely monitored including some tightening of underwriting process as we proceed. But while things within your control are fairly okay, but there will also be scenarios that you have to watch out for from macroeconomics perspective and what's happening in the sector. So, the call to reduce the growth rate from about 25% now is more in line with what we are seeing around us rather than what we are seeing within us at this point of time. And Mr Pathy has very clearly sort of detailed that out is that we are not revising any long-term guidance. We are revising the growth guidance given for this year and we will of course wait and watch as to how the situation evolves and take a call appropriately at the end of this financial year.

Dinesh: My last point is on the things we discussed. We mentioned about overleveraged loans maybe around 1,600 accounts, right? My question is how do you come to know like did we give the loan them towards the end like they have already borrowed from some other MFI and then we gave the loans or what is the sequence of loans that have you done that study as well like I mean they were already overleveraged and then we gave the loans because I want to understand the collection efficiency of this particular 1,600 accounts, below the average or what's the situation out there?

Rangarajan Krishnan: So, Dinesh, both the scenarios are possible. Firstly, let me clarify that at the time of sanctioning of the loan, any loans that they would have had outstanding at that point of time, we would have taken it into account before sanctioning our loan both from a DBR perspective and from our own risk management perspective. So, that's clear. But especially with respect to unsecured loans, you cannot stop any of these people to go and borrow from unsecured loans and that's where the overleverage is sort of creeping up in the sector. So, I don't have an exact answer how much proportion of this 1,600 had three loans or more at the time of sanction and how much borrowed one more loan post sanction. So, today it stands put together about 1,600. But if I were to take a guess, it will be more than 50% of people would have taken a loan after we have sanctioned rather than the other way out.

Dinesh: But has this impacted our collection efficiency because it has marginally gone down, right, the risk is there, right?

Rangarajan Krishnan: Yes, the risk is there. That's why we are sort of isolating this 1,600 loans and then monitoring closely. Srikanth can give some more color about 1,600 loans.

Srikanth Gopalakrishnan: So, see, even on this 1,600 loans, it's not like none of these guys have paid any time during this six months. There are customers who have been paying maybe two installments, three installments during this period. But we are definitely seeing drop in collection efficiency which means there is some level of issue at their cash flow level which is why we are monitoring this portfolio. See, the other point what you said, at the time of underwriting we have a very stringent mechanism in terms of not going beyond 50% debt burden ratio. So, when you take all of that, it's little unlikely to presume that these customers would have had all this overleverage even at the time of underwriting the loan. So, it's more likely that they would have actually taken the loan post we are sanctioning the loan and that's what Mr Pathy also alluded, right, in the personal loan there is no security. So, for others to just come and give the loan is a lot more easier than when you are doing a secured loan where it can typically be only one lender who can give. So, when there is a little bit of laxity in the discipline in the entire lending ecosystem, everybody in the ecosystem tends to get affected. The good part is the effect on us has been extremely marginal and unlike many other players who have suffered big on the collection efficiency drops or credit cost or NPAs going up, the impact that we have seen is almost close to nothing.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: On the credit cost side, I know we are slowing down looking at what's happening around, but given the ECL coverage that we are sitting right now, which is closer to 1.6%, do you think it is required that we kind of just inch it up a little bit and build a little bit of a buffer, let's say that something that you would have done during COVID or any of the stress periods?

Srikanth Gopalakrishnan: If you look at between the last quarter and the current quarter, it has inched up by about two basis points, while obviously you may think that this number is not a big number but the ECL model also gives us not too much flexibility to sort of keep pushing these numbers especially when you have strong PDs and LGDs, but yes, we are fairly in sync with the thoughts that you have echoed that we will continue to keep monitoring this portfolio and wherever there is a possibility available to us to push up some of these numbers, we will continue to keep doing. So, our ECL will always be at an appropriate level depending on how the portfolio is behaving. The bigger impact for us is on the LGD. So, even if the loan becomes default, kind of loss that we suffer. And I can give you a number, if you sort of put a weighted average LGD on the loans that have turned default, it's at around 10%, while if you look at Stage-III, we are holding almost 52% of provision coverage. So, it's a very high number that we are holding. While it maybe a little archaic from a comparison perspective, but if you look at this to the IRAC provisions that's required, we are almost sitting on 100, 120 crores of additional provisions. We had a very detailed discussion, and I think all of us including the management, the board and the auditors feel this is a very appropriate level of provision that we are sitting on.

Nischint Chawathe: And are there any covenants with banks on net NPA or any of that?

Srikanth Gopalakrishnan: There are covenants, Nischint, , but those are more like 3-4% nowhere near our current levels.

Nischint Chawathe: I think what you mentioned is that you have around 46,000 odd customers who have more than three loans. Is that what you mentioned?

Srikanth Gopalakrishnan: It's about 58,000.

Nischint Chawathe: Total customers as of now are?

Srikanth Gopalakrishnan: About 4.3 lakhs.

Nischint Chawathe: And what we are then saying is that out of these, around 1,600 are the ones who probably have exhibited some stress?

Srikanth Gopalakrishnan: Correct. So, it is 4.3 lakhs, out of which about 13.7%, 58,000 customers who have three or more loans. Out of this 58,000 customers, 1,600 customers have seen some lower collection efficiencies, which could possibly indicate towards some stress in their cash flows and we are monitoring that portfolio. So, on an overall basis, it translates to about 0.4%.

Nischint Chawathe: And just a little bit of a waterfall on the steady state 6% ROA that we are looking at. If you could give some color on that?

Srikanth Gopalakrishnan: The way that we are looking at is about 12% spread, which will mean about 14% to 15% of net interest margin at let's say 3, 3.5x kind of a leverage. From there, if we are looking at maybe about 5%, 5.5% of OPEX and about a percentage of credit cost, we will broadly be at about 8.5% of pre-tax profit, on a post-tax basis it should be about 6%.

Nischint Chawathe: 3, 3.5 times of equity is something which we agreed with the lender?

Srikanth Gopalakrishnan: See, it's comfortable at the lender level and with the kind of profits that we also keep generating, we would want to get there first before moving to the next level. 3, 3.5 times is a very, very comfortable number for lenders, rating agencies and the external stakeholders.

Moderator: The next question is from the line of Aravind from Sundaram Alternates. Please go ahead.

Aravind: One question is so we have revised down our guidance on growth. Like if I back work, I could see like disbursements has to be flattish or even go down a bit in comparison to the second quarter. Like if that is going to be the case, would we slow down on the branch addition or is my understanding right?

Rangarajan Krishnan: So, Aravind, branch addition is more a long-term strategy of the company. You will have to keep a lot of things into consideration including, putting up the distribution network, infrastructure, the people that you want to put in a branch and the risk management. So, it's not about the quarter-on-quarter growth or in terms of adjusting based on the specific disbursement requirement of a company for a particular quarter. So, our branch expansions are more from a perspective that we have to become a company with larger distribution outlets, and we are also becoming a lot more well risk managed company. So, that has no direct impact on quarter-on-quarter disbursements. So, we will continue to do it. And usually also if you look at our historical track record we always upfront the branch addition. So, any branches that we wanted to put, it will obviously be much higher in the first half of the year rather than in the second half of the year which is what you are seeing even now. So, you will automatically not see us expanding branches in the same pace in the second half of this year, which is in line with what we have been doing for the last few years.

Aravind: On the slowdown in disbursements, what kind of additional guardrails in terms of underwriting are we going to take like because we are going to slowdown disbursements, like, are we going to require a much more comfort on LTV or like DBR like what are the things that we are going to do like in the near term?

Rangarajan Krishnan: So, Aravind, broadly, two, three things we have identified certain pockets where the stress could potentially get built. It could be based on a profile of customer, or it could also be based on the leverage of these customers. So, for these cases, we will definitely be tightening the underwriting norms both in terms of LTVs and DBR. So, that's the first step. And second, if we are also seeing any collection inefficiencies in particular pockets, there we will be tightening the entire credit underwriting norms in a much more stringent manner than what we are normally doing for the other part of the portfolio. So, we will take a call based on what we are seeing. The bureau scrub gives us a lot more insights and we will be using that to form the basis of underwriting principles.

Moderator: The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

C Sridhar: I have a few questions. So, when you dropped the disbursement rate from November and disbursements are really going to be weak in the second half given your sort of a number. I mean, if you look historically, I mean typically 40%, 45% of your AUM is contributed by that year disbursements, that number is actually going to be pretty minimal for this year, and even if we move it to next year, the impact is not going to be very significant So, I am a little curious to understand why you are saying that sort of we will get to 12% spreads on an accelerated fashion, especially when the disbursement growth is slowing down and the impact on AUM in anyways on 12 months is not particularly significant. And obviously coupled with that 70% of the borrowings are variable 12 months out. Even if you have a 25-bps rate cut, it means sort of we get some maybe 8 to 10 bps or 15 bps some sort of an advantage on the borrowing cost. So, just curious to understand how you sort of get to 12% spreads in two years?

Srikanth Gopalakrishnan: So, Chandra, what we guided is for this year it will be at 25%. For next year, we are not predicating these numbers on a 25% growth. Hopefully, there will be some betterment of conditions and we could look at a different growth. But if you are going to grow at 25%, let us say for the next three years if the environment is going to stay where it is and we will have to grow only 25%, then I agree with your point, it may not happen in two years. In our guidances that we gave, we have not factored in for any of the rate decreases part. Because I think we also believe that if there is a rate drop by the RBI and our spreads are sort of inching up, we would want to continue to keep passing these rate benefits to the customers. We would like to operate at around 12% spread in a steady state scenario. So, the question is not whether the spread will go up. The question is we would want to keep the spread at around 12%. The only variable in that is the impact of the existing fixed rate book of about 10,900 crores. How that is sort of going to run down and how the new disbursals come in. There I agree with you if the growth rate continues to be slow, then yes, two years may not be a point, it may get pushed even beyond that. But if we are able to get to a little better growth rate in the years to come, maybe we will be able to accelerate that a little bit.

C Sridhar: You are not ruling out more than 200 bps. You are starting off at 200, at some point in time, maybe 12 months out, if you get a further rate cut, you'll just pass it on further disbursements?

Srikanth Gopalakrishnan: Yes, we will continue to keep evaluating the scenario and give the benefit to the borrowers. We don't want to unduly increase our spreads. We would like to operate around the 12% spread and the sooner that we can get there I think that's also a comfort internally as well as for the regulator.

C Sridhar: The OPEX is also largely sort of disbursement-driven business, I mean, if the disbursement growth itself slowdown, so wondering how do we start thinking, you said 5%, 5%, curious to understand, I mean ideally if your disbursements slows down your OPEX should actually start slowing down?

Srikanth Gopalakrishnan: Our OPEX is a little more skewed towards fixed, Chandra, rather than variable. So, while the incentives are variable and are linked towards the disbursals, the proportion of the variable as a component of the overall salary is more like about 30%, 35%. So, there is a 65%, 70% component that is fixed. So, even if there is a slowdown in disbursal you'll have to see that. In fact, if you currently look at it, our OPEX is not even at about 5.5% or so, it's lower, but we are not even assuming any scale benefit to come through there. For the current quarter, the OPEX is about 5.1%. But I am even assuming a little higher number because if the disbursal continues to remain slow, maybe the benefit of scale may not come through. So, it's actually the other way than what you are thinking. Our OPEX is not much variable, it's about 60% fixed.

C Sridhar: Just when you put out a credit cost number sort of steady state in your ROE of 100 bps, I mean you said that your LGD historically has been 10%. Just curious trying to put the two and two somehow don't make sense together when you are talking about that. I guess it will be the sort of worst-case scenario you would be thinking of in terms of credit cost, right, unless basically you want to up your PCR to a certain substantially higher level?

Srikanth Gopalakrishnan: See, there is a buffer built there. Let me not disagree with that. It is also a question of how does the numbers look like when the portfolio start getting seasoned. See, what happens, when the growth rate slows, is that some of these things that we probably have not seen in the last five, seven years could probably come through. So, we are making necessary allowances for all of that. So, if the portfolio seasons, are we going to start looking at some of these things and when there are more of legal actions that we take, would that mean that there will be a little more discount that we will have to give to the customer, which means the LGD which is at 10% today will probably go up. So, some of these are points that we actually assume when we put out a 1% rate. But you are right, the 1% rate is probably on the higher end of the range. What we typically guide is about 75 to 100 basis points. When I gave you the ROA tree, I took the higher end of the range.

C Sridhar: What's the write-off number for the quarter? My calculated number is about 10 crores.

Srikanth Gopalakrishnan: It's about Rs.11 crores for the current quarter vis-à-vis Rs.7 crores for last quarter. So, for the full year, we have written off of about Rs.18 crores.

Moderator: The next question is from the line of Aditya Pal from MSC Capital Partners. Please go ahead.

Aditya Pal: Sir, wanted to understand that now on the ground any issue that you are seeing, are there any particular geographical pockets that you want to call out where you are seeing a lot of stress?

Rangarajan Krishnan: No specific geographical pockets, Aditya. I think the bureau scrub gave us some insights in terms of particular category of customers, but it is not concentrated to any single geography.

Aditya Pal: And sir, a broader point would be that is this a longer-term issue that you are seeing because what we are hearing from the listed microfinance entities that by Q4 the balance sheet of the customers should be fine with the good monsoon and income picking up in the rural areas. Anything that you want to highlight over there?

Lakshmipathy Deenadayalan: Aditya, my hope is this is not going to be a longer-term issues. When the microfinance companies slowed down their growth, when they are very clearer on whom to lend, how to lend, this scenario, that is we call that as overleverage scenario will slowly come down and it will die soon. We are hoping for that. And regulators also are taking tighter norms on the unsecured loans. So, I don't see this panning out for a longer period of time. It's going to be a shorter period of time. The board has taken a very clear call. During the shorter period of time, let's focus more on collections and credit underwriting rather than growing at this overleveraged time. So, that's why we have brought down our growth. So, my hope is it should be shorter, not more than two quarters from now.

Aditya Pal: Another question was that, so now we are splitting our branches, how long do you foresee where we are splitting our branches and then finally we will be following the organic branch growth, whether this entire program is completed?

Rangarajan Krishnan: Aditya, the split branch concept is not for growth. That's for addressing the concentration risk at a particular location. We have been explaining in a few quarters that when a branch grows beyond a size, we don't want the bunch of our employees in the same location and bunch of our customers in the same location. So, to address the concentration risk, we are splitting that branch into two. So, the accounts are equally split, the employees are equally split. So, the growth will be as normal. Don't take these branches as new branches because those are old branches where the concentration risk is being put in place. The new branches which we opened 36 and which we will open as we go forward that will drive the growth much faster.

Lakshmipathy Deenadayalan: But, Aditya, if I were to just add a little more context to it because I understood your question slightly differently. You are probably asking us how long when we come back to you and say the entire branches are split and it is we are done with it.

Aditya Pal: Exactly.

Rangarajan Krishnan: We started this about in a more focused manner about two quarters back and we don't want to do all of it together. So, we are very choosy and careful in terms of how much we can do in a particular quarter and which states to focus in a particular quarter, like for example, this quarter, we focussed extremely well on Tamil Nadu, in Q1, we focussed a little bit more on AP. So, we will split it out in such a manner that we are able to digest it well without any undue risks at the ground level. We are right now focusing on any branch which has more than 1,500 customers. So, that's the first port of call. Once we are done with it, then we will get down to any branch which has sort of more than 1,000 accounts. So, I think in about two to three quarters, we should have been done with most of the splits which are already pending at this point of time. Beyond that, it will only be incrementally, and organically whichever branch gets to that stage, we will get to a split stage. So, it's not going to be accelerated like what you are seeing now.

Aditya Pal: So, by mid-FY'26, should have been completed and we can start putting on an organic growth basis?

Rangarajan Krishnan: Correct.

Moderator: The next question is from the line of Seeraj Khan, who is an individual investor. Please go ahead.

Seeraj Khan: First question is with respect to our borrowing mix, how much is linked to the floating rate, the external EBLR, MCLR what is the percentage of it?

Srikanth Gopalakrishnan: We have given this number. So, roughly about 35% is what is the floating rate book, which is typically either linked to about 37% is fixed, I am sorry not variable, about 63% is the variable rate which is linked to MCLR or EBLR.

Seeraj Khan: One of the earlier questions that was asked with respect to which of the states the bureau scrub showing any stress? I didn't catch that. Were there any specific states that are maybe in our core geography that are showing our stress?

Rangarajan Krishnan: No, we answered it earlier also. So, we are not seeing any geographical concentration of stress. The stress is more about the particular category of borrowers who are showing overleverage rather than any geographical concentration.

Seeraj Khan: In the states like Rajasthan, Maharashtra, Chhattisgarh, new branches that we have opened, how many were in these states? How much of a learning curve do you see and when do you start to see any one of these or maybe all of these becoming core geographies?

Rangarajan Krishnan: So, just to answer, I think in the last quarter in Maharashtra, we opened 8 branches. So, we have not opened any other location. So, Maharashtra is only new learning state where we opened eight branches, and in the previous quarter, we sort of commented that in Maharashtra we are seeing very good signs of growth at this point of time, we have had more than four to five years of experience in the state and you will see us a little bit growing in a more accelerated phase in Maharashtra. So, Maharashtra is coming of age in that sense from a learning state to becoming one of our important states. The other states will take a little more time for us.

Seeraj Khan: Incrementally, are we seeing a higher growth in the ticket size because gradually our ticket size on an overall basis has increased. So, how much of this is natural and how much of it is purely credit hunger that is there in the system?

Rangarajan Krishnan: See, for us most of the ticket size growth has only been natural and more inflation-driven. So, we are still continuing to maintain about 3.5 lakhs ticket size which is what we were pre-COVID and we have been guiding you that any ticket size increases will largely be inflation-driven rather than anything else. Yes, you are right in the sense that this profile of customers are credit hungry, but we are not changing our underwriting practices. So, we will only go with what we are comfortable with and from a ticket size perspective it will only be inflation-driven for us.

Seeraj Khan: And finally, with respect to the credit cost, you had said it was 11 crores for the current quarter, 7 crores for the previous quarter. Was that correct?

Srikanth Gopalakrishnan: That's only the write-off, it's not the credit cost. Write-off is 11 crores for current quarter and 7 crores for last quarter.

Seeraj Khan: And a final data keeping one. What was the sanction to disbursement and the login to the sanction ratio in amount and the size if you could share?

Rangarajan Krishnan: So, they have not seen any big differences. The usual login to sanction ratio is about 75% for us and sanction to disbursement ratio is close to 95%. So, these ratios are at similar levels at this point.

Seeraj Khan: So, we should look for value of loan and cases or is it different?

Rangarajan Krishnan: More value, but these numbers are very close to each other.

Moderator: The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: We have taken this decision to cut our disbursal yield by 200 bps. But sir, in the previous quarter's concall we are looking for a rate cut of around 50 to 75 bps. So, what has led to this decision of increasing the rate cut?

Srikanth Gopalakrishnan: So, I think Mr Pathy sort of alluded to this that we have always been wanting to operate at around 12% spread, but what's happening in the external environment, the views of the regulators in terms of what we are hearing on the public domain, so some of these things have made us to take a call where we are cutting the rates a little more sharply than what we have been guiding in the past. So, we want to get close to the 12% spread as soon as possible rather than sort of waiting it out and getting it in a more gradual manner.

Aditya: And has that been nudged by the regulatory authority to cap the rate at which we can give the loan to the borrowers?

Srikanth Gopalakrishnan: There has been public commentary by the regulators, which all of us are aware of, and in some interactions they have also been sort of trying to understand the reasoning behind the rate that we are charging to the customers and they have had some inputs, while they've not really pushed or nudged or forced us to do any of these things, but we are taking it more on our own, but at the same time we believe that this will also put us in the good books of the regulator. See, at the same time our spread being at 12%, two, three years back and today it's at 14%, doesn't really gel in well. And this is the guidance where we've been consistent. Aditya. We want to get back to the 12% levels. Today, we want to get back to that in a little more quicker manner. So, that is why it's a decision to cut the rates a little more sharply.

Moderator: The next question is from the line of Manav, who is an individual investor. Please go ahead.

Manav: Sir, as you said that your AUM growth will be slowed down by now because in Q1 it was around 30% and now you have said around 25%. So, what will be the disbursement growth for this year FY'25?

Srikanth Gopalakrishnan: So, Manav, what we have always been saying is, don't get too focused on the disbursal growth because the disbursal growth is not the only determinant, while it's definitely a pointer towards the AUM growth, it's not the only determinant. The way we will sort of fine-tune our disbursement growth is depending on how the runoffs also stack up. We will ensure that we do adequate disbursals to get to the AUM growth that we want. So, while the disbursal growth may not be much for this year, our thought process is most likely you will probably see a flattish disbursal in the second half or maybe a very small increase compared to H1. So, if we do a flattish disbursal, we will probably end up with about 5,200 crores of disbursal for the full year as against about 4,800, 4,900 last year which will mean like a 10%, 12% disbursement growth translating to about 25% AUM growth. So, it also depends on what is the vintage of the portfolio, what kind of runoffs are we seeing on the portfolio.

So, our point is don't get too glued on to the disbursal growth. That will be determined by the company in order to achieve the 25% AUM growth that we are guiding you.

Manav: Sir, on the ROE numbers, on a long-term basis, you said that ROA will be around 6% and the leverage now I think around 2.2, 2.3. So, what will the ROA numbers be shaping up for the next one to two years?

Srikanth Gopalakrishnan: So, see, this year we are not seeing too much of a compression in ROA because the rate drops that we are doing is only happening maybe for about five months of disbursals. So, there will be some compression, but our steady state guidance, Manav, is which we are thinking in about two to three years it will happen. What we are saying is the ROA will drop to about 6% and depending on where the leverage is at that point of time, the ROE will be a determinant number.

Manav: Can I assume that ROE would be around 21%, 22% in two, three years time?

Srikanth Gopalakrishnan: See, if the leverage is around 3, 3.5, it's anywhere around 20% to 22%.

Moderator: The next question is from the line of Viral Shah from IIFL Securities. Please go ahead.

Viral Shah: I had a question with regards to the comment again that you had mentioned about the overleverage portfolio and also what is happening in the environment, especially when customers are going out and taking a loan after you have, say, given a loan. So, at a sector level, in case of MFIs we have seen that MFIN has now come out with a regulation stating that the loans need to be capped at four lenders. Similarly, have you internally thought about capping, bringing in some say underwriting norm when you onboard the customers or conversely is this under discussion with MFIN to ensure that this kind of lending after some other lender has lent does not happen, not just on MFI loans, but even any other loans?

Srikanth Gopalakrishnan: See, whereas MFIN can control the MFI loans, I don't think MFIN can control any of the other loans. What we are saying is we will put some stricter underwriting norms whether we want to disburse loans to overleveraged customers or do we want to cap lower LTV, DBR and all that. I think a lot more will be driven by internal decisions. See, unfortunately, unlike MFIN, we don't have a common regulatory body for the other forms of NBFC, because there are multiple kinds of lenders, there can be business loan lenders, vehicle lenders and all that. So, I think we will put some internal norms. We are not really looking at an MFIN kind of directive to come for us, but we will definitely tighten our underwriting norms.

Viral Shah: Sorry, Srikanth. My other comment was with regards to have you represented to MFIN because many of these customers have gone out and taken a loan after you have given a loan, and in most of those cases it's MFI. I understand for us. There will be other kind of lenders, you don't have this SRO kind of body, but at least for MFIN can you ask them not just say 4 MFI loans but any of the four loans. so MFI lenders don't lend up giving loans to your kind of customers?

Srikanth Gopalakrishnan: No. Viral, I think MFIN has already taken some action. So, we will see how that pans out. But it's a good suggestion. Let's see. I think we can go and suggest, then MFIN take is also a point. But I think it's a good suggestion. We will keep it in our minds. If we are able to reach out to MFIN senior people level, we will definitely do that.

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

Abhijit Tibrewal: Given that, I mean, you started doing PTCs and seeing good reception from Nippon, Kotak and one more mutual fund that you spoke about. At some point in time will we also consider doing direct assignments to banks?

Srikanth Gopalakrishnan: There is no compulsion for us to do direct assignment. Our capital adequacy is very good. At this point of time we are not really looking at doing direct assignments because you know this, we have always been a company which wants to have the assets on our balance sheet. In fact, we started doing PTC only after Ind AS came into picture, because that allows us to hold the assets on our balance sheet. So, at this point of time, I think there is not a very serious thought internally to do direct assignments, but we will keep our eyes and ears open. So, if there is a benefit that the company can derive based on direct assignments, we can look at it. But anyway given that we are a held-to-maturity portfolio, we can't do that in big quantums. So, at best it can probably be about 6% to 8% of our overall book.

Moderator: The next question is from the line of Dinesh from Finsite. Please go ahead.

Dinesh: Sir, I have a very specific question here. We are doing pretty well in terms of the PAT number which is around 250 crores plus for the quarter. Can we expect to cross 1,000 crores mark in this financial year, is it possible?

Srikanth Gopalakrishnan: Yes.

Dinesh: Sir, I have a suggestion here because I was going through our deck on the page 58, we give a very detailed account of like number of employees headcount, because being an investor here, I understand. I would rather suggest we should not give this in so much detail, because since we are running our operations so well, some of the competitors may take a look at it and it could become disadvantages for us in the future and we could just give total number of employees headcount, I think that would suffice I believe.

Lakshmipathy Deenadayalan: Thank you, Dinesh. Your suggestion is taken.

Dinesh: Sir, can we expect our cost-income ratio in the next 2-3 years to decline to less than 30%. Is that a fair assumption or possibility?

Srikanth Gopalakrishnan: So, Dinesh, our guidance is inclusive of credit cost will be at about 35% to 36%. So, whether it's the cost-to-income, ex-credit cost will go down below 30% and all that, at this point of time, we don't want to guide you. Please go with roughly about 31%, 32% of OPEX to income and about 3% to 4% of credit cost-to-income.

Moderator: The next question is from the line of Seeraj Khan, who is an individual investor. Please go ahead.

Seeraj Khan: So, one question is with respect to the branches. So, what is the average time for the branch once it is set up to reach maybe say 1 crore of disbursement or what is the breakeven time for the branch to reach and then what maybe duration?

Rangarajan Krishnan: On an average, a branch takes anywhere between 7 to 9 months to kind of reach this breakeven point. We define a breakeven point at about 2.5 crores of AUM. So, at about 2.5 crores, the branch breaks even on its own cost and start contributing towards profitability. Of course, the head office costs are not covered, but all branch costs get covered at about 2.5 crores portfolio. So, the branch reaches anywhere between 7 to 9 months.

Seeraj Khan: And then per branch disbursements, how much time does it take to reach maybe say 50 lakhs of disbursement per month or 1 crore, how much time have you seen in your experience to reach these levels?

Rangarajan Krishnan: Yes, I think the rough way to sort of look at it is that each officer can do about three to four disbursements a month. So, just you can round it off at about let's say 10 lakhs on an average. So, if you have five officers or six officers in a branch, the branch can easily do about 50 to 60 lakhs of disbursements per month. This start happening anywhere after the third month onwards. So, it takes so much time for the branch to build up a 2.5 crores portfolio between the 7th and the 9th month.

Seeraj Khan: One more suggestion that I also had. Would it be possible for us to maybe publish a fact sheet because that would be very much helpful to maybe go through historical data also.

Srikanth Gopalakrishnan: So, we will look at it. At this point of time, we are not giving it, but your point is taken. Let us see, when we will be able to implement it. We will try to do this sooner than later.

Moderator: As there are no further questions from the participants. I would now like to hand the conference over to the management for the closing comments. Thank you and over to you.

Lakshmipathy Deenadayalan: Thank you all for taking your time and asking the questions. Hope we have clarified all. If anyone has any further questions or clarifications, please reach out to our IR team. So, we will be happy to take it forward. And thank you and Happy Diwali to every shareholders, stakeholders of Five Star. So, see you with better numbers in next quarter.

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