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

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

**Sub: Transcript of the Q2 FY 2026 Earnings Conference Call**

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Q2 FY 2026 Earnings Conference Call held on October 29, 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**

**Vigneshkumar SM**  
**Company Secretary & Compliance Officer**

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## “Five-Star Business Finance Limited Q2 FY'26 Earnings Conference Call”

**October 29, 2025**



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

**MODERATOR: MR. SANKET CHHEDA - DAM CAPITAL ADVISORS**

**Moderator:** Ladies and gentlemen, good day and welcome to the Five-Star Business Finance Q2 FY'26 Earnings Conference Call Hosted by DAM Capital Advisors.

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, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note, this conference is being recorded.

I now hand over the conference to Mr. Sanket Chheda. Thank you and over to you, sir.

**Sanket Chheda:** Yes, thanks and very good evening to all of you. We have with us the management of Five-Star to discuss their Q2 results and outlook thereafter. We have with us Mr. Lakshmiopathy Deenadayalan who is the Chairman and Managing director and Mr. Srikanth Gopalakrishnan who is Joint Managing Director and Chief Financial Officer.

Without further ado, I will hand the call over to Mr. Lakshmiopathy for their opening remarks and then may be we will follow up by question-and-answer. So, over to you, Lakshmiopathy sir and Srikanth sir.

**Lakshmiopathy Deenadayalan:** Thank you, Sanket. Good evening. We welcome all to the Q2 earnings call.

As we have updated in the last quarter, we have given a stable performance in the current quarter across various metrics.

The downtrend that we witnessed in Q1 has been arrested in the current quarter. And from here onwards, we believe that we would see some green shoots emerging in Q3 and a much stronger performance in Q4. We have taken several strategies and actions towards this across sourcing, credit underwriting, collections and risk oversight. These are marked out as focus areas for us in the quarters to come. And we believe this will pave the way for building a bigger and stronger portfolio in coming quarters. While our asset quality and credit costs have seen marginal impact in the current quarter as compared to the previous quarter, these still stack up better than many of our peers operating in the small-ticket secured and unsecured loan space. As I had said in the past also, we believe that a trend reversal is likely on the horizon and is expected to play out over the next couple of quarters.

Our investment in physical infrastructure and people continues as can be seen from the addition of 33 branches and 769 business and collection officers during Q2. During this quarter, we disbursed Rs. 1,196 crores of loans as against Rs. 1,290 crores in Q1. And the drop in disbursement can be attributed to the additional controls that have been implemented for the first time during this quarter towards onboarding the right customers. With our system getting attuned to these changes, we should start seeing increase in disbursements and increased AUM growth in quarters to come.

Our collections from unique customers and overall collections have remained stable compared to the previous quarter. Collections from unique customers stood at 95.1%, the same as last quarter, and we have seen an improvement in the overall collection efficiency, which went up from 96.3% in Q1 to 96.7% in Q2. These metrics show early signs of revival, though in a gradual manner.

During this quarter, we availed incremental debt of Rs. 1,068 crores, and the cost of incremental debt came in at 8.56%, which is marginally lower than the cost of incremental debt borrowed during previous quarter. Cost of the funds on the book has dropped by about 27 bps, and given our cost of incremental debt, we should see improvement in the cost of funds for the full year. With incremental yields on assets coming in lower than the book yields, since we lowered our yields in last November, we expect to bridge a good portion of the yields drop through drop in cost of funds. We continue to have a robust liquidity on the balance sheet of Rs. 2,360 crores.

For the quarter, we achieved a PAT of Rs. 286 crores, 7% higher as compared to the previous quarter. Even during these extremely challenging times, we have been able to achieve healthy return ratios, as can be evidenced in the increase in return on assets from 7.24% in Q1 to 7.49% in current quarter. An increase in return on equity from 16.57% in previous quarter to 16.91% in the current quarter.

I am also happy to inform all of you that we have commenced our housing loan product during this month. The first few logins have come in and in various stages of processing. While this may not have a significant impact on growth for this financial year, this would be a lever of growth for the coming years. We expect to deliver on the guidance for this financial year that we have given you and look forward to the much better and stronger second half of this financial year.

Now, let me invite Srikanth to take you through more on other numbers.

**Srikanth Gopalakrishnan:** Good evening to all of you.

After a difficult quarter in Q1, when we had met you all post our Q1 results, we had very clearly guided that we expect the second quarter to be a quarter of stabilization. And as we speak, we stand vindicated in our belief. The second quarter has been a stable quarter across various metrics as Mr. Pathy has pointed out. He has touched upon many of the operational metrics. Let me quickly delve into a few of the financial metrics and then open out for any questions that any of you may have.

Our yields continue to be around 23.2%. We have had a good drop in the cost of funds, which has come down to about 9.27%. So, the spreads have fairly remained constant on a sequential basis at around 13.9%. The NIM again has been consistent on a sequential basis. But obviously, NIMs have an impact of leverage getting built up. So, it will continue to drop as we go forward and have a good portfolio growth. Our cost-to-income ex-credit cost is largely stable at around 31%. The credit cost guidance that we revised last quarter, we have been able to maintain the

credit cost at around 1.34%, which is very marginally higher than what we had in Q1. So, even across asset quality, collections efficiencies and in the credit cost, we have remained stable. This has resulted in an attractive ROA of close to 7.5% and an ROE close to 17%, which are very good numbers given the trying times that we are all in.

From a debt perspective, lenders continue to see us as a very strong borrower. So, we did avail more than Rs. 1,000 crores during this quarter. And during the quarter, we also on-boarded J.P. Morgan, one of the largest banks in the world. And this was for a very sizable investment into our PTCs of close to about Rs. 650 crores, about \$75 million and at fairly attractive rates. So, not just any lenders, but even pedigreed lenders are looking at Five-Star as an attractive destination to lend their moneys to. So, we should be able to build on this foundation and which will also aid in our asset growth in the quarters to come.

Our collection efficiencies have been largely stable. Unique collection efficiencies stood at 95.1 and we saw an improvement in the overall collection efficiency by about 40 basis points. We believe we should see improvements coming in Q3 and hopefully a much stronger quarter in Q4.

On the provision coverage ratio, we continue to hold close to 1.9% of provisions on the overall book. While our PCR on the Stage-3 assets dropped a little bit, this is purely on account of the write-offs that we have taken. So, if you would understand, whenever we take a write-off, these are typically deep delinquent assets on which we carry a much larger provision. So, there will be a drop in the provision coverage. But we are still having a very healthy provision coverage on Stage-3 at over 45%. And when you compare this with peers in the industry, this still stacks up as one of the high numbers.

On the profitability side, we had a good quarter. So, our profits grew 7% year-on-year and on a sequential basis. We clocked a profit of about Rs. 286 crores during this quarter and which resulted in a net worth of about Rs. 6,800 plus crores as of September 30<sup>th</sup>.

So, on various metrics, this has been a calm and a stable quarter. Our belief is that we should start seeing improvements coming through in Q3, which will pave the way for a stronger Q4 and thereafter.

With these opening remarks, we are happy to take any questions that any of you. Over to all of you for any questions.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. First question is from the line of Renish from ICICI. Please go ahead.

**Renish:**

Sir, two, three questions from my side. So, one on this early bucket pool, right? So, 30 plus has again gone up to sort of more than 12%, the highest since COVID. So, how do you see the early bucket moving going ahead? I mean, obviously, you did mention about tightening credit filters,

etc. But do you see any green shoots in October or I mean, any early sign of the bucket pool softening down going ahead?

**Lakshmipathy Deenadayalan:** Renish, our thought process is going forward, at least for the next three to six months, we don't want any buckets to bulge up. So, we want to bring in a stable performance across all buckets. So, that's our prime focus. If you see unique customers at 95.1%, that means there will be some slippages from current to arrears. So, that is inevitable. We are trying to arrest that in this quarter. Hopefully, I am seeing this quarter, the focus will be more on current customers, not much slippages from current customers. Eventually, this 30 bucket will start stabilizing and coming down.

**Renish:** Okay, I mean, so basically, what you are trying to say is, the current focus is containing flow forwards in the already delinquent pool, and the early bucket pool might start improving after a couple of quarters. Is that what you are trying to highlight?

**Lakshmipathy. Deenadayalan:** From this quarter onwards is what I am trying to say. What you said is right from this quarter onwards.

**Renish:** Okay. And sir my second question is around this disbursement run rate, right? I mean, last year or so, we have added almost 140 branches, added more than 2,500 people. But disbursement has been little curtailed. I understand that we have been very guarded when it comes to sourcing new customers, etc. But when do you see the disbursement run rate start picking up meaningfully, when do you see this, the infrastructure wise which we added in last year or so, start generating business?

**Lakshmipathy Deenadayalan:** See, as I said in my opening remarks, we have brought in the underwriting tightness and risk oversights work by creating layers before a file even gets into the log in stage. So, this kind of controls is very new for our system. We have done it in the last quarter. So, close to 5,000 officers are there, close to 1,000 BMs are there, to get attuned to this new system, it will take some time. So, that is why we said in Q3, you will see a better performance and a very stronger performance in Q4.

**Renish:** Okay. So, basically, this quarter, most of the operating parameters are sort of bottom out. I mean, disbursement, as well as the sort of credit costs are stuck out. Is that the fair assumption?

**Lakshmipathy Deenadayalan:** Yes, that's our belief.

**Renish:** Okay, I do have a few more, but maybe I will come back in the queue. Thank you very much and best of luck sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Viral Shah from IIFL Capital. Please go ahead.

**Viral Shah:** Thank you for the opportunity and I would say congratulations on a good set of numbers. Mr. Pathy, if you can elaborate on two things. One is the changes that you have highlighted and

mentioned also in the press release with regards to say the sourcing, underwriting, if you can just elaborate and try to give us a flavor of what are the things that you have changed. And consequently, because of that, do you think, like how much time do you think we will take to go back to say a Rs. 1,400 crores kind of quarterly disbursement run rate? That is my first question. And the second is on the asset quality front, while I look at the unique collection efficiency remaining stable Q-O-Q, but the overall collection efficiency has started improving. And this has been actually accompanied by your net slippage is improving both on Stage-2 and 3. First of all, do you see now the recovery starting to come back even from delinquent customers? And secondly, more importantly, while you are talking about we are on the cusp of it, how strong this improvement could be? Can we start seeing a 30 plus DPD reducing from say 3Q onwards? Those are my two questions. Probably I will come back in the queue for other questions.

**Lakshmipathy Deenadayalan:** So, I will start with the second question. I think as I said in first one, we want to stabilize one more quarter from each DPD bucket perspective. So, we are not here to say that reversal will start happening in this quarter. We wanted to stabilize in this quarter and we will see the reversals happening to the extent possible in Q4. That is our plan of action as we move forward. On this, we are putting in collections effort and the legal recovery team. As I mentioned in last call also, a good chunk of legal recovery team has been put in place where they are starting to yield good results. That is why you see whenever an NPA gets closed, you get a lot of arrears coming back to us. That is where you see the collection efficiency has gone up. So, the legal recovery team is doing extremely good work and you see a lot of reversal happening going forward. On the first question, on the disbursement side, I think the levels that what we have increased from a supervisory perspective is giving us a good result. Just to share some data, in Q1 we had a 25% rejection ratio, whereas in Q2 we had a 41% rejection ratio compared to login files getting in. So, that is how I measure the strength of layers that we have put in from a quality files perspective is showing good results from the system perspective. But as I said, 5,000 people of sourcing and 1,000 branch managers of sourcing attuned to this system is new for them. So, it will take some more time and some more months to get attuned. So, this quarter, we will see better disbursement comparing to Q2 and a stronger disbursement coming in Q4.

**Viral Shah:** Got it, sir. Thank you very much.

**Srikanth Gopalakrishnan:** Viral, I think Mr. Pathy has clearly articulated the changes that we have done. One other thing that we have been highlighting to you even in the past also is the slight shift in focus of customer profile. So, while branches have been little more attuned towards focusing on sub 5 lakhs ticket size, today we are moving the focus slightly towards the 3 lakhs to 5 lakhs and 5 lakhs and 10 lakhs. So, that also takes a little bit of time. So, the changes that we actually made is in terms of going behind the right customers and ensuring that these are underwritten in a stronger manner by stronger people. So, we have added more layers in terms of doing the underwriting checks, which has caused a little bit of an impact in this quarter. But I would say that most of that have been ironed out. If you look at September standalone, the numbers have been very good. In fact, we have crossed more than Rs. 500 crores of disbursals in the month of September. And we should start seeing good run rate coming in Q3 and Q4.

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

**Abhijit Tibrewal:** Good evening. Thank you for taking my question. So, the first one is, I mean, if you could just give some geographic color around what is it that we have seen during this quarter? Which are those geographies where we have seen better performance? And likewise, given that we are expecting Q3 to be a quarter of stabilization and improvement from Q3 onwards, which are those geographies in particular which will contribute to that? The second question that I had was on the guidance front. Now that we are looking at Q2 stabilizing, it's much stronger improvement from Q3 onwards, how is it that we are looking at the rest of this year in terms of growth, in terms of credit costs, as well as if you could speak a little bit on FY'27 in terms of guidance? And lastly, while I acknowledge that both the MFI and the Micro LAP product that we do are very different, I mean, for at least the last couple of quarters, right, at least in MFI business, we have seen that the goalpost has just kept moving after every quarter. In other words, what I mean is we are still seeing some of the NBFC MFIs increasing their credit cost guidance for the coming quarter and the next two years. So, how would you kind of look at that, given that in the past, we have acknowledged that we also have maybe 40%-45% of the customers where there's an overlap of microfinance business? So, just those couple of questions if you can help with. Thank you so much.

**Srikanth Gopalakrishnan:** So, Abhijit, the first point, you are talking about the geographic color. Like we said, I think we have seen a good amount of stabilization across the various geographies. So, there is no specific geography where we can point out a more than normalized improvement or a more than normalized worsening. The one geography which continues to be a little bit of a concern is Karnataka, where the numbers are still a little higher. But given that our portfolio in Karnataka is only about 5%-6%, this is not going to have a very significant impact on our overall AUM. But otherwise, we have seen improvements even in the other bit of a problematic geography that we had, which is Andhra Pradesh. Even there, we have seen some bit of improvement happening in this quarter. So, largely, the 18 basis points increase in NPA has been, I would say, uniformly contributed across geographies. There is no specific geography which has seen significant improvement or significant worsening, which is also giving us good hope and belief that overall, at a macro level, also things are getting settled in and from here onwards, we should start seeing things improving. So, there is no specific concern on any geography at this point of time. The concern again is on the ticket size. So, if you look at across our portfolio, where we see higher delinquencies or higher NPAs is still in the sub 3 lakhs ticket size. So, if there is a geography with a little more pronounced proportion of sub 3 lakhs, that geography is probably showing up a little bit of a higher number in terms of delinquencies and NPAs. Otherwise, we are not seeing any geographical differences in any of the states. Coming to your question on guidance, Abhijit, at this point of time, we would like to say that whatever guidance we have given you in the past, we are not changing the goalpost at this point of time. We still hope and believe that we should be able to deliver on our guidance. Mr. Pathy also talked about this in his opening remarks. We still believe that we should be able to deliver on the guidance that we have given you. So, at this



point of time, there is no change in guidance either on growth, profitability or asset quality or credit cost. Sorry, could you please remind on the third question?

**Abhijit Tibrewal:** The third question was around this micro-LAP and MFI, where I acknowledge that while both products are very different so if you could elaborate?

**Srikanth Gopalakrishnan:** Abhijit, this is the point that we have anyway clearly told you, while there is an overlap from an MFI borrower perspective, the behavior of the borrower is very different when it comes to different products. So, while the borrower definitely tries or he is hopeful that he is able to get benefit from a secured LAP lender also... Abhijit, is that your line where we are seeing quite a bit of disturbance?

**Abhijit Tibrewal:** Sir, I was on mute.

**Srikanth Gopalakrishnan:** Okay. Yes, now it's okay. Sorry. So, what we are saying is while there is an overlap and we saw a temporary issue because there was a little bit of a behavioral issue from the borrower side, when they saw that microfinance had written off their loans, the collection efforts had reduced. And there was a hope that secured lenders also will follow that path. But when they see secured lenders coming to them, following up more frequently, taking necessary legal actions, the behavior definitely changes. And that is what we are seeing in this quarter. While it is still happening in a very gradual manner, we still believe that just because a borrower has taken a microfinance loan, which could have been written off, while his belief might be there. The question is, depending on the actions that the lender takes, the borrower's behavior will also shift. So, we are still confident that even those borrowers who slipped in Q1, we will be able to collect the entire money back from them. But the question is, you may not be able to do it through, let's say, a regularization kind of a route, like collecting multiple installments from them. But you need to bring them back towards the behavior of paying one installment every month. And then it's just a question of maybe 1- or 2-months extension in tenure, by which time they will pay up their entire loan. So, we don't really see any impact in our eventual losses or in our eventual ability to recover from these borrowers.

**Abhijit Tibrewal:** Got it, sir. This is useful. I just wanted to squeeze in one follow-up question. While you said that there is no change in guidance, I just wanted to understand from next fiscal year onwards, what should be the steady state credit costs now?

**Lakshmipathy Deenadayalan:** Abhijit, we have told you in the last call itself, the credit cost guidance change, what we said in last call from 0.75 to now it is 1.25 to 1.35 range, will hold it for shorter period of time, right? I don't think next year we are going to change the guidance on credit cost. This customer needs this kind of credit cost, it is what that we have concluded and we have told that guidance. This will hold on for at least next 18 months-24 months.

**Abhijit Tibrewal:** Got it, sir. Thank you so much. I wish you very best. Thanks.

**Lakshmipathy Deenadayalan:** Thank you.

- Moderator:** Thank you. The next question is from the line of Raghav from Ambit Capital. Please go ahead.
- Raghav:** Thanks for the opportunity. I just have two questions. One, the business officers' count is up to 35% versus last year. Obviously, the focus has been mostly on collection. But when you decide to press for growth, will you continue to hire with same intensity, or will it be lower? Because given the current capacity that you are creating, can be utilized for growth so I just wanted to understand what are your thoughts on this?
- Lakshmipathy Deenadayalan:** Yes, Raghav, you are right on that. Building the infrastructure should not stop unless until your business runway looks very dull. But our business runway looks very bright because today the biggest opportunity is small business loans and small secured loans. So, we are continuously creating the infrastructure. And if we see the stabilization continuing and no more damages happening to the repayments, I think then the business pedal has to be moved up. So, that is what we are expecting in Q3 little bit and Q4 more strongly.
- Raghav:** Understood.
- Srikanth Gopalakrishnan:** Raghav, just giving you a breakup, the 700 odd officers that Mr. Pathy alluded to in the thing, that also has collection officers. So, it's almost like 500 business officers and about 200 collection officers. So, we are strengthening both sides of the operations such that we have the necessary infrastructure when we want to press the pedal of growth. At the same time, we are building a good collection support to ensure that there are no slippages.
- Raghav:** Understood. And the stability in unique collections that we have seen in Q2 over Q1 is a result of that. Is that understanding correct because of the investment that you've done in hiring collection officers over the last one year?
- Srikanth Gopalakrishnan:** That's right, Raghav.
- Raghav:** Understood. And one more related question is that you said that 1.25%-1.3% is something that should be a steady state number on credit cost. Does that translate into say 4.5% to 5% kind of static NPAs, if we were to look at NPA on a static pool Does it translate into that kind of a number, around 4.5%-5%. I am just asking for my modeling purposes.
- Srikanth Gopalakrishnan:** So, Raghav, we will take it offline. We have not really looked at that. The number seems a little high what you are talking about, but obviously then on a static pool, whatever we used to guide about 3% odd-3.5% on a static pool will go up. But I am not sure if it will go all the way up to 5% and all that. Let's take it offline.
- Raghav:** Sure. Just last question, the write-offs were quite high this quarter. How much more do you expect to write off in the second half? And how should one think about the Stage-3 coverage? Will you take it back to 50% overtime?

**Srikanth Gopalakrishnan:** This write-off, the way you should look at Raghav is, it is done for the first half of the year. So, while we have done it in one quarter, but it's for the first half of the year. So, we are talking about, let's say a 50 crores write-off that we have done. So, it's broadly I would say 25:25. But then the next two quarters, the write-off will be a little higher because the financials allow that and we would want to take benefit of technical write-offs. So, the write-offs will be a little elevated compared to the run rate that you saw in the first half of the year. So, maybe from your modeling perspective, you need to bake in a little higher write-offs for the rest of the year. And from a provision coverage perspective, as we take more write-offs, mathematically the coverage will come down. And the current regulatory climate is also that they are not really pushing for any specified coverage number on Stage-3. So, it will largely be guided by our ECL model and our LGDs, which probably should be somewhere around the 40%-45% kind of a range. So, it is not like we are working with a specified number in mind. It will be coming out of our ECL model. At this point, we don't envisage taking it back to 50% just from a number perspective. But if the model throws 50%, let us say for whatever reason at a later point of time, that's the number it will be. If the model throws let's say 42%, it will be 42%.

**Raghav:** Understood. How much write-off can we build for second half?

**Srikanth Gopalakrishnan:** Raghav, any numbers, why don't we just take it offline?

**Raghav:** Sure. Fair enough. Thank you.

**Moderator:** Thank you. The next question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

**Amit Khetan:** Hi, thanks for taking my question. So, my first question is on OPEX. So, if I look at the last couple of years, right, our OPEX to total assets, average assets has been in the 5%-5.5% range. Now, that was a fairly benign credit environment. Going forward, as you are guiding to higher credit costs as well as picking up the collection and legal recovery team, how do you expect this ratio to evolve on a steady state basis?

**Srikanth Gopalakrishnan:** Amit, this is again something that we have been talking in the past also. So, generally, at least for the short to medium term, the guidance continues to stand at about 5%-5.5%. While we will definitely get some benefit of scale, we will also be upfront on certain investments, in terms of collection support, in terms of technological investments and all that, which will continue to keep the OPEX a little elevated than where we would like to be. So, I think you should build in about 5%-5.5% of OPEX for the short to medium term.

**Amit Khetan:** Understood. Second question was on the housing product. Can you throw some more color in terms of what is the customer profile you are targeting? What are the yields, ticket size and geographies that you are currently looking at?

**Srikanth Gopalakrishnan:** So, see, housing product has actually been introduced in some of the safest and the strongest branches of the Company, so in about 175 to 200 branches. We are expecting to lend to the same

profile of customers, maybe people whose expectations are a little higher, average ticket size of about 6-8 lakhs. Because these are people whose expectations are higher, but may be the incomes from a LAP tenure perspective don't match up. But given that they are going to be using this money for housing, we are expecting a yield somewhere around 16%-18% and lending for up to 15 years or so, or maybe beyond that, depending on the requirement of the customer, which will make the customer qualify for let's say a 7-8 lakhs kind of a loan. So, that's the profile and the product characteristics that we are targeting.

**Amit Khetan:** Got it. And you intend to apply for a separate housing license or how should we think about that?

**Lakshmipathy Deenadayalan:** Currently, not now.

**Amit Khetan:** Got it. But we would be disadvantaged, right, because we can't access NHB housing finance?

**Lakshmipathy Deenadayalan:** I think Srikanth has told you, from a debt perspective and the pricing perspective, Five-Star is very attractive and we are able to get the current debt at around 8%. And for the housing, which is a priority sector, we may even target lesser than that percentage, which will augur well for us. So, debt and pricing will not be a problem.

**Amit Khetan:** Got it. Thank you and all the best.

**Lakshmipathy Deenadayalan:** Thank you.

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

**Kunal Shah:** Thanks for taking the question. So, firstly, when we look at in terms of the number of people, may be on a Q-o-Q basis, there's almost like 1,000 which has got added, particularly in the business and collections. And that too, I would say, like, maybe more on the business side. So, is it with the confidence with respect to preparing ourselves for the growth? Is that the right observation?

**Lakshmipathy Deenadayalan:** Yes, Kunal, you are right. Close to 800 officers have been recruited in last quarter. Out of that, if you see, 600 has gone to business and 200 has gone to collections. Rough figure, right? So, this clearly indicates the focus is back on business. When the collection gets stabilized, as I've been saying in the call, you see the pedal pressing for the business, which will happen in Q3 and Q4. Yes, we are preparing for a good business.

**Kunal Shah:** Got it. And secondly, on account side, is there some rejigging which has happened or maybe have they been moved to some other place because almost like 180-190 people moving out of accounts. So, is it something like maybe they are getting towards the business side of it? Has there been any rejigging?

**Srikanth Gopalakrishnan:** No. So, Kunal, what we have done is you would see that number a little more at the operations side. So, earlier, we used to have an operations officer and cashier. So, the number, if you see, the drop will be in the cashier side. So, we used to have a cashier and an operations officer in a particular branch. Given that the cash proportion has significantly dropped and the newer branches, the digital adoption has been extremely high. What we are now doing is we are only having one person. So, not having two persons as cashier and operations officer separately. They are having a branch support officer. So, those have been mapped under operations. So, none of the accounts are cashiers. People have actually moved to business support and all that where they will be doing both cash receipting in the branches and also doing the operational support for the branches by acting as a branch support officer.

**Kunal Shah:** Okay. So, almost like 190 of cashiers coming up and operations officer going up by almost 150 or so.

**Lakshmipathy Deenadayalan:** That's right, Kunal. As you see in our presentation, our digital penetration is moving up from 81% to 82%. Slowly, gradually, we intend to take it to 85%. So, the work of cashiers is going to come down as we go forward. So, we are deploying them in the operational work.

**Kunal Shah:** Perfect. Got it. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Ajit Kumar from JM Financial. Please go ahead.

**Ajit Kumar:** Thanks for the opportunity. Just 2-3 questions from my side. First, coming to FY'26 AUM growth guidance again, which is roughly 25% versus 18% growth currently. Our trend in terms of disbursement become very steep. Almost around Rs. 1,800 crores to Rs. 1,900 crores of disbursement per quarter is needed in next two quarters versus Rs. 1,200 crores to Rs. 1300 crores of disbursement that we are doing currently from last 8 to 9 quarters. Do you think this kind of acceleration in disbursement in second half is possible?

**Srikanth Gopalakrishnan:** Ajit, if you look at disbursals in Q4 of last year, we were almost at about Rs. 1400 crores to Rs. 1500 crores of disbursals. So, if not for the issues that we probably faced in Q1 and some consequent changes that we have done because of that, we would have been disbursing more around, let's say, 1500, 1600 kind of disbursal run rate in the first half of the year. So, to move towards, let's say, 1600 to 1800 is not difficult in the second half of the year. Obviously, the company will keep the necessary caution in mind before stepping up the disbursals. But our point is, it is not something that is not doable. We have done it in the past and based on our run rate, we should be able to do that. So, it's not an unachievable number, but we will definitely keep various aspects in mind before pushing the pedal of disbursal. At this point of time, we are not revisiting our guidance on our growth.

**Ajit Kumar:** And on credit cost, I just wanted to confirm again, FY'26 guidance is 1.25% to 1.35%, as you highlighted just now, because the last quarter call credit cost guidance was 1.2% to 1.25%. So, just wanted to reconfirm credit cost guidance for FY'26.

**Srikanth Gopalakrishnan:** So, Ajit, even last quarter, we said 1.25 to 1.3-1.35 only. So, the guidance stands. So, we have not changed our credit cost guidance. It will be around 1.25% to 1.3%.

**Ajit Kumar:** And this is as a percentage of AUM, right? Not as a percentage of assets?

**Srikanth Gopalakrishnan:** No, this is as a percentage of total assets. When you compute on AUM, this number will be more around 1.5% to 1.6%.

**Ajit Kumar:** Okay. And just last one, AUM growth in Tamil Nadu has been lagging from last few quarters and has come down to only 10% odd in this quarter. Any issue in Tamil Nadu in terms of growth or asset quality as it is your home state?

**Lakshmipathy Deenadayalan:** No, nothing. Tamil Nadu is gearing up very well and the collections also is very good. So, you see a good amount of rundown is also happening in Tamil Nadu when the collections are stacking up very well. So, I don't see anything coming top and you see improvement in this in next six months also. So, slowly that state will move towards 30% of overall AUM.

**Ajit Kumar:** Okay. Sure. Thanks. That's it for my side. Thank you.

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

**Chandrasekhar:** Good afternoon. So, the yield drop since you instituted the disbursement cut has almost been 100 bps on the book. Now, typically in one particular year, you have about 40%-45% is that which has been originated in that year. Now, this year obviously a lesser portion has been originated because disbursements have been slower. So, how could there be a 100 bps drop in book yields when only 35% has been originated during that year? Have you all done some differential pricing of some people even below 22% yields?

**Srikanth Gopalakrishnan:** No, Chandra. This is a little bit of a function of the delinquencies as well. If you look at accounting methodology or interest accrual methodology, that follows an ideal schedule. Whereas, as per the Indian accounting standards, the unpaid interest gets added back to the principal. So, let us say if a customer does not pay, you are charging a penal interest which does not get accrued on books. But what happens is the interest as per the original schedule is the one which is in the numerator, while the denominator, the interest also gets added. So, whenever there is a little bit of a delinquency that gets built up on the portfolio, you will see a little bit of yield drop. If you want to look at the overall number, you should probably add the penal interest to this and compute the yields. But even that will be slightly lower because generally the collections itself has been a little muted. So, it is a function of accounting rather than any further drops that we have done.

**Chandrasekhar:** Understood. But there has been no change. Otherwise, you have broadly...

**Srikanth Gopalakrishnan:** At about 22%-22.5%.

**Chandrasekhar:** Understood. Then, employee cost growth has been 15% but the count is up to actually 25%. So, what is happening here? How is there such a substantial difference? That is the second one.

**Srikanth Gopalakrishnan:** A lot of the growth has actually come in towards the end of the second quarter because collections, we were putting people. But when we saw that things are stabilizing, like Mr. Pathy said, the business officers have been added more towards the end of the quarter. So, you are not seeing their cost fully absorbed yet. So, that is why I would say, do not look at an OPEX of 5.07 as compared to 5.47 on a sequential basis. This is, you should probably build somewhere between 5% to 5.5% for the full year. 5.1 is not the indicative number that you will probably see for the full year.

**Chandrasekhar:** And the last question is, obviously, you are saying that your recovery, legal teams are able to recover from the assets better. My understanding for this business is that the threat of recovery works more than the actual recovery. It is very tough to actually recover. So, given the ticket sizes, you can't even use SARFAESI. So, is there been some change that you are able to recover more now than in the past?

**Lakshmipathy Deenadayalan:** Chandra, I think I've been articulating these things since beginning. This is a myth that you people think that smaller ticket size loans properties cannot be sold or brought in for action. That was a conscious decision that Company has taken for last 20 years not to go into auction route rather than negotiate with the customer and collect your dues. That is how we contained our NPA. But having said that in last two years, since listing, we started to focus on bringing the properties of NPA customers to auction and taking them to the legal proceedings. So, we have put in a chief legal officer 24 months before and today we have close to 150 legal people who are working on legal recovery. So, that is why I said in last conference call also, earnings call also, close to Rs. 75 crores to Rs. 80 crores of NPA will be recovered for the full year. Just to give you the number, last quarter, July, August, September, close to Rs. 20 crores of NPA got resolved in a single quarter. So, that again shows even though small ticket size, the properties are genuine, the documents, legal documents are very clear and buyers are there so that we are able to recover close to 20 crores of resolutions happening from deep delinquent NPAs and this will continue.

**Chandrasekhar:** Thank you.

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

**Aravind Ravichandran:** Thank you so much for the opportunity and congrats on the good set of numbers on a tough environment. I just want some clarification in terms of credit cost guidance. We mentioned 125 to 135 bps. Is it on the total AUM or on average AUM or like an average total assets like on a balance sheet that we are talking?

**Srikanth Gopalakrishnan:** Aravind, it's average balance sheet assets, total assets.

**Aravind Ravichandran:** Because like, generally in market, like we talk about when we say credit cost, it's usually on average AUM. So, that's why. So, if you can make clarity on like, if it is an average advances or average AUM, it would be better so that everyone would have a clear idea of what we are referring to. That is my request.

**Srikanth Gopalakrishnan:** Aravind, we will take a look. Generally, we have all our ratios on total assets. So, we don't want to think as a separate number. But we can give you guidance depending on how the trend was in the past in terms of how it will look on an average AUM. But we can take it separately.

**Aravind Ravichandran:** And I would like to understand the new housing loan which we are introducing, like, how are we, like looking to scale it up? Like, are we looking to make it like a 5% or 10% something like that over the next few years? How are we looking to scale up as a percentage of the overall AUM over the next few years, if you can give some color on that?

**Lakshmipathy Deenadayalan:** It's a little early to speak about going forward. But now, as we have introduced in October month, we have picked up close to 125 to 150 safe locations of Five-Star across India. And we have introduced for only for those branches. So, the logins are coming in, the processing is going up. Maybe in this financial year, we may build up close to 100 crores-150 crores of pure housing loan portfolio translates to 1%-1.5% of our AUM. Going forward, let me give you a good color after six months of being in this product, maybe after the March quarter.

**Aravind Ravichandran:** Okay. Also, can you just share like what are the actual write-offs in this quarter?

**Srikanth Gopalakrishnan:** It's about Rs. 49 crores, Aravind.

**Aravind Ravichandran:** Okay. Thank you. And if I have anymore, I will always come back in queue. Thank you.

**Moderator:** Thank you. The next question is on the line of Rehan Syed from Trinetra Asset Management. Please go ahead.

**Rehan Syed:** Hello, good afternoon and thank you for giving me the opportunity. Just I wanted to confirm that my all questions have been answered. So, like, could you please give me the economics of new branch that you have added in FY2026? Specifically, time to breakeven and productivity curve relative to earlier vintage?

**Srikanth Gopalakrishnan:** So, Rehan, this is similar to what we have been doing in the past also. So, every branch typically takes anywhere between 6 months to 9 months for achieving a complete breakeven. Because they are able to log in, we start with about 5 officers and each officer logs in about 4 odd files out of which 3 get converted. So, which means it's about 15 files that gets logged in on a monthly basis, which will roughly work out anywhere at about 50 lakhs to 60 lakhs. And then when the portfolio reaches about 2.5 crores to 3 crores, we are able to breakeven. There are branches which do this in 6 months. There are branches which do this in 9 months. So, if you look at it, I think, historically, we have seen that almost 98% of our branches reach this breakeven between



6 to 9 months, there could be some very few outlier branches, nothing has changed for the newer branches also.

**Rehan Syed:** Okay, thank you for clarification and good luck for your coming quarters.

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

**Sanjay Ladha:** Hi, sir. Thank you for the opportunity. So, I just wanted to know that, we are focusing on housing ticket size loan book. And what we have observed and listening to various other players, most of the players are entering into this secured segment. So, my two questions, how you see competition in that space? And most importantly, are you seeing NIM will maintain at this level given the competition will increase? And of course, you already highlighted that this is going to drop down going forward as you start taking leverages on that side. But if you can highlight more on to that, where we see the stabilization taking place?

**Lakshminpathy Deenadayalan:** We understood your question. The housing product, what Five-Star intend to commence, I think is not comparable with other affordable housing players, because we are not going to be in the ticket size of 10-15-20 lakh space. As Srikanth explained in the earlier question, the profile of customers whom we have been dealt for last 20 years, for those profile of customers, we find there is a huge space for the house to be built. So, our average ticket size for the housing product what we have built will be around 7 to 8 lakhs. So, that is the ticket size and the profile of customers whom we are focusing. We believe the competition is not as intense as it is if you cross about 10 lakhs or 15 lakhs. So, we will be able to maintain the pricing what we said. That's our commentary as of now.

**Sanjay Ladha:** Sir, but just wanted to take a follow up on that side. As you rightly said, there would be a yield of 16% to 18% as you alluded. And if my thinking is correct, on 16 to 18 and on lower of the interest expense on that side, we will see some NIM moderation on that side and that number on ROA will drop out that as well. Is my understanding right on that side or as a company you are thinking on a different line?

**Srikanth Gopalakrishnan:** So, Sanjay, housing is not going to give you that ROA that our current product is giving. It is something we have been talking about in the earlier calls as well. Housing we are doing it from a product diversification and from the market being available where there are customers who are currently being excluded from our lending. So, we will tap into those customers. It will be a stickier product. It will help us on the balance sheet side. So, combined ROA will definitely drop because on the housing side we are not expecting an ROA which will be like 7%, 7.5% and all that. Even the current product ROA will compress given the increase in leverage. But put together, we should be able to deliver you a 6%-6.5% ROA. And at a good leverage, if you are able to push it, that should be an attractive ROE for the investors. So, yes, combined basis, there will be a compression in ROA, but it will also give a kicker from an ROE perspective.

**Sanjay Ladha:** Thank you so much for the clarification. So, my another question would be, as we are very much focused on secured loan book side and as I see, we have a very low LTV as well. So, we are very much secured portfolio as we speak. So, the Stage-1 and Stage-2 increasing and as you rightly alluded in your previous comment that you will see higher recovery going forward. And in the past also, I have checked your numbers. So, at times there is a Stage-1 going towards 10-11 at FY'22, but that not reflected into GNPA level. But this time, the scenario is something different. So, just wanted to know more clarity on that side, what is happening? I understand, the dynamic is such where the numbers are going up, but the previous cycle does not support me and show me that your numbers are different. So, before, I wanted to understand your viewpoint on that side.

**Srikanth Gopalakrishnan:** Sanjay, that is the advantage of a secured product. In an unsecured product, let us say a loan flowing into Stage-1, 1 DPD or a Stage-2, typically, you will see it free flowing into Stage-3 and the recovery will be very low because the ability to recover on an unsecured loan is very less. Whereas in a secured loan, while the customer may slip on installment for justifiable reasons, there may be a good event happening in the family or a bad event happening in the family. Given that this is a strong and an emotionally attached asset, the customer will not continuously keep slipping into further buckets. So, which would mean that you are able to control a lot of flows into NPAs. So, that is why we have always been saying that our softer buckets will be a little elevated, whereas our harder buckets will be a lot controlled. And that is an experience that the Company has been seeing for the last, not 1-2 years, but maybe for the last 2 decades. And that's the nature of the secured loan. Given the nature of the security, you won't see free flows into NPAs.

**Sanjay Ladha:** Sir, just a follow up and it would be last from my end. Sir, just wanted to understand in the previous conversations you have alluded that the asset quality on the GNPA side from 2 to you are expecting from 3.5 and credit cost side has also increased. But in the past, never has that happened. So, just wanted to understand why this discrepancy is now, if the model is something getting different. So, just wanted to understand more clarity on that side.

**Lakshmipathy Deenadayalan:** Sanjay, our guidance what we gave, credit cost of 1.25 to 1.35 and the NPAs level around 2.25 to 2.5 takes into account, because this is the first time we see a overleverage crisis from a small ticket borrower segment. So, the earlier crisis was not done by the lenders, it was being done by the environment and from a government perspective from demonetization and COVID. So, we were able to come out of that because the cash flows were safer and clearer. Even current scenario, the cash flows are there, but the over-leverage has been made a big dent in the repaying capability of the sub 3 lakh segment. So, that is why we have revised our guidance from 0.75 credit cost to 1.25 to 1.35 and our NPA sub 2% to around 2.25% to 2.5% at least for the shorter term. So, and clearly with this kind of yield, you cannot operate for a longer period of time at the credit cost and the NPAs where Five-Star was handling in last 10-15 years because the competition is also going up in the segment. People lend more and so you have to be adjustable according to the environment. That's why we changed our guidance in credit cost and NPA from last quarter onwards.

**Sanjay Ladha:** Sir, thank you so much for the clarity. All the best. Thank you.

**Lakshmipathy Deenadayalan:** Yes, thank you.

**Moderator:** Thank you. The next question is from the line of Bunty Chawla from ASK Wealth. Please go ahead.

**Bunty Chawla:** Thank you, sir. Thank you for giving the opportunity and congrats on a good set of numbers. Just one clarity, FY'26 AUM growth still stands at 25% for full year, right?

**Lakshmipathy Deenadayalan:** Yes, we expect to deliver that.

**Bunty Chawla:** Secondly, on the spreads per se, as you have said now, we are focusing more on higher ticket side customers where the yields are a bit low. So, going forward, the yields as we have seen in last 5-6 quarters, it has come down to 13.9% kind of a thing. What should be the sustainable run rate when we are focusing on higher ticket size loans?

**Srikanth Gopalakrishnan:** You are talking about spread, not on yields.

**Bunty Chawla:** Yes.

**Srikanth Gopalakrishnan:** Spread will be about 13%-13.5% on a steady state.

**Bunty Chawla:** Okay, 13%-13.5%. Although we are still having a chance to decrease the cost of borrowings. We have a space for that?

**Srikanth Gopalakrishnan:** But there will be a little more compression in yield also as the loans keep building up, because today we are onboarding loans at 22.5%. So, it will come down more to around 22.5% to 23% and whatever cost of fund. So, I think 13%-13.5% should be a good number to work around this.

**Bunty Chawla:** Okay. And any similar guidance for FY'27 if you can share like AUM credit cost which you have shared for FY'26?

**Srikanth Gopalakrishnan:** Similar numbers. I think for FY'26-'27 on the spread side, we should be at about 13%-13.5%. And AUM growth and credit cost for FY'27? We will come back to you. So, at this point of time, given the kind of environment that we are living with, we would like to deliver the FY'26 numbers. But generally, we come back to you towards the end of the year with guidance on the next year. I think please hold till then. We will come back to you with our guidance.

**Bunty Chawla:** Okay. Thank you. Thank you and best of luck.

**Moderator:** Thank you. The next question is on the line of Abhishek Gulati from AG Wealth. Please go ahead.

- Abhishek Gulati:** Actually, I was observing the numbers of other lenders in the same region that are doing asset-backed lending. How are they reporting a bit of a strong asset quality and loan book growth? Is it the case with us or as we are also doing asset-backed lending, so in that, don't we add that thing that the person is having more MFI exposure, we should be lending less to them? So, have we added these checks now or we were missing them previously?
- Srikanth Gopalakrishnan:** We have always had these checks. So, when we are lending the loan, we look at all the borrowings that he has taken, we look at his leverage, we knock off all those obligations and go with conservative debt-burden ratio of 50%. But what has happened is, post taking our loan, if he has gone and leveraged himself more by taking more from MFIs, for whatever reason, they have been giving the loan to him. Now, how do you control that? So, the question is not about us not having those checks. The checks have been existent for the last 10-15 years when we have been operating in this. It is just that post taking our loan, there have been more leverage that the customer has borrowed. Today, that is something that you can't do anything, right? But we ensure that through the security, we have the priority on the customer repayment. So, he will typically pay us rather than paying a microfinance customer.
- Abhishek Gulati:** Understood. Now, in the quarter to FY'26, 2-3 microfinance companies have come up with results. They have highlighted in their conference calls as well that the asset quality is improving and in future it will keep on improving from here on. Also, are you witnessing the same trend in the MFI borrowers as your borrowers are having that loan as well? So, witnessing that things are gradually improving in the MFI category as well?
- Srikanth Gopalakrishnan:** We are seeing this across the board. So, it is not like an MFI category is improving or a non-MFI category is deteriorating. The good part is, yes, on the MFI category, maybe the over leverage is not getting built up. On the non-MFI category also, things are looking up, which is why we have been able to deliver a stable quarter in Q2. And you will see improvements happening from here onwards.
- Abhishek Gulati:** Understood. That's all from my end and hope things should improve from here on for us as well.
- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.
- Mahrukh Adajania:** Hello. My first question is on credit cost again. So, in terms of your guidance, the credit cost guidance will stay here as in at 1.25 to 1.35 for 18 months. That is because of the below 3-lakh segment, or just because of the earlier strong growth which leads to the seasoning of the book?
- Srikanth Gopalakrishnan:** So, on account of two reasons, Mahrukh. One is because of the sub 3 lakh segment which is still undergoing some bit of a stress. So, it's not going to come out in a hurry. The second reason, I think a few minutes back, Mr. Pathy was also taking that you cannot keep putting undue stress on these borrowers or on our staff to ensure that there will be no flow forwards or the unique customer collections will be at a very, very low level. So, we need to have a little bit of flexibility, which is why we are saying that our earlier guidance of 100 basis points is a little bit of a

stretched target and we have moved this to about 1.25 to 1.35, which will give a little bit of a breather in terms of for our staff and we have the yields and the spreads to absorb this. So, it's a combination of these two reasons.

**Mahrukh Adajania:** Got it. And just in terms of growth accelerating in the second half and then even more in FY'26, do you see any green shoots for growth or was there some growth that you were earlier avoiding and now you feel more comfortable doing? And of course, I heard you on the bit of housing growth or affordable housing that you would be looking at?

**Srikanth Gopalakrishnan:** So, the first point is, which I think all of you are aware, the overleverage is certainly coming down. And even MFI lenders have been talking about the proportion of greater than three loans coming down in their portfolio. So, which means the strength of the borrowers is that much better. The second reason is, we have now put additional filters and additional controls to ensure that the right borrower is being on-boarded. So, with these two filters, once our branches and our staff get attuned to onboarding the right customer and our underwriting norms being able to filter the borrowers a lot better, we should be able to build a stronger portfolio. With the attunement getting better, the ability to onboard more customers will also increase, which will mean better growth.

**Mahrukh Adajania:** Okay. Thanks a lot. Thank you.

**Moderator:** Thank you. The next question is from the line of Siraz Khan from Ascendancy Capital. Please go ahead.

**Siraz Khan:** Thank you for the opportunity and a good set of numbers. What I wanted to know, with respect to the growth background, You said that we will look at the guidance for FY'27 later, but assuming it's at 25% or whatever number, I believe because we are moving to a higher ticket size, the large part of the growth will come from the higher ticket size and because of housing, again, technically a move to a product which is of a much higher ticket size. So, a large part of the growth will be driven by ticket size improvement. Will that be correct understanding?

**Lakshminpathy Deenadayalan:** The ticket size increase is right because last earning call itself, we said our focus will be 3 lakhs to 5 lakhs, which is our core, and 5 lakhs to 10 lakhs is where our exposure will go up. So, yes, a combination of these two will result in increase in ticket size. But housing loan, as I said in opening remarks itself, we have just launched it. A few files have come in and the process is on. So, we don't expect more than 100 crores, 150 crores of AUM getting built in housing. So, that will not contribute much of that. Increasing ticket size and increasing officers count will definitely give us a good result in Q3 and Q4.

**Siraz Khan:** Sir, I was also looking at it from a longer-term perspective, say like FY'28 or FY'30 perspective. By that time, the ticket size will materially increase because of both moving to higher ticket size on our core business and also on account of affordable housing. So, let's say approximately 50% of the growth would come from the ticket size is what I was getting at. I got that.

**Lakshmipathy Deenadayalan:** Yes, Siraj, I agree to this. But at the current moment, let's not talk more about next financial year. So, we can talk much about after this financial year.

**Siraz Khan:** Got it. And just a couple of clarifications. Of the Rs. 49 crore write-off, how much is the technical write-off and the overall and the total write-off, the breakup of that in that condition?

**Srikanth Gopalakrishnan:** Siraj, for us, all of the loans are only technical write-off because we do have the properties and we will be able to get good recoveries out of this. It's only a question of time.

**Siraz Khan:** Okay. Next, on the fee income, so what I can see our fee income has improved a good bit during the quarter. What is the fee income that we are tapping into that it is increasing? And will this be also like a kind of a cushion that we are adding to our spreads and the overall NIMs? And where do you see this piece with respect to the fee income moving ahead?

**Srikanth Gopalakrishnan:** See, on the fee income, this is on account of two things or technically one thing, which is a legal and an inspection fee that we take from the customers for logging in the loan and for processing the loan, which is about Rs. 4,000, Rs. 2,000 taken upfront and Rs. 2,000 taken later. So, as the logins increase and as the disbursements increase, this number will look up. So, it has just gone up from about Rs. 9.6 crores to Rs. 11.2 crores, which is primarily improvement in logins that have happened during the quarter. So, there's no big aberration. So, depending on whatever disbursements you are modeling, you will have to take a similar increase in the fee incomes.

**Siraz Khan:** Okay. Actually, I was looking on a YOY basis. So, it was Rs. 6.7 to Rs. 11.2. So, that is fine. So, there is no insurance or anything of that sort in the fee income. We just have this legal inspection. No insurance fee income or anything of that sort?

**Srikanth Gopalakrishnan:** So, we don't take any insurance commission or whatever it is. This is just legal inspection and we take Rs. 500 for storage cost. So, nothing beyond that.

**Siraz Khan:** Got it. And with respect to the credit cost, just to clarify, what I wanted to understand was, out of the 1.35%, a big part of it will be our PCR, the provisions that we do. So, do we intend, because we want to maybe, say bring our overall GNPA's also and NPAs down. So, will we take a conscious call to have a management overlay or something of that sort to cushion, beef up our provisions so that the asset quality kind of remains stabilized, kind of a buffer created?

**Srikanth Gopalakrishnan:** See, most of our ECL provisioning comes from the model because we have a very robust ECL model which has been working for the last about 7-8 years without any major tweaks that we have done. So, most of it will be from the model. Obviously, there will be some overlays that we will build in for specific event-based occurrences. Like, if there is a little bit of a stress in Karnataka that we are seeing because of the ordinance, we will maintain a little bit of a higher provision there. But most of it will be coming in from the model itself.

**Siraz Khan:** Understood. And final couple of ones. We are seeing a trend in securitization moving a bit higher. In this quarter, it's 20% of the total borrowing profile. How do you see this moving,

because this will also impact our P&L, there will be a good impact on the P&L on the positive side because of the upfront and reversal. So, where do you see that going?

**Srikanth Gopalakrishnan:** Siraj, firstly please understand these are PTC transactions. There is no upfront of income. There is no off-book treatment. So, these are treated as on-book assets. These are treated as borrowings. So, that is why we do this. These are not assignment transactions where we upfront the income. So, from that perspective, this is treated like any borrowing. So, if a lender is comfortable doing a term loan, we are happy. If they are comfortable doing an NCD or a PTC or a bond or whatever it is, we are agnostic about that.

**Siraz Khan:** Understood. Thank you for the clarification. And finally, with respect to the states in which the affordable housing that we have started, which states or any specific state or any group of states that we have started this?

**Lakshmi pathy Deenadayalan:** It's not specific states. Across six states, we have chosen the most safest and vintage location and we introduced the product in those locations.

**Siraz Khan:** Understood. And finally, on the other locations, I mean, Maharashtra and other states that have been there, how do we see the plan going ahead? I mean, do we still look to consolidate or do we go to growth in the coming quarters?

**Srikanth Gopalakrishnan:** Siraj, if you are specifically asking about Maharashtra, yes, that is a turnaround state for us. We will definitely grow the state in the coming quarters. But there are few other states which will continue to be in an experimental mode. We are trying to understand the geography, understand the borrower behavior and these are Gujarat, Rajasthan, Uttar Pradesh. So, there will always be a combination of matured states, which will be growth drivers for us and early states, which will be experimental areas and then which will help us with growth in the future years. Siraj, if there are any further questions, I think we are happy to connect with you offline.

**Siraz Khan:** Thank you. That is it.

**Lakshmi pathy Deenadayalan:** Thank you. Can we take a last call or last two calls?

**Moderator:** Thank you. This will be the last question from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

**Shubhranshu Mishra:** Hi, good evening. So, the first question is with respect to the penal interest. While I see the payables and the GNPA moving, however, I don't see the change in penal interest by a huge margin. Second is if we can speak about the concentration of disbursement in the top 50 branches, top 100 branches and the top 200 branches. These are my two questions. Thanks.

**Srikanth Gopalakrishnan:** Shubhranshu, first of all, penal interest is accounted on receipt basis and not on accrual. So, irrespective of the GNPA moving up or moving down, it depends on the collection. And just because the GNPA is more, you are not going to get as much as penal interest collection. But

this number will keep moving out depending on the arrears in the coming quarters. See, on your second question, let's connect offline because at this point of time, we don't have ready-made answers on the top 50-100-200 branches. But we can connect offline and give you the details.

**Shubhranshu Mishra:** Right. Sure. Thank you.

**Moderator:** That was the last question. I now hand over the conference over to the management for the closing comments.

**Lakshmipathy Deenadayalan:** Thank you. Thank you all for attending this call. As we said, this quarter has been very stable. And going forward, Q3 and Q4, we expect that growth will come back and we will meet you soon after the Q3 numbers. Thank you.

**Moderator:** On behalf of DAM Capital Advisors Limited, thank you for joining us. You may now -  
\*disconnect your lines.