

September 09, 2024

Five-Star Business Finance Limited: Rating confirmed as final for PTCs backed by small business loan receivables issued by Dhruva XXII

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dhruva XXII	PTC Series A1	200.00	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned provisional rating to the pass-through certificates (PTC) issued by Dhruva XXII under a securitisation transaction originated by Five-Star Business Finance Limited {FSBFL/Originator; rated [ICRA]AA- (Stable)}. The PTCs are backed by a pool of small business loan (SBL) receivables originated by Five-Star Business Finance with an aggregate principal outstanding of Rs. 227.27 crore (pool receivables of Rs. 417.38 crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

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 excess interest spread (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 PTC Series A1 principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal, amounting to Rs. 11.36 crore, to be provided by the Originator, (ii) over-collateralisation of 12.00% of the initial pool principal for PTC Series A1, and (iii) the excess interest spread (EIS) of 56.28% of the initial pool principal for PTC Series A1.

Key rating drivers and their description

Credit strengths

Availability of credit enhancement – The pool is granular, consisting of 7,758 contracts, with the top 10 obligors accounting for 0.3% of the pool principal as on the cut-off date, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

Seasoned contracts in the pool – The pool had amortised by ~11% on the cut-off date with no delinquencies seen in any of the contracts, post loan disbursement. This reflects the relatively better credit profile of the borrowers.

Contracts backed by self-occupied residential properties – The entire pool is backed by self-occupied residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Tamil Nadu, Andhra Pradesh and Telangana, contributing ~86% to the initial pool principal amount. The pool’s performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

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.

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 current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50% of the pool principal with certain variability around it. 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 XXII
Originator	Five-Star Business Finance Limited
Servicer	Five-Star Business Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	ICICI Bank Limited
Collection and payout account bank	Kotak Mahindra Bank Limited

Liquidity position: Superior

The liquidity for the PTC instrument is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (FSBFL) could also exert pressure on the rating.

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	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 small business customers 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 June 30, 2024, the company had 547 branches across 10 states/Union Territories.

The company was listed on the NSE and BSE in November 2022. As of June 30, 2024, the single largest shareholder comprised the individual promoters & promoter group (Mr. Lakshminath Deenadayalan and his family), with an 18.3% stake in the company, on a fully-diluted basis.

Key financial indicators

Five-Star Business Finance Limited	FY2023	FY2024	Q1 FY2025
	Audited	Audited	Provisional
Total income	1,528.9	2,195.1	669.4
PAT	603.5	835.9	251.6
Assets under management (AUM)	8,702.8	11,688.8	12,395.2
Gross NPA	1.4%	1.4%	1.4%
CRAR	67.2%	50.5%	48.4%

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

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
		Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Sep 09, 2024	Aug 28, 2024			
Dhruva XXII	PTC Series A1	200.00	200.00	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

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 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

ISIN No.	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
INE139015015	Dhruva XXII	PTC Series A1	August 29, 2024	9.50%	March 24, 2030	200.00	[ICRA]AAA(SO)

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.

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