

December 21, 2021

Five-Star Business Finance Limited: Rating reaffirmed at PP-MLD [ICRA]AAA(CE) (Stable) for NCD programme

Summary of rating action

Instrument**	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme – Market linked debenture*	275.00	275.00	PP-MLD[ICRA]AAA(CE) (Stable); reaffirmed
Non-convertible debenture programme – Market linked debenture	65.00	65.00	PP-MLD[ICRA]A+ (Stable); outstanding
Non-convertible debenture programme	600.00	600.00	[ICRA]A+ (Stable); outstanding
Long term fund-based bank facilities	960.21	960.21	[ICRA]A+ (Stable); outstanding
Long term - Unallocated	239.79	239.79	[ICRA]A+ (Stable); outstanding
Total	2,140.00	2,140.00	

* For one of the PP-MLDs, a provisional rating was assigned for Rs. 100 crore; the final rating was assigned for Rs. 50 crore, which was the amount placed

Rating Without Explicit Credit Enhancement	[ICRA]A+
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**Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating action takes into account the structural features available in each transaction such that in the event of non-payment of its expected repayments by Five-Star Business Finance Limited (FSBFL), the respective cover pools along with the cash collateral (CC) would be utilised to support the servicing of the rated instruments. The key structural features of the rated instruments are summarised below.

Instrument	Trust Name	Security Cover	Structural Feature
Rs. 75.00-crore PP-MLD	Dhruva-VI Northern Arc CE MLD 12 2020 (Dhruva-VI)	1.25x cover pool ^	Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the Debenture Trustee of the rated market linked debentures (MLD)
Rs. 50.00-crore PP-MLD	Dhruva VII CredAvenue 12 2020 Trust (Dhruva VII)	1.25x cover pool ^	
Rs. 150.00-crore PP-MLD	Dhruva XI 01 2021	1.25x cover pool ^	

^ The cover pool requirement is calculated on the outstanding principal and accrued interest in case of PP-MLDs

The ratings also draw comfort from the established presence of FSBFL in the small business lending space and its stable asset quality despite the disruptions caused by the spread of the Covid-19 pandemic. Nonetheless, post any trigger event, the performance of the cover pool would be exposed to any further disruptions that may arise due to the pandemic.

Structure details, adequacy of credit enhancement and salient features of rated instruments

Details on the structure, adequacy of the credit enhancement and salient features of each rated instrument are available in ICRA's previous rationales.

Rs. 75.00-crore PP-MLD {Dhruva-VI Northern Arc CE MLD 12 2020 (Dhruva-VI)}: [Click here](#)

Rs. 50.00-crore PP-MLD {Dhruva VII CredAvenue 12 2020 Trust (Dhruva VII)}: [Click here](#)

Rs. 150.00-crore PP-MLD {Dhruva XI 01 2021}: [Click here](#)

Key rating drivers and their description

Credit strengths

Presence of cover pool to support servicing of the rated facility in the event of non-payment by entity – The primary obligation of meeting the MLD payments is on FSBFL. However, if FSBFL does not meet the expected payment on the MLDs, the collections from the cover pool will be available to the Debenture Trustee. The principal as well as the interest on the MLDs are promised to the MLD investors on the legal maturity date.

Stringent eligibility criteria for cover pool – The eligibility criteria of the cover pool for all three instruments are stringent. No contracts at the time of assignment should be delinquent. Further, for all three instruments, the proportion of assets which are delinquent, but for less than 30 days, should not be more than 5% of the pool principal outstanding.

Credit enhancement in the form of over-collateralisation and CC – All three instruments have credit enhancement in the form of over-collateralisation and CC, which act as a buffer if the collections in the cover pool decline.

Credit challenges

On occurrence of trigger event, the performance of the transaction would be exposed to performance of the cover pool, which would be available at that point of time – The pool for the transaction would have to be maintained as per the eligibility criteria and would become fixed post the occurrence of a trigger event. Thus, on the occurrence of a trigger event, the performance of the transaction would be exposed to the performance of the cover pool, which would be available at that point of time.

Performance of the pool would remain exposed to disruptions caused by the Covid-19 pandemic, post trigger event – Borrowers continue to face several challenges following the spread of Covid-19 throughout the country. These include the continuity of business operations and the possible adverse impact on the asset quality if the cash flows and economic activity again slow down. FSBFL's ability to navigate through the adversity and manage the impact on the business growth and asset quality would remain critical from a rating perspective, going forward.

While MLD yield is fixed, the spread between pool yield and MLD yield (acting as credit support) could shrink on account on characteristics of cover pool – The benefit available on account of the difference between the pool yield and the MLD yield may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower internal rate of return (IRR). However, this is mitigated as almost the entire portfolio of FSBFL comprises loans with an IRR of 24% or more.

Liquidity position

For PP-MLD [ICRA]AAA(CE) (Stable): Superior

Both the principal and the interest on the MLDs are promised to the lender on the legal final maturity subject to the non-occurrence of a trigger event. The cash flows from the cover pool, along with the CC for the MLDs, are expected to be highly comfortable to meet the debt servicing requirement in the event that the company is unable to meet the payments on the MLDs.

For [ICRA]A+ (Stable) rating: Strong

The liquidity position is strong with free cash and liquid investments of ~Rs. 1,645 crore as of Sep 30, 2021 against repayment and other obligations of ~Rs. 665 crore during October 2021-March 2022. The funding mix comprises debentures (42% of the total borrowings as of September 2021), term loan from banks (27%), securitisation (24%) and term loans from financial institutions accounting for the rest. Going forward, it would be crucial for FSBFL to secure adequate long-term funds at competitive rates to achieve the envisaged business growth while maintaining a strong liquidity profile.

Rating sensitivities

For PP-MLDs rated [ICRA]AAA(CE) (Stable)

Positive factors – NA

Negative factors – The rating could be downgraded on the non-adherence to the key transaction terms envisaged at the time of the rating. The rating could also come under pressure in case of a deterioration in FSBFL’s asset quality or credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-banking Finance Companies Covered Bond 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) extending secured loans to micro entrepreneurs and self-employed individuals, predominantly 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 typical loan tickets of ~Rs. 2-10 lakh and an average ticket size of Rs. 3.5 lakh. The loans are predominantly backed by self-occupied residential properties and FSBFL had 268 branches as of Sept 30, 2021.

The six institutional investors (Matrix Partners, TPG Asia, Norwest Venture Partners, Sequoia Capital, Sirius II Pte. Ltd (KKR) and TVS Shriram Growth Fund) held a stake of 70.0% in the company as of September 30, 2021, with the promoter group, holding 20.7% (fully diluted).

Key financial indicators (audited)

Five-Star Business Finance Limited	FY2020	FY2021	H1 FY2022
Total Income (Rs. crore)	787.3	1,051.3	611.2
PAT (Rs. crore)	261.9	359.0	217.6
Total Managed Assets (Rs. crore)	4,353.2	5,793.6	6,374.6
Gross NPA (%)	1.4%	1.0%	1.4%
Net NPA (%)	1.1%	0.8%	1.2%

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021				Date & Rating in FY2020	Date & Rating in FY2019
					Dec 21, 2021	Feb 8, 2021	Feb 1, 2021	Dec 29, 2020	Dec 22, 2020	-	-
1	PP-MLD	Long term	75.0	75.0	PP-MLD [ICRA]AAA(CE) (Stable)	-	-	PP-MLD [ICRA]AAA(CE) (Stable)	Provisional PP-MLD [ICRA]AAA(CE) (Stable)	-	-
2	PP-MLD	Long term	50.0	50.0	PP-MLD [ICRA]AAA(CE) (Stable)	-	-	PP-MLD [ICRA]AAA(CE) (Stable)	Provisional PP-MLD [ICRA]AAA(CE) (Stable)	-	-
3	PP-MLD	Long term	150.0	150.0	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	Provisional PP-MLD [ICRA]AAA(CE) (Stable)	-	-	-	-

For details on other ICRA-rated instruments of the company, refer to the rationales given [here](#)

Complexity level of the rated instrument

Transaction Name	Instrument	Complexity Indicator
Dhruva-VI Northern Arc CE MLD 12 2020 (Dhruva-VI)	Principal Protected Market Linked Debentures (PP-MLD)	Complex
Dhruva VII CredAvenue 12 2020 Trust (Dhruva VII)	Principal Protected Market Linked Debentures (PP-MLD)	Complex
Dhruva XI 01 2021	Principal Protected Market Linked Debentures (PP-MLD)	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE128S07549	PP-MLD	Dec 16, 2020	9.25%*	Dec 16, 2027	75.0	PP-MLD [ICRA]AAA(CE) (Stable)
INE128S07556	PP-MLD	Dec 17, 2020	9.25%*	Dec 17, 2027	50.0	PP-MLD [ICRA]AAA(CE) (Stable)
INE128S07564	PP-MLD	Jan 29, 2020	9.00%**	Apr 30, 2023	150.0	PP-MLD [ICRA]AAA(CE) (Stable)

* Additionally, step-up interest of 6.00% is applicable from date of issuance in case of trigger event

** Additionally, step-up interest of 6.25% is applicable from date of issuance in case of trigger event

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.

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