

April 29, 2025

Five-Star Business Finance Limited: Rating reaffirmed for PTCs issued under small business loan securitisation transaction

Summary of rating action

Trust name [^]	Instrument [*]	Initial rated amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after Mar-25 payout (Rs. crore)	Rating action
Dhruva XIX 03 2023	Series A PTC	343.74	240.56	148.98	[ICRA]AAA(SO); reaffirmed

[^] The transaction has been referred to as Dhruva XIX in this rationale

^{*} Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by a pool of small business loan receivables originated by Five-Star Business Finance Limited {FSBFL/Originator; rated [ICRA]AA- (Stable)}. FSBFL is also the servicer for the transaction.

The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts on account of healthy pool amortisation and strong pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the March 2025 payout month.

Pool performance summary

Parameter	Dhruva XIX
Payout month	March 2025
Months post securitisation	24
Pool amortisation (as % of initial pool principal)	49.3%
PTC amortisation (as % of initial PTC principal)	56.7%
Cumulative collection efficiency ¹	98.9%
Cumulative prepayment rate ²	26.5%
Loss-cum-30+ days past due (dpd; % of initial pool principal) ³	5.0%
Loss-cum-90+ dpd (% of initial pool principal) ⁴	0.6%
Breakeven collection efficiency ⁵	50.7%
Cumulative cash collateral (CC) utilisation	0.0%
CC available (as % of balance pool)	9.9%
Excess interest spread (EIS; as % of balance pool) ⁶	37.0%
Principal subordination (% of balance pool principal)	25.6%

Transaction structure

As per the structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess

¹ Cumulative collections / (Cumulative billings + Opening overdue at the time of securitisation)

² Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

³ Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

⁴ Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

⁵ (Balance cash flows payable to investor – CC available) / Balance pool cash flows

⁶ (Pool cash flows till PTC maturity month – Cash flows to PTC A1/A1(a)/A1(b) – Originator's residual share) / Pool principal outstanding

interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the PTC principal.

Reset of credit enhancement

At the request of the Originator for resetting the credit enhancement, ICRA has analysed the transaction at a cash collateral (CC) of 4.9% of the balance pool principal (i.e. Rs. 9.88 crore) against the currently available CC of 9.9% of the balance pool principal (after March 2025 payout). Based on the pool's performance, the rating will remain unchanged even after the CC amount is reset. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers and their description

Credit strengths

Healthy pool performance – The pool's performance has been healthy with a cumulative collection efficiency of 98.5% till the March 2025 payout month. This has resulted in low delinquencies in the pool with the 90+ days past due (dpd) at sub-0.6%. The breakeven collection efficiency is also low compared to the collection efficiency observed in the pool.

Healthy build-up of credit enhancement – The rating factors in the build-up in the credit enhancement cover with the CC and subordination increasing from the time of securitisation for the trust. Further, there have been no instances of CC utilisation till date owing to the strong collection performance and the presence of subordination and EIS in the transaction.

Contracts backed by self-occupied residential properties – The pool comprises contracts, which are backed by self-occupied residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Adequate servicing capability of originator – The company has adequate processes for the servicing of the loan accounts in the securitised pool. It has a track record of regular collections and recoveries and has expanded its presence to 10 states/Union Territories with over 720 branches.

Credit challenges

High geographical concentration – The balance pool has high geographical concentration with the top 3 states, i.e. Tamil Nadu, Telangana and Andhra Pradesh, contributing ~84% to the balance pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during their tenure at 2.5% of the initial pool principal with certain variability around it. The average prepayment rate for the pool is modelled in the range of 7% to 27% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction name	Dhruva XIX
Originator	Five-Star Business Finance Limited
Servicer	Five-Star Business Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	State Bank of India
Collection and payout account bank	DBS Bank Limited

Liquidity position: Superior

The liquidity for the PTC instrument is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be greater than 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till February 2025 (collection month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not applicable
Consolidation/Standalone	Not applicable

About the originator

Five-Star Business Finance Limited (FSBFL) is a Chennai-headquartered non-banking financial company (NBFC) extending secured loans to small business customers and self-employed individuals, primarily in semi-urban markets. The company commenced operations in 1984, with a focus on consumer loans and vehicle finance. In 2005, it shifted its focus to small business loans with a loan ticket size of Rs. 2-10 lakh and an average ticket size of Rs. 3-3.5 lakh. Its loans are predominantly backed by self-occupied residential properties. As on December 31, 2024, FSBFL had 729 branches across 10 states/Union Territories.

The company was listed on the NSE and BSE in November 2022. As on December 31, 2024, the single largest shareholder comprised the individual promoters & promoter group (Mr. Lakshmipathy Deenadayalan and his family), with an 18.4% stake in the company, on a fully-diluted basis.

Key financial indicators

Five-Star Business Finance Limited	FY2023	FY2024	9M FY2025
	Audited	Audited	Provisional
Total income	1,528.9	2,195.1	2,106.3
PAT	603.5	835.9	793.4
Total managed assets	8,702.8	11,688.8	13,555.4
Gross NPA	1.4%	1.4%	1.6%
CRAR	67.2%	50.5%	51.2%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. no.	Trust name	Instrument	Current rating (FY2026)		Chronology of rating history for the past 3 years			
			Initial rated amount (Rs. crore)	Current rated amount (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
					Apr 29, 2025	Apr 17, 2024	Apr 27, 2023	Mar 31, 2023
1	Dhruva XIX 03 2023	Series A PTC	343.74	148.98	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)

Complexity level of the rated instruments

Trust name	Instrument	Complexity indicator
Dhruva XIX 03 2023	Series A PTC	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

Trust name	Instrument type	Date of issuance/ Sanction	Coupon rate (p.a.p.m.)	Maturity date	Current amount rated (Rs. crore)	Current rating
Dhruva XIX 03 2023	Series A PTC	March 28, 2023	9.10%	March 22, 2029	148.98	[ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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