

June 02, 2021

## Five-Star Business Finance Limited: Rating confirmed as final for PTCs issued under a small business loan receivables securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dhruva XIII 03 2021	PTC Series A1	82.42	[ICRA]AA(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure-1

### Rationale

In March 2021, ICRA had assigned Provisional [ICRA]AA(SO) to PTC Series A1 in the Dhruva XIII 03 2021 transaction. The PTCs are backed by receivables worth a Rs.145.80-crore pool of small business loans (SBLs; underlying pool principal of Rs. 93.66 crore) originated by Five-Star Business Finance Limited (FSBFL). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said rating has now been confirmed as final.

Summary of the pool performance after Apr-21 payout month is shown in table below:

Parameter	Dhruva XIII 03 2021
Months post securitisation	1
Pool amortisation	1.96%
PTC Amortisation	2.23%
Prepayment rate (as % of initial pool principal)	0.54%
Cumulative collection efficiency	98.80%
Loss cum 0+ dpd	2.12%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of subordination, excess interest spread and cash collateral
- 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
- Pool performance will remain exposed to any fresh disruptions from second wave of 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 12.0% of the pool principal. Further credit support is available in the form of an EIS of ~40% and a CC of 8.0% 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 the PTC Series A1 at the predetermined interest rate on the principal outstanding on each pay-out date. The principal repayment to the PTC Series A1 is promised on each pay-out date to the extent of 88% of the billed principal post adjusting for overdues and prepayments in the previous collection periods. The principal repayment to the PTC Series A1 for the residual 12% of the billed principal is promised on the last pay-out date. During the tenure of the PTC Series A1, the collections from the pool, after making the promised interest & principal pay-outs to the PTC Series A1, will be used to make the expected principal pay-outs to PTC Series A1, albeit this residual expected principal pay-out is not promised and any shortfall in making the expected principal payment to PTC Series A1 is carried forward to the subsequent pay-out. Prepayments in the pool will be paid towards Series A1 principal and the excess available after meeting the promised & expected investor pay-outs to the PTCs will be passed on to the originator every month.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is ~15 months<sup>1</sup> with pre-securitisation amortisation of ~17% as on the cut-off date. The pool has a moderately high geographical concentration with contracts from five states with the top state of Andhra Pradesh accounting for ~53% of the overall pool principal. At the district level, the top district accounted for ~7% of the overall pool principal amount while the top 10 districts accounted for ~44%. Nonetheless the performance of the pool will remain exposed to any fresh disruptions from second wave of the Covid-19 pandemic.

**Past rated pools performance:** ICRA has rated 12 securitisation transactions with the underlying receivables originated by FSBFL. All live transactions that have reported a healthy cumulative collection efficiency of more than 95% as on April 2021 payout month and loss cum 90+ dpd up to 1.7% as on April 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 to be 6.0-7.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 12.0%-18.0% per annum.

## Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the collections from the pool of contracts and the presence of a cash collateral (CC) amounting to 8.00% of the pool principal amount. Assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the CC would cover the shortfalls in the promised cash flows to the PTCs for a period of twenty-two months.

<sup>1</sup> Basis number of instalments as shared by originator

## 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 pay-outs 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.

## Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 secured business loans to individuals running micro & small enterprises 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 individuals running micro and small enterprises comprised 71% and 22%, respectively, of the total portfolio followed by small-ticket home improvement/renovation/construction (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 (FY2022)				Chronology of Rating History for the past 3 years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					June 02, 2021	Mar 26, 2021	-	-
1	Dhruva XIII 03 2021	PTC Series A1	82.42	82.42	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
PTC Series A1	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 analyzing 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, is available on ICRA's website: [www.icra.in](http://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 XIII 03 2021	PTC Series A1	Mar 2021	9.00%	Aug 2025	82.42	[ICRA]AA(SO)

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

**Source:** Company

#### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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## 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](http://www.icra.in)

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### Branches



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