

October 31, 2025

Five-Star Business Finance Limited: Ratings reaffirmed 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 Sep-25 payout (Rs. crore)	Rating action
Dhruva XX 2023	PTC Series A1	124.98	93.08	63.47	[ICRA]AA+(SO); reaffirmed
Dhruva XXI 2023	PTC Series A1(a)	85.50	75.74	56.23	[ICRA]AA(SO); reaffirmed

[^] The transaction names has been referred to as Dhruva XX and Dhruva XXI in this rationale

^{*}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 September 2025 payout month.

Pool performance summary

Parameter	Dhruva XX	Dhruva XXI
Payout month	September 2025	September 2025
Months post securitisation	24	24
Pool amortisation (as % of initial pool principal)	44.3%	44.2%
PTC Series A1/A1(a) amortisation (as % of initial PTC principal)	49.2%	34.2%
Cumulative collection efficiency ¹	98.2%	98.0%
Cumulative prepayment rate ²	24.6%	27.1%
Loss-cum-30+ days past due (dpd; % of initial pool principal) ³	10.4%	8.8%
Loss-cum-90+ dpd (% of initial pool principal) ⁴	1.8%	1.7%
Breakeven collection efficiency ⁵	56.8%	61.0%
Cumulative cash collateral (CC) utilisation	0.0%	0.0%
CC available (as % of balance pool)	9.0%	9.0%
Excess interest spread (EIS; as % of balance pool) ⁶	38.5%	38.5%
Principal subordination (% of balance pool principal)	18.0%	12.7%

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– Originator's residual share) / Pool principal outstanding

Transaction structure

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 ~98% till the September 2025 payout month. This has resulted in low delinquencies in the pool with the 90+ days past due (dpd) at sub-1.8% for the pool. The breakeven collection efficiency is also low compared to the collection efficiency observed in the pool.

Considerable build-up of credit enhancement – The ratings factors in the build-up in the credit enhancement with the cash collateral and subordination increasing from the time of securitisation for both the transactions. 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 transactions.

Contracts backed by self-occupied residential properties – 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.

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 – Both the pools have high geographical concentration with the top 3 states, viz. Tamil Nadu, Andhra Pradesh and Telangana, contributing to 90% 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 pools' 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 their tenure at 3.5% 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 XX	Dhruva XXI
Originator	Five-Star Business Finance Limited	
Servicer	Five-Star Business Finance Limited	
Trustee	Catalyst Trusteeship Limited	
CC holding bank	Federal Bank	
Collection and payout account bank	Federal Bank	ICICI Bank

Liquidity position:

Superior for Dhruva XX

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 7 times the estimated loss in the pool.

Superior for Dhruva XXI for PTC Series A1(a)

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 6.75 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pools 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 ratings upgrade.

Negative factors – The sustained weak collection performance of the underlying pools 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 action is based on the performance of the pool till August 2025 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

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. Lakshmiopathy 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

Current rating (FY2026)				Chronology of rating history for the past 3 years				
Trust name	Instrument	Initial rated amount (Rs. crore)	Current rated amount (Rs. crore)	Date & rating in FY2026 October 31, 2025	Date & rating in FY2025 Oct 15, 2024	Date & rating in FY2024 Nov 06, 2023 Sep 29, 2023		Date & rating in FY2023 -
Dhruva XX 2023	PTC Series A1	124.98	63.47	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-

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
				October 31, 2025	Oct 15, 2024	Oct 05, 2023	Sep 29, 2023	-
Dhruva XXI 2023	PTC Series A1(a)	85.50	56.23	[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 XX 2023	PTC Series A1	Moderately Complex
Dhruva XXI 2023	PTC Series A1(a)	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 XX 2023	PTC Series A1	Sep 28, 2023	9.10%	Sep 19, 2029	63.47	[ICRA]AA+(SO)
INE0REI15019	Dhruva XXI 2023	PTC Series A1(a)	Sep 28, 2023	9.10%	Sep 19, 2029	56.23	[ICRA]AA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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