

March 22, 2024

Five-Star Business Finance Limited: Ratings upgraded/reaffirmed for PTCs issued under three small business loan 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 Feb-24 payout (Rs. crore)	Rating Action
Dhruva XIV 12 2022	Series A1 PTC	175.76	NA	112.35	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)
Dhruva-XV 12 2022	Series A1 PTC	74.98	NA	49.53	[ICRA]AA(SO); reaffirmed
Dhruva XVI 01 2023	Series A1 PTC	49.36	NA	33.89	[ICRA]AA(SO); reaffirmed

[^]The transactions have been referred to as Dhruva XIV, Dhruva XV and Dhruva XVI in this release

^{*}Instrument details are provided in Annexure I

Rationale

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

A summary of the pool performance after the February 2024 payouts is shown in the table below:

Parameter	Dhruva XIV	Dhruva XV	Dhruva XVI
Months post securitisation	14	14	14
Pool amortisation	33.19%	31.23%	29.15%
Series A1 PTC amortisation	36.07%	33.95%	31.35%
Cumulative collection efficiency ¹	99.18%	99.12%	99.23%
Cumulative Prepayment rate ²	15.91%	17.97%	15.59%
Average monthly prepayment rate	1.23%	1.40%	1.20%
Loss cum 30+ dpd (% of initial pool principal) ³	2.74%	2.35%	2.18%
Loss cum 90+ dpd (% of initial pool principal) ⁴	0.02%	0.04%	0.05%
Breakeven collection efficiency ⁵ : Series A1 PTC	62.63%	61.39%	62.86%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%
CC available (as % of balance pool)	7.48%	7.27%	7.06%
Excess interest spread (as % of balance pool) ⁶	37.06%	43.38%	42.72%
Principal Subordination (% of balance pool principal)	11.97%	11.63%	9.88%

¹ Cumulative collections / (Cumulative billings + opening overdue at the time of securitization)

² Principal outstanding at the time of prepayment of contracts prepaid till date divided by 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 Cashflows till PTC maturity month– Cashflows to PTC A1 – originator's residual share)/ Pool Principal outstanding

Reset of credit enhancement

At the request of FSBFL for resetting the credit enhancement for the Dhruva XV and Dhruva XVI transactions, ICRA has analysed these transactions basis the CC mentioned as per the table provided below.

Particulars	Dhruva XV	Dhruva XVI
Current CC outstanding	4.08 (7.27%)	2.65 (7.06%)
CC Required as per ICRA for maintaining the present rating	2.85 (5.09%)	1.86 (4.94%)

Amount in Rs. Crore, figures in bracket indicate as a % of balance pool

Based on the pool's performance, the rating will remain unchanged even after the reset of the CC amount. 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 cash collateral (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
- Exposure to interest rate risk for the Dhruva XVI pool given that the pool has contracts with fixed rate, while yield on PTCs is floating; however the spread between the pool and PTC yield is high
- Performance of the pools would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrowers

Description of key rating drivers highlighted above

The performance of all three transactions has been healthy with cumulative collection efficiency in excess of 99% as of the February 2024 payout month. The delinquencies in the harder bucket are low with the loss-cum-90+ days past due (dpd; as percentage of initial pool principal) below 0.1% for all the pools till the February 2024 payout month. There has been no CC utilisation in any of the transactions till February 2024 payout. Healthy collections and healthy pool amortisation have led to healthy build-up of the CE in the pools and the breakeven collection efficiency is much lower than the monthly collection efficiency reported for these transactions. The average monthly prepayment rate for the pools is moderate, ranging between 1.2% to 1.4%. All pools have high geographical concentration of the contracts at the state level. Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm/upgrade the ratings to the current levels in the transactions. ICRA will continue to monitor the performance of the pools. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. The pool's performance would remain exposed to macro-economic shocks/business disruptions.

Past rated pool performance: ICRA has rated 21 securitisation transactions with the underlying receivables originated by FSBFL, of which 14 are live as of the February 2024 payout month. All live transactions have reported a healthy cumulative collection efficiency of more than 98% and loss-cum-90+ days past due (dpd) of sub-1% as of the February 2024 payout with nil CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating 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 XIV	2.25-3.25%	7.2-27% p.a.
2	Dhruva XV	2.25-3.25%	7.2-27% p.a.
3	Dhruva XVI	2.25-3.25%	7.2-27% p.a.

Liquidity position: Superior for all PTCs

The liquidity for the PTC instruments 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 9 times the estimated loss in the pools.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pool of contracts, leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – Sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and higher CE 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 analysis of the performance of FSBFL's portfolio till December 2023, 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	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 micro entrepreneurs 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 typical 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 of December 31, 2023, the company had 480 branches across 10 states/Union Territories.

The company was listed on the NSE & BSE in November 2022. As of December 31, 2023, the single largest shareholder comprised the individual promoters & promoter group (Mr. Lakshmiopathy Deenadayalan and his family), with an 18.3% stake in the company, on a fully diluted basis.

Key financial indicators (Ind-AS)

Five-Star Business Finance Limited	FY2022	FY2023	9M FY2024
	Audited	Audited	Provisional
Total income	1,256.2	1,528.9	1,576.0
PAT	453.5	603.5	599.9
Total managed assets	6,343.1	8,702.8	10,905.2
Gross stage 3	1.1%	1.4%	1.4%
CRAR	75.2%	67.2%	53.3%

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	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Mar 22, 2024	Mar 17, 2023	Dec 30, 2022		
1	Dhruva XIV 12 2022	Series A1 PTC	175.76	112.35	[ICRA]AA+(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA (SO)	-	-

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					Mar 22, 2024	Mar 17, 2023	Dec 30, 2022		
2	Dhruva-XV 12 2022	Series A1 PTC	74.98	49.53	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA (SO)	-	-

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					Mar 22, 2024	Mar 17, 2023	Jan 10, 2023		
3	Dhruva XVI 01 2023	Series A1 PTC	49.36	33.89	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA (SO)	-	-

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Dhruva XIV 12 2022	Series A1 PTC	Moderately Complex
Dhruva-XV 12 2022	Series A1 PTC	Moderately Complex
Dhruva XVI 01 2023	Series A1 PTC	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 XIV 12 2022	Series A1 PTC	December 2022	8.90%	August 2028	112.35	[ICRA]AA+(SO)
Dhruva-XV 12 2022	Series A1 PTC	December 2022	9.00%	November 2028	49.53	[ICRA]AA(SO)
Dhruva XVI 01 2023	Series A1 PTC	January 2023	8.80%**	October 2028	33.89	[ICRA]AA(SO)

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

**Coupon linked to 3-month HDFC MCLR minus 10 bps

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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

Alwin Thankachan

+91 22 6114 3411

alwin.thankachan@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar

+91 22 6114 3406

shivakumar@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:

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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

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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