FIVE STAR
Business Finance Limited

Date: February 06, 2025

The National Stock Exchange of India Limited,
Exchange Plaza,
Bandra-Kurla Complex,
Bandra (E), Mumbai 400 051
Symbol: FIVESTAR

BSE Limited
Listing department,
First floor, PJ Towers,
Dalal Street, Fort Mumbai 400 001
Scrip code: 543663

Sub: Transcript of the Earnings Conference Call for the quarter and nine months ended December 31, 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 Saturday, February 01, 2025.

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

Kindly take the above on record.

For Five-Star Business Finance Limited

SHALINI BASKARAN Digitally signed by SHALINI BASKARAN Date: 2025.02.06 17:52:54 +05'30'

Shalini Baskaran
Company Secretary & Compliance Officer

"Five-Star Business Finance Limited 3QFY25 Earnings Conference Call"

February 01, 2025

MANAGEMENT:	**MR LAKSHMIPATHY DEENADAYALAN – CHAIRMAN & MANAGING DIRECTOR, FIVE-STAR BUSINESS FINANCE LIMITED** **MR RANGARAJAN KRISHNAN – JOINT MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, FIVE-STAR BUSINESS FINANCE LIMITED** **MR SRIKANTH GOPALAKRISHNAN – JOINT MANAGING DIRECTOR & 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 3QFY25 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 the conference call, please signal an operator by pressing the "*" 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: Thank you and good morning, 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" and post that we can open the floor for "Questions". Thank you and over to you, sir.

Lakshmipathy Deenadayalan: Yes. Thank you, Raghav. So, good morning, everyone, and welcome to the Q3 Earnings Call.

Let me begin like this. "Leadership" A leader is a person who takes up the challenge and comes out very successfully. We at Five Star have taken up three challenges in last quarter; not only at Five Star, every lender or NBFCs in this country has taken up the three challenges: First is the foremost regulatory environment, second is the over-leverage environment and third is the liquidity environment.

We at Five Star have come up as a true leader who has overcome these three challenges very comfortably, at the regulatory, overleverage side and liquidity side.

With this optimistic note, let me get into more things which we wanted to share with you. Market always compares Five Star with microfinance. Again, we have proven to the market that we are not a micro finance lender.

With our collection efficiency and asset quality, we have proved we are not a unsecured lender, but a small ticket secured lender to the business community of our country.

We at Five Star always say that we are a collection-first Company.

See, we always give very important to the quality, then it should be followed by the profitability, then by the growth. So, that is the mantra of Five Star always and we always keep this mantra in our mind - collection-first Company.

In last quarter, we adopted "3Cs" to our success. First is the Collections, second was the Credit predominantly Underwriting during the overleverage environment, third is the Cost. We are happy to say we are one of the lowest cost-to-income entity even adding the credit cost to that.

So, with this positive note, let me get into the numbers. I am not going to speak more about the numbers. I like my team to talk about the numbers more in detail, but to touch upon, we have opened 69 branches in the last quarter. Within that, 44 was split branch. We have already explained to the market what a split means for Five Star, derisking the loans and derisking the stance. So, out of 69, 41 was split branch and 28 was new branch and the guidance remains the same, we will be opening close to 70, 80 branches in a full year.

Next on "Disbursement," we have done 940 crores of disbursement, which is (minus 25%) year-on-year. Just to brief on that, we have given a guidance in last earning call on bringing down our growth to 25%. The strategy was very clear, to take a hit on Q3 and do the business as usual in Q4 so that will keep our system and our business team bright. So, we don't want to prolong the dullness in our business, so we took a sharper hit in Q3 and Q4 will be business as usual.

Next, taking you to the AUM, we have grown our AUM to 11,178 crores, which is 25.4% year-on-year. This is as per our guidance in the last quarter.

Collections, as I said, from both the unique collection efficiency and general collection efficiency, the collections was more or less in line with last quarter. The unique collections was 97% equal to same in September quarter and collection efficiency was 98% more or less same in the September quarter.

Gross NPA, as per IRAC, gross NPA increased from 1.47% in September quarter to 1.62% in December quarter, with an increase of 15 bps. I think this is one of the best asset quality which you would have ever encountered in small ticket lenders.

Just to add a very important point which I thought to give to the marketers, in last nine months, we have written down 36 crores of assets. Even if you add back this 36 crores to the gross NPA, I am happy to say we are less than 2%, which is 1.93% is our gross NPA if you write back the write-off of 36 crores to the gross NPA, which shows the collection first and the underwriting asset quality what we have demonstrated even in the challenging environment.

And of course, the credit cost as we guided was 0.75% to 1%, our credit cost for this quarter is 0.69%.

Now, moving to the liquidity, Srikanth will talk more about that. Just to give a number on that, our incremental borrowing cost in the tight liquidity environment also was one of the best, our incremental borrowing cost was 9.56% in December quarter versus 9.57% in September quarter. With all above aspects, our profitability was very good. We are able to generate 274 crores of profit in three months, which is 26% growth year-on-year. And to end up, we had a healthy ROA of 8.10% and a very healthy ROE of 18.49%.

So, with this opening remarks, let me hand it over to my team. Let Srikanth take you through more about the numbers what I have explained.

Srikanth Gopalakrishnan: Thank you. Good morning to all of you.

As Mr Pathy outlined in his opening remarks, this was a quarter where in line with the demands of the environment, I think that's the most important thing that needs to be kept in mind, in line with the demands of the environment, we primarily focused on collections and then followed it up with disbursements and growth which is very clearly reflected in our robust collection efficiency numbers and good asset quality numbers that was outlined by Mr. Pathy.

But before I get into asset quality and collection efficiency, let me touch a little bit on the operational metrics where we had an active loan base of about close to 4.5 lakhs, a little over 4.4 lakhs which is a 22% growth on a year-on-year basis.

The branch count stands at 729. So, we have added about 249 branches in the last 12 months. During the quarter, we added 69 branches. The split was given as 41 split branches and 28 new branches.

Disbursements - We had consciously slowed down so that we can be in line with our guidance and based on the disbursal of about 940-odd crores, we ended with an AUM of Rs.11,178 crores, which represents a little over 25% growth on year-on-year basis.

As we had informed you last quarter, we had dropped our yields on the incremental loans during this quarter, which had seen our yields dip by about 15, 20 basis points for this quarter. The good point is the average cost of funds came down by two basis points. So, from 9.65 it had dropped to 9.63. So, there was a slight compression in the spread, but this is natural given the drop in yields. Consequently, there was a drop in NIMs as well. Our NIM dropped from 16.8% in Q3 of last financial year to about 16.56%. This is primarily on account of the drop in yields and some increase in our borrowings.

The cost-to-income remains robust, so we are at about less than 35%, 34.87% to be precise for this quarter as against 34.42% in December of last year.

So, as we have been guiding, we are maintaining our numbers and we will continue to operate at around the 35% to 36% kind of cost-to-income. And when we mean cost-to-income, we include the credit cost as well. So, in the presentation we have given the breakup of what is the operational cost-to-income and the credit cost-to-income. So, this has resulted in an ROA of about 8.1% and an ROE of 18.5%.

One of the other biggest positives during the quarter, and this is something that the markets had apprehension about, is on the drying up of liquidity in the system. But I can very confidently say that Five Star continues to be one of the attractive institutions in the eyes of the lenders. Even during this quarter, we were able to onboard lenders like HDFC Mutual Fund, HSBC Mutual Fund, SIDBI, all of these came in for the first time, and SBI, which is the largest lender to us also gave an additional fresh sanction of 500 crores. So, out of these sanctions, we are actually sitting on unavailed drawals of about 600 crores after availing about a little over 1,000 crores. The other good part is the cost continues to remain flat. So, we borrowed incrementally at about 9.56% which is largely in line with what we had borrowed last quarter as well. On the book, our cost has come down by about two basis points from 9.65 to. 9.63.

So, there are 46 lenders to us today. The other strong point is, our reliance on banks - as we had guided you in the past, we are trying to diversify our borrowing base. So, our reliance on banks has actually come down from 70% to 65%, with 35% of our borrowings coming in from capital markets, from developmental institutions, both domestic and international, which is a significant positive for us.

So, during the quarter, we received sanctions of about 1,400 crores drawing about 1,045 crores. And as of December, our liquidity buffer stood at about 2,145 crores and without including unavailed sanction lines of about 600 crores. So, from a liquidity perspective, I think we are very well placed to take care of the asset growth that will come during Q4 and the next financial year.

Collection Efficiency - There was a marginal dip, but I can save that despite the stressed environment where people have seen significant drop in collection efficiencies, increase in credit cost and asset quality going up, we only saw about 30 basis points drop in our unique customers and 40 basis points drop in our collection efficiency. So, while there is a little bit of an inch up in our 30-plus numbers which has increased by about 70 basis points on QoQ basis, we believe that, given the times, I think these are extremely good numbers that the Company has managed to achieve, and from here onwards, it should hopefully look better because Q4 typically tends to be a very good quarter for every financial institution.

On the Provision Coverage, I think we are still remaining attractive. We are not dropping our guard at all. Our provision coverage on the overall book has gone up by one basis point from 1.65% to 1.66%.

On Stage-3, we continue to maintain over 50% provision coverage. There has been a little bit of drop in Stage-3 and Stage-2. But this is compensated at an overall level. The drop is primarily on account of some overlays we have created on the restructured portfolio and in line with the runoff of the restructured portfolio, there is a natural reduction that's happening. While we actually look at the overall provision coverage on the overall AUM which remains fairly flat and we will continue to keep maintaining the appropriate level of provisions in the quarters to come.

Lastly, we had a profit of 274 crores, representing a 26% year-on-year increase. This has resulted in our networth crossing 6,000 crores. We ended with 6,017 crores. So, I think generally all the metrics continue to remain fairly robust given the environment and given that Q4 typically tends to be the best quarter for any financial institution, so we expect to be back to business as usual in Q4. So, that's largely how the quarter performed for us.

So, with this, we will open up the floor to any questions that you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press * and one on their touch tone telephone. If you wish to remove yourself from the question queue, you may press * and two. Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Aayush Sharma from Alder Capital. Please go ahead.

Aayush Sharma: Yes, good morning. Hope I am audible.

Lakshmipathy Deenadayalan: Good morning.

Aayush Sharma: Congrats on decent results. Mr. Pathy, I just had a couple of questions. First was on the asset quality. So, current stage one bucket has been on a slight decline, and while the other buckets from stage one to three are rising steadily as a percentage of AUM and nevertheless the ECL provisioning has not been in place to counter that phenomena and even that has been on a decline. So, basically the buckets are basically trickling down. So, this has been seen as the onset of the current financial year. I just wanted to understand the strategy behind it and is it because that you are focusing on protecting the profitability of the Company or what is the strategy?

Srikanth Gopalakrishnan: So, Aayush, what you said and what we are doing is completely on the opposite side. It is not as what you're thinking. So, there is no release in provisions to boost our profitability and that's why I very clearly mentioned in the opening remarks itself that on a overall basis, our PCR remains at flat to the last quarter. See, today the entire ECL framework is based upon the probability of default and loss given default. And one of the strongest points, if you even go back right to our DRHP days and thereafter when they have been giving our quarterly results, is that our LGD continues to be fairly low. So, we have an LGD of about 10% to 12%. Now, that means typically on a Stage-3 book, based on the data of the last five years for PD and last seven years for LGD, you are only required to maintain about 10% to 12% of provisions, against which we are maintaining more than 50% provisions. So, that's the kind of coverage that we are doing. It's a fully secured product. Given the secured product, it is only a question of a timing difference between when it becomes an NPA and when we are able to realize the money. So, when your LGD is at 12% and we have also taken write-off during this year - like Mr. Pathy said, we had taken a write-off of about 36 crores. Now with this, it becomes very difficult for you to keep tweaking the ECL model to keep providing higher. Despite all of that, we are ensuring that on overall book our provisions are not dropping at all. So, if you look at the last few quarters, we have been consistently maintaining at around 1.6% to 1.65% of provision coverage on our overall AUM. While there will be some bit of moments between the various stages, because it also depends on, let us say, which segment of the book is flowing to Stage-2, what is the kind of LGD you have on the Stage-2 and what is the kind of PD. So, there are a lot of dynamics, but very clearly the question that you asked, or the impression that you are carrying in our mind that we are dropping our provisions to get our profitability to a certain level, it's clearly not right.

Aayush Sharma: Okay. Okay. Understood. That helps. And one on the NPA classification, as you said, so the SARFAESI disclosure agreement that you've been providing us with on the website as of December 2024, so the outstanding amounts are way above and beyond the average ticket size of the Company and even they are more than the 10 lakh limit for loans, over which you have only 1% in the portfolio. And this comes out of the 4% of your portfolio with respect to the vintage of loans. And the NPA classification timeline is also 2015, 2018. So, you've been putting this since quite a long time. Just wanted an idea as to how is the auction process going for these properties and any updates on recovery or do you plan on writing off all these loans, what's the step ahead I want to know?

Srikanth Gopalakrishnan: Can we understand where you are getting numbers from?

Aayush Sharma: So, these are from the website that you've given, the SARFAESI disclosure document, which is as of December 2024, they are in total nine clients and yes.

Srikanth Gopalakrishnan: Which clearly talks about the fact that these are not high-ticket loans, right? If they are high ticket loans, typically those are the customers where we would have reached out for SARFAESI because NBFCs don't have the benefit of SARFAESI for less than 20 lakhs. So, if you really look at the 180 crores of NPA that we are carrying today, this is spread across a little over 6,000 customers. So, on an average, the ticket size is only about 3-odd lakhs for these customers and again, the history of the Company shows that it is not like this 180 crores will straight flow into write-off and then get into recovery. There are some deep delinquent accounts, and even on these deep delinquent accounts, we continue to keep getting monies. The second point from our presentation, if you look at, there is about 25 basis points of this 1.62% where the customers are classified purely in line with the new IRAC norms, but actually, as on date, they are less than 90-days. So, they may be in anywhere between one to 90-days, but we still have to classify them as NPA because the new IRAC norms mandate that once an NPA, it's always an NPA till it comes to current. So, we don't really see a big number of write-off coming out of this. Obviously, there will be some technical write-off that we will take given our business plan and what the board approves in terms of the recoverability, the ability to recover from these customers, but eventual credit losses… and this is something that we have been guiding for the last many years since our DRHP was there, it should not be more than 25 to 50 basis points. So, that's the eventual credit loss that we are talking about. Obviously, there will be credit costs that we will keep taking to be a more prudent lender, but credit losses will be extremely minimal in this business.

Lakshmipathy Deenadayalan: Aayush, I am trying to understand your question, but before that, I wanted to give a clear guidance to the market. See, the SARFAESI only kicks in when your outstanding is more than 20 lakhs. Five Star's average ticket size is 3.5 lakhs. We have to keep this in mind. As Srikanth said, whatever the historical write-off what we have done in last 20-years is 180 or NPA at 180 crores which comes from 6,000 customers which is around 3 lakhs. So, there's no question of SARFAESI, whether you have implemented or not implemented. But having said that, in the last few quarters we have told we have strengthened our legal recovery process, that is doing extremely very well. When we had our RMC meeting few days back, very clear cuts we have shown to risk management committee that what kind of recovery that we have done from NPA accounts and write-off accounts. So, it is crossing 10 crores of recovery from our write-off and NPA accounts on a quarterly basis without SARFAESI itself. So, that proves that how secured loans that what Five Star is giving. So, keeping that in point, average ticket size are well-well below the SARFAESI wherever the average ticket size are hitting the 20 lakhs and above, we immediately get into SARFAESI and make our recovery process. And we are hoping that in this budget also that through our association we have requested the government to make all NBFCs to be at par with HFCs, so we get our SARFAESI for the much lower ticket size also.

Aayush Sharma: Okay. Okay. Alright, I'll get back in the queue. Thank you.

Lakshmipathy Deenadayalan: Thank you.

Moderator: The next question is from the line of Mahrukh from Nomura. Please go ahead.

Mahrukh: Hi, good morning. Firstly, I just wanted to understand the collect efficiencies better. So, most lenders across products have been saying that October, November were very bad and December is better and maybe the first few days of January are also better. Are you seeing the same thing? And the drop in collections in the third quarter is in the sync with the rest of the industry, right, and if you could explain the reasons for the same, I mean the reasons you guess led to a drop in collection efficiency? So, that's my first question. And then if there's any outlook on FY'26 growth and margins, if you could share that? That's my second question.

Lakshmipathy Deenadayalan: Yes. Thank you, Mahrukh. On the first question, yes, the lenders are right. The entire NBFC sector or banking sector face some kind of collections drop in October and November, predominantly to the festival, weather, rainfall across South. So, that was through. December picked up very well and it is continuing in January. So, Five Star is also seeing the similar trend. So, we are very confident that Q4 will be better than Q3. From an outlook perspective, as I said in last earnings call, we will revisit our business outlook at the end of March quarter. So, I'll come out with the outlook in the April earnings call more clearly.

Mahrukh: Okay. But just to clarify, the drop in collection efficiencies happened because collections got difficult in rains or that just people don't pay during festivals or?

Lakshmipathy Deenadayalan: See, from Five Star perspective I was referring to the general lenders community, from Five Star's perspective as we have been saying, we have been lending to middle and lower middle class people; their incomes are intact, their incomes are not dropped substantially. But the collection efficiency of some of the lenders dropped very drastically because of over-leverage and unsecured. So, Five Star is very clear. We are a secured lender. When a secured lender reaches out to our customer, the repayment culture is completely different. So, that is what we are witnessing in Five Star even in the difficult quarters. Yes, of course, we have to connect the customers little more and walk to their houses little more, that is for sure in last quarter, but we were able to get our EMIs on time.

Mahrukh: Got it. Thanks. Thanks a lot.

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

Renish: Yes. Hi, sir. Just two questions. First on the 30+ is DPD. So, we have seen that sequentially it went up by almost 70 basis points. Now, of this, incremental 70 basis points, could you share some qualitative data in terms of what percentage of this could be because of the MFI or LAP and how much of this is due to season and when we would sort of we get back those in Q4?

Rangarajan Krishnan: Renish, there are no specific trends that we are able to observe on the increase of 70 basis points, which moved into 30 plus DPD. This is seen across. We would like to blame it more on overleverage, which cannot be restricted only to MFI. So, in some scenarios we have seen that the overleverage has happened because of unsecured personal loans as well. So, it's more a trend of overleverage than MFI is what I would like to put it as.

Renish: Got it. So, let me put it this way. So, do you feel this is sticky because if let's say if customers are overleveraged, is it right to assume that by Q4 there will be some less overleveraging or maybe a higher debt servicing capability and hence we will get back those accounts, how one should read this data for Five Star?

Rangarajan Krishnan: The way we are handling this scenario, Renish, is that we are arresting forward flows first. So, the core focus of the Company is how do you ensure that they're staying in the same bucket and we're able to collect at least one EMI per month from these customers, which will be our critical focus at this point of time. Rollbacks will take some time. So, at this point of time, it's too early to talk about rollbacks and how these customers get back to their current, or 1-30. But I think, yes, we are fairly confident given the nature of the security and given our strong field force at the collections at the ground level, we will be able to maintain these people for a much longer period, as opposed to somebody who does not have a strong collateral or the collection machinery at the ground level.

Srikanth Gopalakrishnan: Renish, just to give you some sense, if you look at the historical data, we do see some rollbacks on the 1-30 to current that happens. And like Ranga said, keeping in view that we will ensure that a lot of these customers also stabilize in the bucket and just superimposing the historical rollbacks that we will have along with hopefully a better denominator effect that we will see in Q4, I think Q3, we're also seeing a slightly elevated percentage because the denominator effect has only been 2%. So, with all of these things, I think the number should look better and it's not like these are sticky customers who will roll forward, they may be sticky and stay in the same bucket or some percentage will roll back. I think you will see better numbers in March '25 is our thought at this point of time.

Renish: Got it, got it. So, the reason for asking this question is sir to get a sense on the credit cost trajectory, maybe in near term. So, what do you think, if let's say we are able to contain the borrowers in the same bucket, so then it is right to assume that the credit cost in this quarter is sort of sustainable and we might not see a further deterioration from here?

Srikanth Gopalakrishnan: I don't think you will see a further deterioration, Renish, to be honest. But we will have to see what kind of a technical write-off we will probably want to do in Q4 as well. But I don't think you will see any kind of significant increase in the credit cost in Q4. Whether some benefit will come as against Q3 is something that we will have to see in terms of what kind of write-off that we will want to make. But we are very clear that I don't think you will see significant inch up in the credit cost in Q4.

Renish: Thank you so much.

Moderator: Thank you. Next question is from the line of Viral Shah from IIFL. Please go ahead.

Viral Shah: Yes, hi. Good morning and thank you for the opportunity. I have a few questions. So, one is last quarter you had done the study of overlap with MFI customers by doing the bureau scrub. First of all, can you give an updated number if at all if you have done that? And also if you have done an analysis of on-us and off-us in terms of say defaults of these customers, that will be helpful. That's my first question.

Srikanth Gopalakrishnan: We have, we continue to regularly do the scrubs and the results for this quarter clearly shows that there is no significant difference as compared to what we saw in September. So, the numbers are broadly the same. Yes, there are some customers who from overleverage became underleverage. There have been some customers who became overleveraged because of other institutions giving loans, but broadly the number remains the same. But one very encouraging point that I would want to highlight to you is that even on the overleverage portfolio, our unique customer collection efficiency and the portfolio bucketing is almost completely similar to what we are seeing on the overall portfolio. So, it is not like we are seeing any kind of higher stress or elevated stress on this overleveraged portfolio. With us, they are actually paying up quite well. We have not completely studied the on-us and off-us. Maybe we can take it up at a later point of time. But in terms of the performance of the overleverage portfolio, it is definitely encouraging at least for the Company.

Viral Shah: Got it, Srikanth. That's helpful. And also if you can guide us for how one should look at the growth from a next year perspective? I understand now we are already 25% and meeting what was the regulatory expectation. But there has been also a change of guard. So, has there been any conversation with the representative of the regulator and any thoughts over there?

Srikanth Gopalakrishnan: Viral, I think our guidance stands. So, we are not changing our guidance at this point of time, be it for Q4 or be it for the next financial year. We have not heard anything from RBI post our interaction that we updated you during our last earnings call. And with the regulator, if they have a problem, they'll come back to us. And the fact that they have not come back to us means typically they don't see much of problems with the Company. It looks like they are satisfied with the actions that we have taken. So, for now, we are not changing any of our guidance. So, we will continue to be at whatever guidance that we gave you in the last earnings call. We will see. I think the new guard is also settling in. We just have to see what their focus is. Hopefully there will be some pointers that we will take from the monetary policy which will come in the next few days. And like Mr. Pathy said, maybe in the Q4 earnings call, we will have a lot more clarity in terms of where we will be for the next financial year and thereafter.

Viral Shah: Okay. Srikanth, on this piece, just one more thing. So, on the growth front yes I understand that this year what you had guided for and probably maybe even committed to the regulator you'll achieve. But say from a medium-term perspective, do we see a growth acceleration or it's just completely subject to whatever the final discussion again happen whenever the representative from the regulator comes?

Srikanth Gopalakrishnan: Like I said, at this point of time, we are not guiding you for any acceleration. We will have to wait and see what are the focus areas both for the government as well as how does it gets translated into actions from an RBI perspective. So, right now if we have to give you anything, please go ahead with our existing guidance for the next financial year and thereafter as well. If we get to know anything more from the regulator in terms of they being a lot more positive on secured loans, I think hopefully there will be some pointers that we will get from the budget today as well. If we get some pointers, I think that is a call that will be discussed internally along with our board, and we will take suitable actions. But at this point of time, our guidance to you is whatever we gave you, continues to stand for this year and next year as well.

Viral Shah: Got it. And last question if I can squeeze in there. So, in terms of credit costs, see, I understand of course this quarter the stress and of course the cycle. But how should one look at say from a medium term perspective, the steady state credit cost and where I am coming from is that another lender has kind of given steady state credit cost structure, which is much different from what we currently are at. So, again, not from this year or even next year's perspective, but more on a steady state basis as portfolio seasons, how should one think of the credit cost?

Srikanth Gopalakrishnan: If you look at, let's say for the last two quarters, this has been at around 70 basis points, even for let's say last nine months last year and nine months this year, it has been anywhere between 50 to 70 basis points, but our guidance to you on the credit cost is typically that the business model of Five Star can take a credit cost or will have to operate at a credit cost of around 75 to 100 basis points and I think we continue to maintain that same view that with portfolio seasoning and with the growth becoming a little more gradual, you will probably see some marginal inch-ups and the business model has the ability to absorb 75 to 100 basis points credit cost. So, even then we are not changing the guidance at this point of time. How you will see it, moving in a trajectory is something that we will also have to see when it will probably touch a 75 or 100. But at this point of time, the guidance is for 75 to 100 basis points of credit cost, though, I don't think in the short term we are going to hit that number, it may happen more around a medium term.

Viral Shah: Go it, Srikanth. Really helpful. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Chandra from Fidelity. Please go ahead.

Chandra: Hi, good morning. I had a few questions. One, Srikanth, could you please explain what is the reason for the high write-offs and you sort of seem to be indicating that you'll have write-offs again in the fourth quarter as well? That's question one. Second, with the MFIN guidelines coming from April, trying to understand a couple of things -- can it result in maybe additional stress on some of our customers at this point in time or conversely, can it result in more demand for our product at some point in time? Third, have you all taken any credit call, for example, not to underwrite customers who have more than two loans outstanding, for example at the point of disbursement? And the last is that correct me if I am wrong, you had a 25% guidance for this year, but you had to put out a number for next year, are you saying that we should assume that next year is also 25%? Thanks.

Lakshmipathy Deenadayalan: Chandra, let me go from the third. See, we were very clear that we will revisit our growth guidance after the March quarter. That remains the same. So, there is no change as of now. So, we will come back after the March quarter depending upon the environment around us and the regulatory thought process we will take appropriate steps is what we said in the last quarter, that remains the same. So, we will come back on the April earning call. That's on the third question. On the second question, yes, MFIN guidelines, initially we were happy that it's going to come in from January 1st onwards. It doesn't have any impact on collections because as I said in the early comments, our customers incomes are steady, there is no drop in that income, but it is only because of the overleverage which was caused by unsecured lenders, there are some stress from those customers perspective. But these customers see secured lenders completely different. That is why our asset quality and collection efficiency stood more or less equal to the last quarter. So, yes, on the advantage side, if the guard rails stuck in April onwards, that will create a good demand for middle and lower middle class customers to come to Five Star. That is most positive way, but we have to wait and see whether they are going to implement in April or they are going to further delay it going forward.

Srikanth Gopalakrishnan: Chandra, before getting into the first question, I just want to add one point on this MFIN question that you asked. Yes, I think your assumption stems from the fact that their incomes are not sufficient to repay. So, they are actually taking loans from microfinance institutions to repay institutions like Five Star. I think that is where we have a different view. Our view is that their incomes are adequate to repay, let us say the original loans that they had which are predominantly secured loans, and the rollover that they were doing is more of unsecured loans with unsecured loans and that is where unsecured lenders have had to take a credit cost in the last two, three quarters as against secured lenders like us. Given the way that you look at it, our belief is that rather than more stress coming through, we will probably see a lot more demand, because these are customers who are probably going to MFIs for their working capital or for their other requirements. Now, given that MFIs may not be able to service their demand, there is a possibility that our demand will go up. In terms of write-off, Chandra, I think the point that we have always been holding is, we will continue to take technical write-offs because there is an ability on the P&L to take these technical write-offs, it also gives some bit of a tax benefit to us. So, even the write-offs that we have taken during this quarter is a lot more technical in nature. We will continue to keep taking this depending on what we believe is the appropriate number for the Company both in consultation with the board and as well as the auditors. So, I am not guiding you for a similar number next quarter. I just said even if we take a similar number next quarter where we will be at in terms of credit cost, this is a decision that we will probably take closer to the quarter end rather than at this point of time. One other question that remains is in terms of the credit call on the overleverage customers. Ranga will give his thoughts on that.

Rangarajan Krishnan: So, Chandra, on the overleverage, see, that's an integral part of our credit decisions even before the crisis. So, the debt obligations of any customers is already taken. We are very closely watching even from the bureau data in terms of how the overleveraged customers are behaving to us. At this point of time, we are not able to find any great difference between an overleveraged customers behavior for Five Star vis-à-vis the other customers. So, we have not taken any radical changes to our credit policy in terms of changes from what we were doing prior. But of course our analytics throws specific pockets which need some guidance or a change depending on a particular region or a particular state. Those tweakings are happening like as usual this quarter also.

Chandra: Sure. Got it. Maybe I just squeeze the last one. Just the slowdown in disbursement in this quarter, how much of it was more the environment related call and how much was it was that we just needed to immediately just wanted to get to 25% AUM growth?

Srikanth Gopalakrishnan: Chandra, it's a combination of both. I would probably say it's a little bit skewed in terms of getting to our guidance, and like Mr. Pathy said, you don't want to sort of keep the negativity in whatever little bit even in Q4. So, I think given that we wanted to be at 25% growth, we just took a call to take that to sort of fine tune our disbursals during this quarter. So, I would say, yes, it is also a call taken given the current environment, but largely to get to our growth guidance.

Chandra: Thank you.

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

Abhijit Tibrewal: Yes. Good morning, everyone, and thank you for taking my questions. Just two questions. First thing, I am just trying to understand while we have already guided that credit cost in Q4 will not be very different even if we take write-offs again. What I am trying to understand is directionally from a Stage-2, Stage-3 perspective, again, what I am trying to get that is at some point we have acknowledged that whatever increase in Stage-2, Stage-3 that we have seen is because of overleveraging, not necessarily MFI. And given that what we have seen at least in unsecured retail, typically Stage-2, Stage-3 tends to go up for a few more quarters, right, before things can start getting better. So, for us, given that it started predominantly in the last two quarters and like you'll acknowledge unsecured retail problems have been there for slightly longer than that, do you think there is a reason to believe that maybe for the next few quarters the trends on Stage-2, Stage-3 will be like what we have seen for the last three quarters?

Rangarajan Krishnan: Abhijit, firstly I think what you are seeing in Q3 is a combination of two things. One is, yes, there is a certain sort of customers who have flowed forward. Multiple reasons - could be because of general stress in the environment, could be because of the economic conditions prevailing, some bit of overleverage also which are seen. And the bigger part specific for Five Star is also because we have fine-tuned the disbursements to reach to a particular percentage of growth guidance. It's a combination of these two is what is showing you the fact that the slip ups has been a little more than what it actually is at the ground level. We are very clear that in Q4 the growth guidance stays for Five Star, which means you will have denominator effect along with the fact that yes, it's also going to be the end of the year, which is generally the best quarter for any lender at this point of time. Notwithstanding this, please also relate to the earlier response that we had given that at this point of time the focus is ensuring that people are stabilizing in those particular buckets and not in rolling back. It's too early to comment for us to see if people will come back to roll back and we will get back to the position of what DPDs we had two or three quarters prior. So, we are not commenting on that at this point of time, but we are fairly confident of containing things at broadly similar levels of what we are seeing at this stage.

Abhijit Tibrewal: Got it. So, basically the takeaway is that we are at this point of time confident that we should be able to hold our 30+ DPD at current levels rather than seeing it increase from here?

Rangarajan Krishnan: More or less. Of course, we're all crystal gazing in terms of how Q4 will pan out, but I think it could be in similar levels is what we feel at this point of time.

Abhijit Tibrewal: Got it. This is useful. The only other question that I had, again kind of circling back to the provision coverage, Srikanth sir has already explained that some bit of it was because of the rundown in the restructured portfolio, which had management overlays, but that is fair. But sir, over the last one year, 1% kind of PCR coverage decline in Stage-2, 4% kind of PCR coverage decline in Stage-3. All ECL models that we hear from other companies inherently also factor in macroeconomic factors and we also acknowledge macroeconomic factors have been weak. Shouldn't intuitively our models tell us that we should provide more rather than the coverage is coming down?

Srikanth Gopalakrishnan: Your point is valid partially where obviously macroeconomic factors play a part, but the way to look at it is the Company-specific factors play significantly larger part than the macroeconomic factors. So, typically, like I was telling, we have PD data in the model for five years and we have LGD data for seven years. Now, if you just go back five years, which would be around 2019, 2020 and all that, during that time, you would also have seen PD at a little more elevated level being COVID 1, COVID 2 and all. So, the PD data itself for Stage-2 would have been higher, but if you look at the last let's say six to eight quarters, we're consistently making improvements in our flow forward rates. So, which means that the PD is lower. The second is, given that LGD is taken for the last seven years and we always had a very strong LGD. Now you put both of these together, the improvement that we are seeing in PD and LGD is a lot more compared to the impact that macroeconomic factors will have. So, that's what I was telling. At an LGD of 10% to 12%, technically it would mean that I just need to create 10% to 12% of provision on my Stage-3 assets because it's a 100% PD, but we are maintaining 50%. So, while there will be some bit of movement between stages and I also said if the Stage-2 movement is coming from a segment which has a stronger PD and LGD, then you will see ECL being lower. So, there are a lot of dynamics in play in the ECL model. What we try and ensure at our end is that at an overall level, can we maintain a coverage which is not dropping as compared to let's say the last year or the last quarter because the ECL provisions are a little bit fungible. It's not like you can use only this loan's provision for that loan. So, I don't think that's really going to make much of a difference as long as we maintain overall provision at an appropriate level.

Abhijit Tibrewal: Got it. Just wanted to squeeze one last question. Again, almost all lenders today are acknowledging that this year has been little weaker, not as rosy as last year and which is where the collection efforts are also higher, what Pathy sir also acknowledged that, we are having to visit customers and meeting more often to collect the money. So, so for us, I mean, will that reflect in our employee expenses or how should we think about it?

Rangarajan Krishnan: Abhijit, we have, as part of our structure, provided collection support to all the branches already and we keep evaluating that. Wherever we believe there are some regions or some pockets which need additional collection support, we have already enhanced them. What you are seeing in our Q3 numbers is reflective of any changes that we have already done for providing a little bit of additional support in certain pockets. I don't think we are going to materially change anything from the way that we have been doing business. The business model includes both business officers and collection officers at every branch.

Abhijit Tibrewal: Got it. That's all from my side. Thank you very much for answering my questions and I wish you the very best.

Moderator: Thank you. The next question is from the line of Vikas Mistri from Moonshot Ventures. Please go ahead.

Vikas Mistri: Thanks for the opportunity. I have a slightly longish term question on strategy as we move our AUM from 10,000 crores to maybe 40,000 crores. Are we comfortable with that number of the overleveraged customers which stands maybe 30% in the last quarter? We know that behavior is slightly different for secured and unsecured. But are we comfortable when we have a four times, five times larger book?

Lakshmipathy Deenadayalan: For last 20 years, we have been lending to the secured small ticket loans for the business customers and we have been seeing the similar trends and this is the fourth crisis that I have been seeing in this lending universe, starting with Andhra Crisis, COVID 1, 2, de-mon, and now the overleverage. I am happy to say that in all this crisis, Five Star came out very successfully because we strongly believe this segment of customers are one of the safest. But having said that this overleverage has also taught us a lesson how does we have to handle this overleverage for small business loan customers. But if you classify Five Star, we have three, four category of customers, less than 3 lakhs, 3 lakhs to 5 lakhs, 5 lakhs to 10 lakhs and above 10 lakhs. If you see 3 to 5 lakhs which is predominantly at 53% and we will be happy to focus more on that and increase that share from current 50% to much above. So, in other sense, we are happy to stay with the 3 lakh to 5 lakh customers. Maybe we will be inching a little bit up towards 5 lakhs as we have been guiding taking the inflation into aspect in next few years to go, but the profile of customers we are happy to stay with them.

Vikas Mistri: Okay. Okay. My second question is as everyone alluded about the provisioning… as you already alluded that some portion of that has already been write-off. How much time it will take to get that write-off some portion of it, get write-back and will the provisioning which we have done will start picking up from here on?

Srikanth Gopalakrishnan: See, typically for us the recovery on write-off loans takes anywhere between 18, 24 months because these are also a little deep delinquent customers. And given that we don't have access to SARFAESI for all our customers, so we will have to go through the legal route. So, you'll probably see about 18, 24 months of timeline for these customers to come back. In fact, during this financial year, I don't have the breakup of which years write-off came in now, but during this financial year, we have managed to get a recovery of about 7-odd crores from the past write-off loans. So, while these are classified as different line items on the P&L, typically, if you look at the net write-off for this year, it is probably more around 27, 28 crores rather than 36 crores that you are seeing. And the more write-off you will also see more recoveries coming in, but typically the timeline is about 18 to 24 months for the recoveries to start coming in.

Vikas Mistri: Okay. That's comforting. That's all for my side.

Moderator: The next question is from the line of Divyansh Gupta from Latent Advisors. Please go ahead.

Divyansh Gupta: Hello. I hope I am audible. So, first question. So, if I look at your AUM by tier mix, for tier 6, it has jumped significantly from 35%, 36% to around 43% which if I back calculate from an AUM basically means that more or less all the disbursement has happened in tier 6. So, is this a correct understanding and have we let's say for the moment defocused from tier five and higher tier cities?

Rangarajan Krishnan: This is partly happening because of the split branch strategy. So, as a branch is getting broken into two or three, depending on the number of accounts, or the customers a particular branch is handling, you end up putting more branches in the same vicinity. So, if an existing branch, let's say was in tier 5 and you need to break the branch or split the branch into two or three, you cannot put all that in the same vicinity. So, that's the proportion of tier 6 which is going up. The strategy has not changed, it's that more and more split is happening, the mix is changing a little bit.

Divyansh Gupta: Got it. And what's the definition of this tier 1, tier 6, is it like the government definition or there is some, let's say, internal definition that Five Star follows?

Rangarajan Krishnan: Yes, largely aligned with the government definition, but we have a little bit of classification for us also which we have given it in the earnings presentation.

Srikanth Gopalakrishnan: It's based on population. It's given on slide 54 that we are seeing - tier 1 would be in a population of more than 50 lakhs, tier 2 is 10 to 50 lakhs, tier 3 is 2 to 10 lakhs, tier 4 is 1 to 2 lakhs, tier 5 is 50,000 to a lakh and tier 6 is less than 50,000. So, it's a little different from the government definition, and you can refer to slide 54 on our presentation for the definition.

Divyansh Gupta: Got it. Will do. The second question was that can you give a split between the business and collection officers that we have, what would be the business because if I just divide the number of incremental loans by the business collection officer, it comes to around one per month, which seems a bit low.

Srikanth Gopalakrishnan: So, today the number of relationship officers we had was about 6,000 people. This is broadly broken up into 4,500, 4,600 business officers and about 1,300 to 1,400 collection officers. So, you can take about 4,500 business officers out of the 6,000.

Divyansh Gupta: Got it. My next question was that given that we give fixed rate loans, is there any prepayment penalty when the customer prepays or is there a tenure after which if they prepay there is no penalty? And the link to question is that while we give a loan for seven years, I think we have mentioned that on an average 4.5 years is on book tenure. So, are they BT-ing out to someone else? And if yes, then who is the lender, who is giving loans to our customers and therefore probably a competition for us?

Srikanth Gopalakrishnan: So, we have a prepayment penalty, but we charge the penalty only for customers if they prepay within one year. Our belief is that we don't want to charge more to the customers, we want to be fair. So, if they are prepaying from their funds, and I am just going to take both the questions together, typically you don't see too much of BT out in the segment, you will see some one-off cash flows for these borrowers at some point of time in their life using which they will actually come and make prepayments on our loans either partial or full prepayment. And it's a little unfair if you're going to charge prepayment penalty to them on the money that they are paying, because this is also a segment of population which does not like to carry a debt on their asset. So, typically they would want the property papers back, which means if they have a one-off cash flow, they'll come, they'll pay up the loan with us and want to be debt-free. So, from that perspective, we really don't charge prepayment penalty after the first year and most of these prepayments happen from own funds. The proportion of BT out will be extremely minimal.

Divyansh Gupta: Got it. And just one last question. So, we give this lagged NPA numbers, right, one year, two years and we mention it as a percentage. I am assuming this is a percentage of disbursal and not percentage of average AUM for these two years lagged loans.

Srikanth Gopalakrishnan: No, no, it is percentage of the AUM, it is purely today's NPA, like one year lag NPA would mean the NPA as of December '24 as a percentage of the AUM as of December '23. Two year lag would mean percentage of NPA as of December '24 on the AUM that existed as on December '22.

Divyansh Gupta: The denominator is also based on AUM

Srikanth Gopalakrishnan: Yes, denominator will go back for a one year lag NPA and two years for a two years lag NPA.

Divyansh Gupta: Understood. And what would be this number for, let's say, 4, 4.5 years tenure? So, basically, what is our ultimate NPA that's on an average 4.5 years, behavioral tenure?

Srikanth Gopalakrishnan: It's too far-fetched. In fact, there are a lot of people who have been questioning even two years is far-fetched because essentially the assumption is that the loans that you have built in the last two years are not going to become NPA at all. And if they become NPA, you're not giving a denominator benefit. While we don't have the numbers and we don't even want to give out the numbers, but I think it's a little too far-fetched. The better way to look at would be what is the disbursement at that point of time and the NPAs on that book from a static pool perspective. There we have said that typically the NPAs peak around 33 to 36 months and in today's scenario it is anywhere around 2.5% or thereabouts.

Divyansh Gupta: 2.5% of the disbursal, right?

Srikanth Gopalakrishnan: Yes, at a peak level.

Divyansh Gupta: Understood, understood. Just one last question. What is the write-off policy that the Company for that after a particular we will do write-off?

Srikanth Gopalakrishnan: So, today the policy talks about write-off after four years of becoming an NPA, but in reality, we are a lot more conservative than that. We have actually written-off all the loans which are a little over two years NPA. So, very clearly, we take a more conservative stance in terms of write-off. So, you will not see any NPAs on the book, which are more than, let's say, two years and three months, but the policy provides for write-offs beyond four years.

Divyansh Gupta: Understood. Understood. That's all. Yes. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aionios Alpha Investment. Please go ahead.

Pranav Gupta: Yes, hi, team, and thanks for the opportunity. So, two questions on growth. One is this quarter, obviously, we saw a disbursement like you had mentioned previous quarter, but you also mentioned that next quarter should probably be in line with what we have seen in previous years. So, just to bring down the disbursement this quarter, what has led to this, whether it's higher rejection rates, whether it's lower sourcing and how do we get back to the normal run rate in next quarter? That's the first question. And additional question on growth is, Srikanth sir mentioned that MFIN guard rails will probably provide incremental opportunity for growth given that customers will get lesser and lesser unsecured loans to MFIs. So, what proportion of our AUM would come from top-ups or improvement in loans or anything which is on top of the initial exposure?

Srikanth Gopalakrishnan: Pranav, on the question of growth where you asked why we slowed down disbursals, did it come from higher rejection rates and all that, I think it was a conscious call to slow down the growth, so which means the focus was a lot more on collections than on incremental business and that is something that we sort of sensitized the field to do. It's got nothing to do with the demand on the ground or in terms of the higher rejection rates. Obviously, we had put in some additional elements into our credit underwriting model, but I don't think those have materially contributed, the main contributor is a conscious call to slow down to get to our growth guidance of 25%, which we have managed to achieve. See, in terms of the second point, the MFIN guard rails, see, our belief, I think fundamentally we have a little different perspective, and you guys have a little different perspective. You all think that people are taking unsecured loans to pay up secured loans. Our perspective on this is a little different. They're actually taking unsecured loans to pay unsecured loans which originally started the overleverage. The incomes have not compressed, so which means they have adequate amounts to pay up on their secured loans that existed, let us say before this crisis started and they will continue to keep servicing these loans. So, if at all, the pain points will be for the unsecured lenders and MFIs who have started the overleverage in the first place as again secured lenders having to take any material impact, obviously, there will be some trickling impact, we cannot remain completely insulated, but I don't think it's going to have any material impact on secured lenders. So, from that perspective, I think rather than seeing it as a stress, we believe that, that could be an opportunity that will come up, but we will wait for the actual scenario to unfold before taking any actions from our side.

Pranav Gupta: I understand the point where obviously these borrowers are not borrowers from unsecured to pay secured lenders. The reason I was asking the question is, from what I remember from earlier con calls, we have always been clear that we are not the kind of lender who's looking to do repeat business. So, there is sort of a disconnect on that front where if we think that MFIN guard rails will provide us incremental opportunities to lend, is there a change in stance? That's the question that I wanted to get a better understanding on.

Srikanth Gopalakrishnan: No, no, you are right, Pranav. I think we are not actively looking at repeat loans, top up loans, it's not a line of business that we actually give a set of customers to our branches to do. What we are saying it is not like people who have taken loans from us, who have taken loans from MFIs, now if they are not getting from MFIs, they want more loans from us. These are customers who have probably not taken loans from us, they have only taken loans from let's say MFIs, unsecured lenders and gold. Today, if those customers fit into our underwriting criteria, there is a possibility that they could have incremental business. That's why I said we will have to wait for the scenario to unfold before giving you any numbers in terms of whether we will see a spurt in demand and all that. At this point of time, we believe that there will be no significant increase in stress because of the guardrails that may be imposed from 1st April.

Pranav Gupta: Understood. That's very clear. Thank you. And just one more question on a little more medium term. Obviously, this business model, in terms of return ratio is pretty strong and today our balance sheet is sort of in a situation where we are possibly slightly underleveraged. And with the strong return ratios and ploughing back to profits into the business, how should one think of reaching the optimum leverage level where this business model delivers 23%, 24% ROE that you've spoken about earlier, are we looking at either any inorganic opportunities or looking at stated dividend policy till we reach a certain leverage level, have there been any considerations on these fronts at the board level and what are the thoughts there?

Lakshmipathy Deenadayalan: See, I think I've been giving some inputs to the market for the last two years. Definitely, we have a strong interest in lending to housing, because it complements the profile of customers and the underwriting what we do and the assets what we deal with. But having said that, we are not in a hurry to get moved into an organic or inorganic route as of now. Today, keeping the environment in mind, it is better to concentrate on your strength rather than getting into an unknown territory. So, that is the call that we have been taken now at least for next two quarters, then we will see how the things get settled and keep yourself open for any inorganic or organic opportunity that comes before us. But as we speak today, there is nothing on our table, we keep strengthening our business model what we have been doing for the last 20 years, that's the simple role that we are going to play.

Pranav Gupta: Right. Is there anything on the stated dividend policy, maybe it will be reach a particular leverage level, anything on that front?

Lakshmipathy Deenadayalan: Yes, as and when we reach a milestone, definitely, we wanted to share that, we are waiting for that, you will hear the good news very soon.

Pranav Gupta: Sure. Thank you so much, sir. Thank you for answering my questions and good luck for the future quarters.

Lakshmipathy Deenadayalan: Thank you.

Moderator: Ladies and gentlemen, this will be our last question. It's from the line of MM Bansal from Master Capital. Please go ahead.

MM Bansal: Hi, sir, thank you for this opportunity. So, my question is on like what is the problem highlighted by RBI - is it with respect to yield because we reduced the yield is by 200 basis points post the RBI direction, so is my understanding correct?

Srikanth Gopalakrishnan: First of all, let me categorically clarify, there have been no problems highlighted by RBI. So, it is just that they keep giving some inputs be it on the growth side, be it on the lending rates and all that, and their perspective of how the environment is shaping up, whether there is a crisis that is getting built up, is it the time for being a lot more proactive on growth or you need to be a lot more proactive on things like risk management and governance. So, these are pointers that RBI keeps sharing not just with us, but across the various NBFCs which are there and it is up to us to take the appropriate actions to ensure that it's not just a question of satisfying the regulator, it is a question of doing things which are right for the Company from a long-term perspective and that is what we did both from reducing our growth guidance a little bit and dropping the yield. See, the dropping the yields was anyway on the cards for a long time. We have been clearly indicating to the market that we wanted to drop the yields on our incremental disbursals, And both of these were done at the time that we thought was appropriate. So, there is no problem that the regulator is highlighting, but we also have to keep track of the comments from the regulator and take appropriate actions, that will hold the Company in a good stead for the next, let's say 10, 20 years.

MM Bansal: Okay. So, one more question. Like since FY'22, the main geographical presence of Five Star is Tamil Nadu, Telangana and Andhra Pradesh, but the other states are not able to contribute that much. Like, is there any difficulty being faced in that geographies like there is no major growth like we are having a concentrated growth from three states?

Rangarajan Krishnan: Manik, we started life in Tamil Nadu, today Andhra Pradesh has overtaken Tamil Nadu and Telangana is the third state which is contributing at least 20% of the AUMs. In the business of lending, we cannot be in a hurry to go and open in unknown locations. But having said that, today, we have more than 100 branches beyond the South in the rest of country. The rest of country is growing at a healthy pace of 50% CAGR at least. So, we will continue to monitor it very cautiously, we are investing in people, we're investing in locations and that portfolio will continue to grow. But categorically, it's not that we have to suddenly achieve a particular share from the rest of country and hence we are not going to do anything which is sudden and knee-jerk reaction. We will grow it in an organic manner and a careful manner.

MM Bansal: One last question like what is the BT out percent and average credit score of the borrower that we do?

Srikanth Gopalakrishnan: Today, BT out will be more around 2% to 3%. Yes. So, it's not a very significant number. It's not like there are too many players who are willing to acquire these customers because it's also not an easy customer segment to serve. You need to have the right infrastructure in place to serve these customers. So, BT outs, our belief is will remain fairly muted for the foreseeable future at least short term to medium term. Today, it's around 2% to 3%.

MM Bansal: And average credit score of the borrower?

Srikanth Gopalakrishnan: 500 or so, average I am talking about, but you will always have borrowers who are above that level, below that level, but broadly it should be about 500 credit score.

MM Bansal: Okay, okay. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to the management for their closing comments.

Lakshmipathy Deenadayalan: Yes. Thank you all. Even on the budget day, I am able to see a good number of participants to take up the call and understand what we did in Q3. As I said in the opening remarks, yes, challenges are yet to stay, how is that person or entity takes up the challenge and come out with successful. I am very confident that we will come out with a successful player even in Q4. So, happy to meet you after the Q4 results. Thank you.

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