

February 12, 2021

Five-Star Business Finance Limited: Provisional [ICRA]AA(SO) rating assigned to PTCs backed by small business loan receivables issued by Dhruva-X 02 2021

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dhruva-X 02 2021	PTC Series A1	35.79	Provisional [ICRA]AA(SO); Assigned

*Instrument details are provided in Annexure-1

Rationale

ICRA has assigned a provisional rating to PTC Series A1 under a securitisation transaction originated by Five-Star Business Finance Limited (FSBFL). The pass-through certificates (PTCs) are backed by receivables worth a Rs. 68.41-crore pool of small business loans (SBLs; underlying pool principal of Rs. 42.11 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts as well as the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 3.0% of the pool principal to be provided by the originator, (ii) subordination of 15.0% of the pool principal for PTC Series A1, and iii) the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of subordination, EIS and CC
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Moderately high geographical concentration of the contracts in the pool at the state level
- High share of longer-tenure size contracts in the pool
- Performance of the pool would be exposed to any prolonged economic slowdown caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 15.0% of the pool principal. Further credit support is available in the form of an EIS of ~45% and a CC of 3.0% of the initial pool principal provided by FSBFL in the transaction.

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1. This principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is ~21 months¹ with pre-securitisation amortisation of ~21% as on the cut-off date. The pool has a moderately high geographical concentration with contracts from four states with the top state of Tamil Nadu accounting for ~42% of the overall pool principal. At the district level, the top district accounted for ~6% of the overall pool principal amount while the top 10 districts accounted for ~40%. However, the performance of the pool would be exposed to any prolonged economic slowdown caused by the Covid-19 pandemic.

Past rated pool performance: ICRA has rated nine securitisation transactions with the underlying receivables originated by FSBFL. All transactions that have completed at least one payout have reported a cumulative collection efficiency of more than 97% as of January 2021 payout month and a loss-cum-30+ dpd between 0.5% and 5.2% as of the January 2021 payout with no CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.5-5.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

¹ Basis number of instalments as shared by originator

Analytical approach

The rating action is based on the analysis of the performance of FSBFL's portfolio till December 2020, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Five-Star Business Finance Limited (FSBFL) is a Chennai-headquartered non-banking financial company (NBFC) catering to small businesses and retail customers in the urban and 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 typical loan tickets of Rs. ~2-10 lakh and an average ticket size of ~Rs. 3.5 lakh. As of December 31, 2020, secured business loans and mortgage loans to micro and small enterprise customers comprised 71% and 22%, respectively, of the total portfolio followed by small-ticket housing loans (7%). These loans are predominantly backed by self-occupied residential properties. The company had 262 branches as of December 31, 2020.

The five institutional investors (Matrix Partners, Morgan Stanley, TPG Asia, Norwest Venture Partners and Sequoia Capital) held a stake of 68.5% in the company as of September 30, 2020, with the promoter, Mr. Lakshmipathy, holding 21.7% (fully diluted). FSBFL's wholly-owned housing finance subsidiary was amalgamated into the parent company with effect from April 1, 2019.

Key financial indicators (Ind-AS)

Five-Star Business Finance Limited	FY2019 (Audited)	FY2020 (Audited)	H1 FY2021 (Provisional)
Total Income (Rs. crore)	408.9	787.3	504.5
PAT (Rs. crore)	156.7	261.9	189.1
Total Managed Assets (Rs. crore)	2,349.8	4,353.2	5,257.4
Gross NPA (%)	0.9%	1.4%	1.3%
Net NPA (%)	0.7%	1.1%	1.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 12, 2021			
1	Dhruva-X 02 2021	PTC Series A1	35.79	35.79	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
Dhruva-X 02 2021	PTC Series A1	Feb 2021	9.50%	Feb 2026	35.79	Provisional [ICRA]AA(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.