September 16, 2025

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

Summary of rating action

Trust name	Instrument*	Initial rated amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after Aug-25 payout (Rs. crore)	Rating action
Dhruva XXIII	PTC Series A1	90.00	NA	40.66	[ICRA]AAA(SO); reaffirmed
	PTC Series A2	60.00	NA	54.52	[ICRA]AAA(SO); reaffirmed

**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 ratings 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 ratings also draw comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the August 2025 payout month.

Pool performance summary

Parameter	Dhruva XXIII
Payout month	August 2025
Months post securitisation	11
Pool amortisation (as % of initial pool principal)	25.9%
PTC amortisation (as % of initial PTC principal)	
PTC Series A1	54.8%
PTC Series A2	9.1%
Cumulative collection efficiency[1]	98.0%
Cumulative prepayment rate[2]	14.9%
Loss-cum-30+ days past due (dpd; % of initial pool principal)[3]	5.0%
Loss-cum-90+ dpd (% of initial pool principal)[4]	0.4%
Breakeven collection efficiency[5]	
PTC Series A1	50.2%
PTC Series A2	50.2%
Cumulative cash collateral (CC) utilisation	0.0%
CC available (as % of balance pool)	6.8%
Excess interest spread (EIS; as % of balance pool)[6]	
PTC Series A1	46.3%
PTC Series A2	46.3%

[1] *Cumulative collections / (Cumulative billings + Opening overdue at the time of securitisation)*
[2] *Principal outstanding at the time of prepayment of contracts prepaid till date / 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 cash flows till PTC maturity month – Cash flows to PTC A1/A1(a)/A1(b) – Originator's residual share) / Pool principal outstanding*

Principal subordination (% of balance pool principal)	
PTC Series A1	24.7%
PTC Series A2	24.7%

Transaction structure

The transaction has a two-tranche structure with PTCs comprising 87.98% of the pool principal, which is further split into PTC Series A1 (52.79% of the pool principal) and PTC Series A2 (35.19% of the pool principal).

The promised cashflow schedule for PTC Series A1 and PTC Series A2 on a monthly basis will comprise 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 and PTC Series A2 interest payouts, the balance collections would be passed on to the PTCs basis the cashflow amortisation split i.e. 90% of prepayments, principal collections and overdue collections would be passed on to PTC Series A1 and the balance 10% to PTC Series A2. The monthly Excess Interest Spread ("EIS") shall be used for accelerated amortisation of PTC Series A1 and PTC Series A2 (on maturity of PTC Series A1) to the extent of 50% (Turbo EIS) and as per the cashflow amortisation split wherein 90% of Turbo EIS would be passed on to PTC Series A1 and balance 10% to PTC Series A2. Once PTC Series A1 is fully repaid, all prepayments, principal collections, overdue collections and Turbo EIS would be passed on to PTC Series A2. The balance monthly EIS would be passed on to the Originator.

Key rating drivers and their description

Credit strengths

Healthy pool performance – The performance of the pool has been healthy with a cumulative collection efficiency of above ~98% till the August 2025 payout month. This has resulted in low delinquencies 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 cash collateral and subordination increasing from the time of securitisation for the trust. 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.

Contracts backed by self-occupied residential properties – The pool 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 over 750 branches.

Credit challenges

High geographical concentration – The balance pool has high geographical concentration with the top 3 states Tamil Nadu, Telangana and Andhra Pradesh, contributing more than 85% 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.

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 3.25% 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 XXIII
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	ICICI Bank Limited

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 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

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 (Five-Star) could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till July 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	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. 3-5 lakh. Its loans are predominantly backed by self-occupied residential properties. As on June 30, 2025, FSBFL had 767 branches across 10 states and 1 Union Territory.

The company was listed on the NSE & BSE in November 2022. As of June 2025, the individual promoters & promoter group (Mr. Lakshmipathy Deenadayalan and his family) held 18.4% of the stake in the company, being the single largest shareholders.

Key financial indicators

Five-Star Business Finance Limited	FY2024	FY2025	Q1 FY2026
	Audited	Audited	Provisional
Total income	2,195	2,866	791
Profit after tax	836	1075	266
Total managed assets	11,847	14,614	14,971
Gross NPA	1.4%	1.8%	2.5%
CRAR	50.5%	50.1%	49.1%

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

Trust name	Instrument	Current rating (FY2026) Initial rated amount (Rs. crore)	Current rated amount (Rs. crore)	Date & rating in FY2026	Chronology of rating history for the past 3 years: Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023
				September 16, 2025	September 18, 2024	September 11, 2024	-	-
Dhruva XXIII	PTC Series A1	90.00	40.66	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**Provisional [ICRA]AAA(SO)**	-	-
	PTC Series A2	60.00	54.52	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**Provisional [ICRA]AAA(SO)**		

Complexity level of the rated instruments

Trust name	Instrument	Complexity indicator
Dhruva XXIII	PTC Series A1	Moderately Complex
	PTC Series A2	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
INE14ZT15017	**Dhruva XXIII**	PTC Series A1	September 11, 2024	9.25%	July 15, 2030	40.66	[ICRA]AAA(SO)
INE14ZT15025		PTC Series A2		9.50%		54.52	[ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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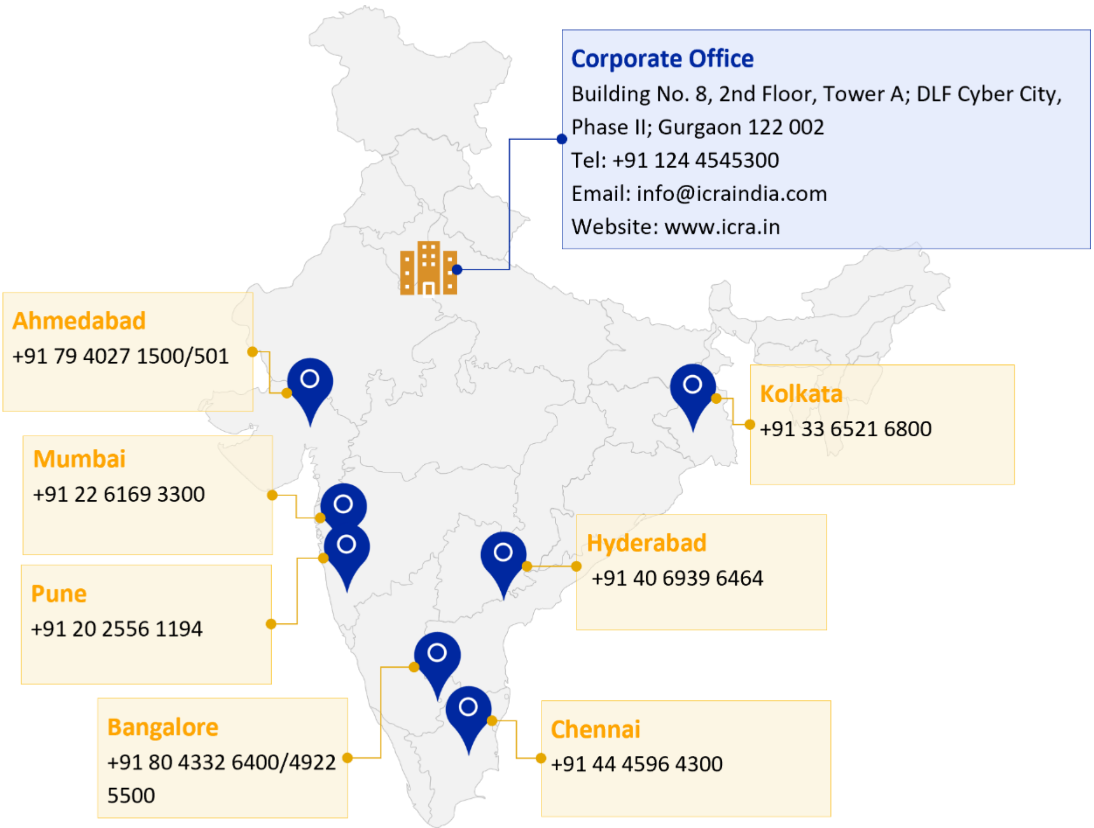

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