

June 13, 2025

## Five-Star Business Finance Limited: Rating reaffirmed for PTCs issued under small business loan securitisation transaction

### Summary of rating action

Trust name <sup>^</sup>	Instrument <sup>*</sup>	Initial rated amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after May-25 payout (Rs. crore)	Rating action
Dhruva XVII 03 2023	Series A1 PTC	93.73	61.79	39.23	[ICRA]AA(SO); reaffirmed

<sup>^</sup> The transaction has been referred to as Dhruva XVII in this rationale

<sup>\*</sup> Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by a pool of small business loan receivables originated by Five-Star Business Finance Limited {FSBFL/Originator; rated [ICRA]AA-(Stable)}. FSBFL is also the servicer for the transaction.

The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts on account of healthy pool amortisation and strong 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 2025 payout month.

### Pool performance summary

Parameter	Dhruva XVII
Payout month	May 2025
Months post securitisation	26
Pool amortisation (as % of initial pool principal)	54.1%
PTC amortisation (as % of initial PTC principal)	58.2%
Cumulative collection efficiency <sup>1</sup>	98.8%
Cumulative prepayment rate <sup>2</sup>	31.8%
Loss-cum-30+ days past due (dpd; % of initial pool principal) <sup>3</sup>	5.2%
Loss-cum-90+ dpd (% of initial pool principal) <sup>4</sup>	1.0%
Breakeven collection efficiency <sup>5</sup>	59.7%
Cumulative cash collateral (CC) utilisation	0.0%
CC available (as % of balance pool)	10.9%
Excess interest spread (EIS; as % of balance pool) <sup>6</sup>	32.1%
Principal subordination (% of balance pool principal)	15.2%

### Transaction structure

As per the 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

<sup>1</sup> Cumulative collections / (Cumulative billings + Opening overdue at the time of securitisation)

<sup>2</sup> Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

<sup>3</sup> Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

<sup>4</sup> Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

<sup>5</sup> (Balance cash flows payable to investor – CC available) / Balance pool cash flows

<sup>6</sup> (Pool cash flows till PTC maturity month – Cash flows to PTC A1 – Originator's residual share) / Pool principal outstanding

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 the PTC principal.

## Reset of credit enhancement

At the request of the Originator for resetting the credit enhancement, ICRA has analysed the transaction at a cash collateral (CC) of 4.4% of the balance pool principal (i.e. Rs. 2.0 crore) against the currently available CC of 10.9% of the balance pool principal (after May 2025 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

**Healthy pool performance** – The pool performance has been healthy with a cumulative collection efficiency of ~98.8% till the May 2025 payout month. This has resulted in low delinquencies in the pool with the 90+ days past due (dpd) at sub-1.0% for the pool. The breakeven collection efficiency is also low compared to the collection efficiency observed in the pool.

**Healthy build-up of credit enhancement** – The rating factors in the build-up in the credit enhancement with the CC and subordination increasing from the time of securitisation for the trust. Further, there have been no instances of CC utilisation till date owing to the strong collection performance and the presence of subordination and EIS in the transaction.

**Contracts backed by self-occupied residential properties** – All the pools are 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.

**Adequate servicing capability of originator** – The company has adequate processes for the servicing of the loan accounts in the securitised pool. It has a track record of regular collections and recoveries and has expanded its presence to 10 states and 1 Union Territory with 748 branches.

### Credit challenges

**High geographical concentration** – The balance pool has high geographical concentration with the top 3 states, i.e. Tamil Nadu, Telangana and Andhra Pradesh, contributing ~82% 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.

**Exposed to interest rate risk** – The 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.

### 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 their tenure at 2.5% of the initial pool principal with certain variability around it. The average prepayment rate for the 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 transaction are as follows:

Transaction name	Dhruva XVII
Originator	Five-Star Business Finance Limited
Servicer	Five-Star Business Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	Axis Bank Limited
Collection and payout account bank	Axis 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 greater than 7 times the estimated loss in the pool.

## 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 credit enhancement 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 performance of the pool till April 2025 (collection month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 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 on March 31, 2025, FSBFL had 748 branches across 10 states and 1 Union Territory.

The company was listed on the NSE and BSE in November 2022. As on March 31, 2025, 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	FY2025
	Audited	Audited	Audited
Total income	1,528.9	2,195.1	2,866.0
PAT	603.5	835.9	1,072.5
Total managed assets	8,702.8	11,688.8	14,420.6
Gross NPA	1.4%	1.4%	1.8%
CRAR	67.2%	50.5%	50.1%

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 (FY2026)		Chronology of rating history for the past 3 years			
			Initial rated amount (Rs. crore)	Current rated amount (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
					June 13, 2025	June 14, 2024	June 01, 2023	March 31, 2023
1	Dhruva XVII 03 2023	Series A1 PTC	93.73	39.23	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)

#### Complexity level of the rated instruments

Trust name	Instrument	Complexity indicator
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 (p.a.p.m.)	Maturity date	Current amount rated (Rs. crore)	Current rating
<b>Dhruva XVII 03 2023</b>	Series A1 PTC	March 28, 2023	9.55%^	March 22, 2029	39.23	[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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