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Trade View Report-



Published Date	April 27th, 2026
Rating	BUY
Trade Type	Long Term
Stock Name	FIVESTAR
Entry Price	514
Target	640
Stop Loss Price	460
Target%	25%
SL%	10%

Rationale-

Five Star Business Finance Limited is a specialized Non-Banking Financial Company (NBFC) headquartered in Chennai, India. Established in 1984, the company has carved out a distinct niche by providing secured loans to the "un-banked" and "under-banked" segments of the economy, particularly micro-entrepreneurs and self-employed individuals.

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As of April 2026, **Five Star Business Finance Limited** is in a critical transition phase. After facing asset quality headwinds in late 2025, the company is pivoting toward aggressive collection management and geographic expansion to restore its industry-leading profitability.

1. Latest Financials (Q3 FY26 Actual vs. Q4 Estimates)

The board is scheduled to meet on **April 28, 2026**, to approve the full-year audited results.

- **AUM (Assets Under Management):** ₹12,964 Cr (Up **16%** YoY in Q3); projected to reach ~₹13,500 Cr for Q4.
- **Total Income:** ₹822 Cr in Q3 (Up **12%** YoY); Q4 estimate is **₹760–810 Cr**.
- **Net Profit (PAT):** ₹277 Cr in Q3; Q4 analyst estimate is **₹318–345 Cr**.
- **NIM (Net Interest Margin):** **16.04%** in Q3; expected to stabilize around **17.0–17.8%** in Q4.
- **Asset Quality (Gross Stage 3):** Spiked to **3.18%** in Q3 (vs. 1.62% YoY). Management goal is to bring this below **3.0%** in the Q4 print.
- **Cost of Funds:** Dropped significantly by **50 bps** over the last year to **9.12%**; incremental debt was recently raised at a low **8.19%**.

2. Investment Rationale

- **High-Yield Niche:** Focuses on the "missing middle"—self-employed customers in Tier 3–6 towns who lack formal income proof but possess self-occupied property.
- **Secured Lending:** **100% of the portfolio** is secured by property, with a conservative average Loan-to-Value (LTV) ratio often below **40%**.
- **Best-in-Class Capital:** Maintains a Capital Adequacy Ratio (CRAR) of **~49%**, one of the highest in the NBFC sector, allowing for growth without frequent dilution.
- **Operating Efficiency:** High yields (~24%) combined with lowering borrowing costs (~8.2% incremental) protect a massive spread even if credit costs rise.
- **Recovery Focus:** Recoveries from NPA/technical write-offs amounted to **₹23 Cr** in Q3, signaling a strong legal and collection push.

3. Strategic Growth Drivers

- **Manpower Scaling:** Increased the number of Collection Officers to **2,452** (nearly double since 2024) to tackle Stage 3 assets.
- **Ticket Size Pivot:** Gradually moving into the **₹3–10 Lakh** ticket size segment, where borrowers have shown higher credit resilience than the micro-ticket (<₹1 Lakh) segment.
- **Branch Expansion:** Increased footprint to **835 branches** across 11 states; added **35 new branches** in the last quarter alone.
- **Rate Cut Tailwinds:** As the RBI rate cut cycle commenced in 2026, Five Star is a major beneficiary due to its high proportion of fixed-rate assets and floating-rate liabilities.

4. Upcoming Projects & Plans (FY27)

- **North & West Expansion:** Active scaling of operations in Rajasthan, Madhya Pradesh, and Maharashtra to reduce its historical dependence on South India (currently ~85% of AUM).
- **Digital Collection Suite:** Launching a proprietary mobile-first collection app for field officers to improve "Unique Customer Collection Efficiency," which stood at **97.26%** recently.
- **FY27 Growth Target:** Management guidance points toward a return to **20–25% AUM growth** as the collection cycle stabilizes.
- **Dividend Potential:** The board is expected to consider a final dividend on April 28, 2026, marking a shift toward rewarding shareholders as cash flows normalize.

5. Key Risks to Watch

- **Slippage Sticky-ness:** If Gross Stage 3 assets do not trend downward in the April 2026 results, it may signal structural issues in the lower-income borrower segment.
- **Macro Headwinds:** Recent "US Reciprocal Tariffs" (April 2026) have created FII outflow pressure on mid-cap NBFCs like Five Star.
- **Labor Code Impact:** Recent implementation of the New Labour Code caused a slight one-time bump in employee expenses, marginally impacting sequential PAT growth.

Beyond the financials, here are the critical "Alpha" points driving the strategic outlook for Five Star Business Finance as of April 2026.

1. The "Clean-Up" Before the "Acceleration"

- **Deliberate Slowdown:** Management intentionally reduced disbursements by 18% recently (₹976 Cr in Q3 vs ₹1,189 Cr in Q2) to prioritize collection stability over growth.
- **Underwriting Tightening:** They have calibrated a reduction in exposure to the <₹3 Lakh ticket size, which was the primary source of recent asset quality stress.
- **Return to Growth:** With the collection engine now "stabilized," analysts expect a re-acceleration in FY27, with target AUM growth returning to the 20–25% CAGR range.

2. Massive Collection Vertical Build-out

- **Manpower Ramp-up:** The company added 678 Business & Collection Officers in just one quarter (Q3 FY26), bringing the total collection-focused workforce to record levels.
- **Headquarters Control:** For the first time, a full-fledged Collection Vertical is being run directly from the Head Office (HO) to monitor delinquent buckets in real-time, moving away from a purely branch-led recovery model.
- **Legal Hardening:** A dedicated in-house legal team is now integrated with field officers to accelerate recoveries from "hard" buckets (Stage 3 assets), which yielded ₹23 Cr in recoveries last quarter.

3. Beneficiary of the 2026 Rate Cycle

- **The "NIM" Benefit:** As the RBI rate cut cycle commenced in early 2026, Five Star is uniquely positioned. Its loans are largely fixed-rate, while its liabilities (borrowings) are floating-rate.
- **Lower Cost of Capital:** Incremental borrowing costs have already dropped to ~8.19%, while they continue to lend at yields above 23%, creating a massive structural spread that offsets higher credit costs.

4. Geographic & Product De-risking

- **The "Non-South" Push:** While traditionally a South Indian powerhouse, the company is aggressively moving into Rajasthan, Madhya Pradesh, and Maharashtra. The goal is to make North/West India contribute a double-digit percentage of AUM by FY27.
- **Tenor Profile:** ~80% of the portfolio now has a sanctioned tenor of 7 years or more, providing long-term predictable interest income and reducing the impact of short-term economic shocks on repayment schedules.

5. Valuation & Market Triggers

- **Re-rating Catalyst:** The upcoming board meeting on April 28, 2026, is a major trigger. Markets are looking for:
 1. **Positive FY27 Guidance:** Confirmation of the "acceleration" phase.
 2. **Asset Quality Stability:** GS3 staying below the 3.2% mark.
 3. **Final Dividend:** A potential signal of management's confidence in future cash flows.
- **Institutional Conviction:** Despite a ~35% price correction in early 2026, Institutional Ownership remains high at ~67.6%, suggesting that sophisticated "long-only" funds view the current stress as cyclical rather than structural.

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Intraday- Not more than one day

Short term – 0-15 days

Medium term – 1- 3 months

Long term – more than a Year

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