

June 14, 2024

Five-Star Business Finance Limited: Rating actions for PTCs issued under 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 May-24 Payout (Rs. crore)	Rating Action
Dhruva-X 02 2021	PTC Series A1	35.79	1.60	0.00	[ICRA]AA+(SO); withdrawn
Dhruva XVII 03 2023	Series A1 PTC	93.73	NA	61.79	[ICRA]AA(SO); reaffirmed

[^] The transactions have been referred to as Dhruva X and Dhruva XVII in this rationale

^{*} 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/Originator; rated [ICRA]AA- (Stable)}.

The rating reaffirmation for the PTCs in the Dhruva XVII transaction factors in the build-up of the credit enhancement cover over the future PTC payouts on account of pool amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the May 2024 payout month.

ICRA has withdrawn the rating for the PTCs issued under the Dhruva X transaction as all the payouts to the investors in this instrument have been made and no further payments are due. The key rating drivers, liquidity position and rating sensitivities have not been captured as the rating assigned to the instrument has been withdrawn. The previous detailed rating rationale on the surveillance exercise is available at this [link](#).

Pool performance summary

Parameter	Dhruva XVII
Payout month	May 2024
Months post securitisation	14
Pool amortisation (as % of initial pool principal)	31.69%
Series A1 PTC amortisation (as % of initial PTC principal)	34.07%
Last 3 months' average monthly collection efficiency ¹	99.05%
Cumulative collection efficiency ²	99.23%
Cumulative prepayment rate ³	19.07%
Average monthly prepayment rate	1.50%
Loss-cum-30+ dpd (% of initial pool principal) ⁴	1.72%
Loss-cum-90+ dpd (% of initial pool principal) ⁵	0.04%
Breakeven collection efficiency ⁶ : Series A1 PTC	63.42%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	7.32%

¹ Average of (Total current and overdue collections for the month as a % of total billing for the month) for 3 months

² Cumulative collections/(Cumulative billings + Opening overdues at the time of securitisation)

³ Principal outstanding at the time of prepayment of contracts prepaid till date/Initial pool principal

⁴ Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of initial pool principal

⁵ Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of initial pool principal

⁶ (Balance cash flows payable to investor – CC available)/Balance pool cash flows

Excess interest spread (EIS; as % of balance pool) ⁷	40.73%
Principal subordination (% of balance pool principal)	10.25%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus EIS, after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the Series A1 PTC principal.

Reset of credit enhancement

At the request of FSBFL for resetting the credit enhancement, ICRA has analysed the Dhruva XVII transaction at a cash collateral (CC) of 4.39% of the balance pool principal (Rs. 3.02 crore) against the currently available CC of 7.32% of the balance pool principal (after May 2024 payout). Based on the pool's performance, the rating 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 and their description

Credit strengths

Significant credit enhancement available in the structure – The rating factors in the build-up in the credit enhancement with the CC increasing to 7.3% of the balance pool principal from 5.0% at the time of securitisation. Internal credit support is also available through principal subordination of 10.3% and excess interest spread (EIS) of 40.7% of the balance pool principal.

Healthy pool performance – The Dhruva XVII pool's performance has been healthy with a cumulative collection efficiency of ~99% till the May 2024 payout month, which has resulted in low delinquencies in the harder bucket with the loss-cum-90+ days past due (dpd; as percentage of initial pool principal) below 0.1%. The breakeven collection efficiency has also declined to 63%. Further, there have been no instances of CC utilisation in the pool till date owing to the strong collection performance and the presence of EIS in the transaction.

Credit challenges

High geographical concentration – The Dhruva XVII pool has high geographical concentration with the top 3 states, viz. Tamil Nadu, Andhra Pradesh and Telangana, contributing 82% to the balance pool principal amount. The pool's performance would thus be exposed to any statewide disruption that may occur due to natural calamities, political events, etc.

Exposed to interest rate risk – The Dhruva XVII transaction is exposed to interest rate risk as the underlying pool has fixed rate loans while the yield on the PTCs is floating (linked to 6-month Axis Bank MCLR with semi-annual reset).

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

⁷ (Pool cash flows till PTC maturity month – Cash flows to PTC Series A1 – Originator's residual share)/Pool principal outstanding

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the Dhruva XVII pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 2.75% with certain variability. The average prepayment rate for the underlying pool is modelled in the range of 7% to 27% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Dhruva XVII
Originator	Five-Star Business Finance Limited
Servicer	Five-Star Business Finance Limited
Trustee	Catalyst Trusteeship Limited
CC bank	Axis Bank
Collection and payout account bank	Axis Bank

Liquidity position: Superior

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 more than 9 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The 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 – The 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 March 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions ICRA's Policy on Withdrawal of Credit Rating
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 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 March 31, 2024, the company had 520 branches across 10 states/Union Territories.

The company was listed on the NSE and BSE in November 2022. As of March 31, 2024, the single largest shareholder comprised the individual promoters & promoter group (Mr. Lakshmiopathy Deenadayalan and his family), with an 18.3% stake on a fully-diluted basis.

Key financial indicators

Five-Star Business Finance Limited	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	1,256.2	1,528.9	2,195.1
Profit after tax	453.5	603.5	835.9
Total managed assets	6,343.1	8,702.8	11,688.8
Gross NPA	1.1%	1.4%	1.4%
Capital-to-risk weighted assets ratio	75.2%	67.2%	50.5%

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 (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					Jun 14, 2024	Jan 29, 2024	Feb 16, 2023	Feb 21, 2022	
1	Dhruva-X 02 2021	PTC Series A1	35.79	0.00	[ICRA]AA+(SO); withdrawn	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)	

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		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					Jun 14, 2024	Jun 01, 2023	Mar 31, 2023	-	
2	Dhruva XVII 03 2023	Series A1 PTC	93.73	61.79	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Dhruva-X 02 2021	PTC Series A1	Moderately Complex
Dhruva XVII 03 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-X 02 2021	PTC Series A1	February 2021	9.50%	February 2026	0.00	[ICRA]AA+(SO); withdrawn
Dhruva XVII 03 2023	Series A1 PTC	March 2023	9.10%^	March 2029	61.79	[ICRA]AA(SO)

[^] 6-month Axis Bank MCLR + 20 bps

Source: Company

Annexure II: 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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