

February 16, 2023

Five-Star Business Finance Limited: Ratings action for PTCs issued under five small business loan securitisation transactions

Summary of rating action

Trust Name [^]	Instrument [*]	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Jan-23 Payout (Rs. crore)	Rating Action
Dhruva-IX 01 2021	PTC Series A1	146.12	106.18	65.85	[ICRA]AA+(SO); reaffirmed
Dhruva-X 02 2021	PTC Series A1	35.79	22.52	10.44	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(a)	44.55	29.27	10.70	[ICRA]AAA(SO); reaffirmed
	PTC Series A1(b)	23.45	23.45	23.45	[ICRA]AA+(SO); reaffirmed
Dhruva XIII 03 2021	PTC Series A1	82.42	60.56	32.20	[ICRA]AA(SO); reaffirmed
Northern Arc 2020 SBL Kastellorizo	PTC Series A1(d)	78.37	36.95	0.00	[ICRA]AA(SO); withdrawn

[^] The transactions have been referred to as Dhruva-IX, Dhruva-X, Dhruva-XII, Dhruva XIII and Kastellorizo in this release

^{*} Instrument details are provided in Annexure I; Instrument name of all transactions has been referred to as PTC Series A1 in this release

Rationale

The pass-through certificates (PTCs) are backed by a pool of small business loan receivables originated by Five-Star Business Finance Limited {FSBFL; rated [ICRA]A+ (Stable)}. The ratings have been reaffirmed/upgraded on account of the sustained healthy collections and low delinquencies witnessed in all the pools. Due to the high amortisation in all the transactions, there has been a build-up of the credit enhancement cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools.

ICRA has also withdrawn the rating for PTC Series A1(d) under Northern Arc 2020 SBL Kastellorizo as all the payouts have been made and no further payments are due to the investors.

A summary of the performance of the pools after the January 2023 payouts has been provided below.

Parameter	Dhruva-IX 01 2021 (Dhruva-IX)	Dhruva-X 02 2021 (Dhruva-X)	Dhruva-XII Northern Arc SBL 03 2021 (Dhruva-XII)	Dhruva XIII 03 2021 (Dhruva XIII)
Months post securitisation	24	24	22	22
Pool amortisation	46.70%	60.20%	43.32%	53.62%
Cumulative collection efficiency	98.11%	98.84%	98.44%	98.63%
Cumulative prepayment rate	23.28%	28.08%	21.56%	19.02%
Average monthly prepayment rate	1.10%	1.36%	1.10%	0.95%
Loss-cum-30+ (% of initial pool principal) ¹	9.45%	4.97%	12.76%	6.08%
Loss-cum-90+ (% of initial pool principal) ²	0.58%	0.12%	0.39%	0.19%
Breakeven collection efficiency ³ : PTC Series A1	51.06%	45.33%	12.49%*	48.74%
Breakeven collection efficiency: PTC Series A1 (b)	-	-	55.24%	-

¹ Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

² Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

³ (Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows

Parameter	Dhruva-IX 01 2021 (Dhruva-IX)	Dhruva-X 02 2021 (Dhruva-X)	Dhruva-XII Northern Arc SBL 03 2021 (Dhruva-XII)	Dhruva XIII 03 2021 (Dhruva XIII)
Cumulative cash collateral (CC) utilisation	0.0%	0.0%	0.0%	0.0%
CC available (as % of balance pool)	5.63%	7.54%	7.06%	17.25%
Excess interest spread (EIS) over balance tenure (as % of balance pool) ⁴ : PTC Series A1	39.04%	26.39%	45.20%*	22.62%
EIS over balance tenure (as % of balance pool): PTC Series A1(b)	-	-	35.54%	-
Principal subordination (% of balance pool): PTC Series A1(a)	28.14%	37.69%	75.86%*	25.87%
Principal subordination (% of balance pool): PTC Series A1(b)	-	-	22.93%	-

*For PTC Series A1(a)

Reset of credit enhancement

At the request of FSBFL for resetting the credit enhancement for the Dhruva XIII transaction, ICRA has analysed the transaction at 8.0% of the balance pool principal after the January 2023 payouts {46.4% of the initial cash collateral (CC)} against the currently available CC of 17.25% of the balance pool principal. Based on the pools' performance, the ratings for the PTCs 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

Credit strengths

- Healthy amortisation of PTCs, resulting in build-up of CC, principal subordination and excess interest spread (EIS) cover available for the balance PTC payouts
- Low delinquency build-up in the harder buckets across all the pools

Credit challenges

- High geographical concentration of the contracts in the pools at the state level
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the borrower's income-generating capability

Description of key rating drivers highlighted above

For the Dhruva-IX, Dhruva-X and Dhruva XIII transactions, 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 amount is paid every month on expected basis (100% of the pool principal billed), but it is promised on the respective final maturity date. For the Dhruva-XII transaction, the interest payment is promised to both series of PTC Series A1 on a pari-passu basis. The principal amount is paid every month on expected basis but it is promised on the respective final maturity date, i.e. February 21, 2027 for PTC Series A1(a) and March 21, 2027 for PTC Series A1(b). The principal repayment is promised on each payout date to the extent of 88% of the pool principal billed and the residual 12% is expected to be paid every month but is promised on the last payout date.

All four transactions have reported healthy collections with a cumulative collection efficiency of ~98%. The delinquencies in

⁴ (Pool Interest – PTC Interest) / Pool Principal outstanding

the harder bucket are low with the loss-cum-90+ days past due (dpd; as percentage of initial pool principal) below 0.6% till the January 2023 payout month. The breakeven collection efficiency has been much lower compared to the collection efficiency reported in the pools. There has been no CC utilisation in any of these pools till the January 2023 payout month. All the pools have witnessed healthy amortisation.

Overall, the credit enhancement available for meeting the balance payouts to the investors in all four transaction (after downward reset in the CC for Dhruva XIII) is sufficient to upgrade/reaffirm the ratings. ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. The performance of the pools would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection and prepayments during the balance tenure of the pools are provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Dhruva-IX	2.5-3.5%	12-18% p.a.
2	Dhruva-X	2.0-3.0%	12-18% p.a.
3	Dhruva-XII	3.0-4.0%	12-18% p.a.
4	Dhruva XIII	2.0-3.0%	12-18% p.a.

Liquidity position

For PTC Series A1(a) of Dhruva-XII: Superior

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 credit enhancement are expected to be highly comfortable to meet the promised payouts to the PTC investors.

For PTC Series A1(b) of Dhruva-XII, Series A1 of Dhruva-IX and Dhruva-X: 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 (one month after the scheduled maturity date of the transaction for PTC Series A1(b) of Dhruva XII). This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

For PTC Series A1 of Dhruva XIII: Strong

The liquidity of the PTCs is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the promised cash flows to the senior PTCs for 11 months.

Rating sensitivities

Positive factors – Not applicable for PTC Series A1(a) of Dhruva-XII transaction

For the other transactions, the ratings can be upgraded on the sustained strong collection performance of the underlying pool of contracts, resulting in an increase in the credit enhancement cover available for the rated instrument.

Negative factors – The sustained weak collection performance of the underlying pools, leading to higher-than-expected delinquency levels and credit enhancement utilisation levels, could result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of FSBFL's portfolio till September 2022, the key characteristics and composition of the current pools, the performance expected over the balance tenure of the pools, and the credit enhancement cover available in the transactions.

Analytical Approach	Comments
Applicable rating methodologies	Policy on withdrawal of credit ratings 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) 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. 1-10 lakh and an average ticket size of Rs. 3.5 lakh. The loans are predominantly backed by self-occupied residential properties. FSBFL had 369 branches as of December 31, 2022.

Key financial indicators (audited)

Five-Star Business Finance Limited	FY2021	FY2022	9M FY2023*
Total income	1,051.3	1,256.2	1,089.6
PAT	359.0	453.5	434.6
Total managed assets	5,793.6	6,343.1	7,431.9
Gross NPA	1.0%	1.1%	1.5%
Net NPA	0.8%	0.7%	0.8%

*Gross and net non-performing advances (NPAs) computed as per latest Reserve Bank of India (RBI) guidelines; Gross and net NPAs without considering the same would have been 1.2% and 0.6%, respectively

Source: Company; ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Feb 16, 2023		Mar 17, 2021 [^]	Jan 29, 2021 [*]	
1	Dhruva-IX 01 2021	PTC Series A1	146.12	65.85	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Feb 16, 2023		Mar 29, 2021 [^]	Feb 12, 2021 [*]	
2	Dhruva-X 02 2021	PTC Series A1	35.79	10.44	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Feb 16, 2023	Feb 21, 2022	Apr 21, 2021 [^]	Mar 26, 2021 [*]	
3	Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(a)	44.55	10.70	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
		PTC Series A1(b)	23.45	23.45	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Feb 16, 2023	Feb 21, 2022	Jun 02, 2021 [^]	Mar 26, 2021 [*]	
4	Dhruva XIII 03 2021	PTC Series A1	82.42	32.20	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Feb 16, 2023		Feb 25, 2021	Jul 16, 2020^	Jan 31, 2020*
5	Northern Arc 2020 SBL Kastellorizo	PTC Series A1(d)	78.37	0.00	[ICRA]AA(SO) withdrawn	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)

* Initial rating assigned

^ Final rating assigned

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Dhruva-IX 01 2021	PTC Series A1	Moderately Complex
Dhruva-X 02 2021	PTC Series A1	Moderately Complex
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(a)	Moderately Complex
	PTC Series A1(b)	Moderately Complex
Dhruva XIII 03 2021	PTC Series A1	Moderately Complex
Northern Arc 2020 SBL Kastellorizo	PTC Series A1(d)	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	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Dhruva-IX 01 2021	PTC Series A1	January 2021	9.25%	February 2027	65.85	[ICRA]AA+(SO)
Dhruva-X 02 2021	PTC Series A1	February 2021	9.50%	February 2026	10.44	[ICRA]AA+(SO)
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(a)	March 2021	9.00%	February 2027	10.70	[ICRA]AAA(SO)
	PTC Series A1(b)	March 2021	9.50%	March 2027	23.45	[ICRA]AA+(SO)
Dhruva XIII 03 2021	PTC Series A1	March 2021	9.00%	August 2025	32.20	[ICRA]AA(SO)
Northern Arc 2020 SBL Kastellorizo	PTC Series A1(d)	January 2020	10.55%	January 2026	0.00	[ICRA]AA(SO); withdrawn

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

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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