

October 15, 2024

Five-Star Business Finance Limited: Ratings reaffirmed for PTCs issued under small business loans 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 Sep-24 payout (Rs. crore)	Rating action
Dhruva XVIII 09 2023	PTC Series A1	351.89	NA	257.56	[ICRA]AAA(SO); Reaffirmed
Dhruva XX 2023	PTC Series A1	124.98	NA	93.08	[ICRA]AA+(SO); Reaffirmed
Dhruva XXI 2023	PTC Series A1(a)	85.50	NA	75.74	[ICRA]AA(SO); Reaffirmed
	PTC Series A1(b)	21.80	NA	3.98	[ICRA]AA(SO); Reaffirmed

^ The transactions have been referred to as Dhruva XVIII, Dhruva XX and Dhruva XXI 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 ratings reaffirmation for the PTCs in the transactions 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 ratings also draw comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pools till the September 2024 payout month.

Pool performance summary

Parameter	Dhruva XVIII	Dhruva XX	Dhruva XXI
Payout month	September 2024	September 2024	September 2024
Months post securitisation	12	12	12
Pool amortisation (as % of initial pool principal)	23.46%	22.97%	23.88%
PTC amortisation (as % of initial PTC principal)			
A1/A1(a)	26.81%	25.52%	11.41%
A1(b)			81.72%
Last 3 months' average monthly collection efficiency ¹	98.28%	98.14%	98.53%
Cumulative collection efficiency ²	98.97%	98.83%	98.70%
Cumulative prepayment rate ³	13.92%	13.69%	15.47%
Average monthly prepayment rate	1.24%	1.22%	1.39%
Loss-cum-30+ dpd (% of initial pool principal) ⁴	3.76%	4.65%	4.16%
Loss-cum-90+ dpd (% of initial pool principal) ⁵	0.15%	0.20%	0.13%
Breakeven collection efficiency ⁶	57.11%	59.84%	62.34%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%
CC available (as % of balance pool)	6.53%	6.49%	6.57%

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 overdue 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	49.11%	47.26%	48.34%
Principal subordination (% of balance pool principal)	16.33%	12.98%	9.29%

Transaction structure

Dhruva XVIII and Dhruva XX

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.

Dhruva XXI:

The promised cashflow schedule for PTC Series A1(a) and PTC Series A1(b) on a monthly basis will comprise the interest (at the pre-determined yield on pari-passu basis) on the outstanding PTC principal on each payout date and the entire principal on the final maturity date for both series of PTCs. On each payout date, after meeting the promised PTC Series A1(a) and PTC Series A2(b) interest payouts, the balance collections would be passed on towards expected principal payouts to PTC Series A1(a). However, any prepayments will be used for payment of PTC Series A1(b) first while PTC Series A1(a) is live.

Following the redemption of PTC Series A1(a), the entire principal payments will be paid to PTC Series A1(b) including prepayments. In case PTC Series A1(b) is redeemed earlier than PTC Series A1(a), the entire principal payments, including prepayments, will be made to PTC Series A1(a). Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis.

Key rating drivers and their description

Credit strengths

Healthy pool performance – The pools’ performance has been healthy with a cumulative collection efficiency of ~99% till the September 2024 payout month. This has resulted in low delinquencies in the pool with the loss cum 90+ days past due (dpd) at sub-0.25% for all the three pools. The breakeven collection efficiency is also lower as compared to the monthly collection efficiency observed in the pools.

Considerable build-up of credit enhancement – The ratings factor in the build-up in the credit enhancement with the cash collateral increasing to ~6.5% of the balance pool principal from 5.0% at the time of securitisation for the trusts. Further, there have been no instances of cash collateral utilisation till date owing to the strong collection performance and the presence of subordination and EIS in the transaction. While there has been some decline in EIS on account of prepayments and passing of EIS to originator there has been a buildup of subordination in all the pools.

Contracts backed by self-occupied residential properties – All the contracts in the pools are backed by self-occupied residential properties. This is expected to support the quality of the pools 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 in the range of 85-95% to the balance 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.

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

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 each of the pools, ICRA has estimated the shortfall in the pool principal collection during its tenure at 3.50% of the initial pool principal with certain variability. The average prepayment rate for the underlying pools 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 XVIII	Dhruva XX	Dhruva XXI
Originator	Five-Star Business Finance Limited	Five-Star Business Finance Limited	Five-Star Business Finance Limited
Servicer	Five-Star Business Finance Limited	Five-Star Business Finance Limited	Five-Star Business Finance Limited
Trustee	Catalyst Trusteeship Limited	Catalyst Trusteeship Limited	Catalyst Trusteeship Limited
CC holding bank	Deutsche Bank	Federal Bank	Federal Bank
Collection and payout account bank	Deutsche Bank	Federal Bank	ICICI 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 greater than 8 times the estimated loss in the pool.

Rating sensitivities

Positive factors – NA for Dhruva XVIII. 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 for other two pools.

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

Analytical approach

The rating actions are based on the analysis of the performance of FSBFL's portfolio till June 2024, 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 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. Lakshmiopathy 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
Total managed assets	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

S. No.	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
					Oct 15, 2024	Oct 13, 2023	Sep 22, 2023	-	-	
1	Dhruva XVIII 09 2023	PTC Series A1	351.89	257.56	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	

S. No.	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
					Oct 15, 2024	Nov 06, 2023	Sep 29, 2023	-	-	
2	Dhruva XX 2023	PTC Series A1	124.98	93.08	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-	

S. No.	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
					Oct 15, 2024	Oct 05, 2023	Sep 29, 2023	-	-	
3	Dhruva XXI 2023	PTC Series A1(a)	85.50	75.74	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	
		PTC Series A1(b)	21.80	3.98	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Dhruva XVIII 09 2023	PTC Series A1	Moderately Complex
Dhruva XX 2023	PTC Series A1	Moderately Complex
Dhruva XXI 2023	PTC Series A1(a)	Moderately Complex
	PTC Series A1(b)	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 Amount Rated (Rs. crore)	Current Rating
-	Dhruva XVIII 09 2023	PTC Series A1	October 03, 2023	9.20%	July 19, 2029	257.56	[ICRA]AAA(SO)
-	Dhruva XX 2023	PTC Series A1	September 28, 2023	9.10%	September 19, 2029	93.08	[ICRA]AA+(SO)
INEOREI15019	Dhruva XXI 2023	PTC Series A1(a)	September 28, 2023	9.10%	September 19, 2029	75.74	[ICRA]AA(SO)
INEOREI15027		PTC Series A1(b)	September 28, 2023	9.62%	September 19, 2029	3.98	[ICRA]AA(SO)

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

Rushabh Gohel

+91 22 6114 3450

rushabh.gohel@icraindia.com

Arijit Datta

+91 22 6114 3433

arijit.datta@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:

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.

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



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.