

June 18, 2026

Five-Star Business Finance Limited: Rating upgraded for PTCs issued under a 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 May-26 payout (Rs. crore)	Rating action
Dhruva XVII 03 2023	Series A1 PTC	93.73	39.23	20.64	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)

[^] The transaction has been referred to as Dhruva XVII in this rationale

*Instrument details are provided in Annexure II

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)}¹. FSBFL is also the servicer for the transaction.

The rating action factors in the transactions factor in the build-up of the credit enhancement cover over the future PTC payouts on account of high pool amortisation and healthy pool performance. The rating also draw comfort from the fact that the breakeven collection efficiency is lower than the actual collection levels observed in the pool till the May 2026 payout month.

Pool performance summary

Parameter	Dhruva XVII
Payout month	May 2026
Months post securitisation	38
Pool amortisation (as % of initial pool principal)	72.5%
PTC amortisation (as % of initial PTC principal)	78.0%
Cumulative collection efficiency ²	98.8%
Cumulative prepayment rate ³	40.6%
Loss-cum-30+ days past due (dpd; % of initial pool principal) ⁴	5.7%
Loss-cum-90+ dpd (% of initial pool principal) ⁵	1.3%
Breakeven collection efficiency ⁶	47.8%
Cumulative cash collateral (CC) utilisation	0.0%
CC available (as % of balance pool)	18.2%
Excess interest spread (EIS; as % of balance pool) ⁷	24.8%
Principal subordination (% of balance pool principal)	25.5%

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 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.

¹ The current rating rationale of the originator, available at this [link](#), provides its detailed rating history and rating transitions.

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

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

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 2026 payout month. This has resulted in low delinquencies in the pool with the 90+ days past due (dpd) at 1.3% for the pool as on May 2026 payout. 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 – 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 the originator – The company has adequate processes for servicing of the loan accounts in the securitised pool. It has a demonstrated track record of over 5 years of regular collections and recovery and has expanded its presence to 11 states with over 800 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 80% 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, whereas yield on PTCs is floating (linked to 6-month Axis Bank MCLR).

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 1.75% 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 transactions 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 8 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 (FSBFL) could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till April 2026 (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 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 on March 31, 2026, the company had 844 branches across 11 states/Union Territories. The company was listed on the NSE and BSE in November 2022. As on March 31, 2026, the single largest shareholder comprised the individual promoters & promoter group (Mr. Lakshmiopathy Deenadayalan and his family), with an 18.4% stake in the company, on a fully diluted basis.

Key financial indicators

Five-Star Business Finance Limited	FY2024	FY2025	FY2026
	Audited	Audited	Audited

Total income	2,195	2,866	3,246
Profit after tax	836	1075	1,099
Total managed assets	11,847	14,614	13,225
Gross NPA	1.4%	1.8%	3.4%
CRAR	50.5%	50.1%	51.9%

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 (FY2027)		Chronology of rating history for the past 3 years			
		Initial rated amount (Rs. crore)	Current rated amount (Rs. crore)	Date & rating in FY2027	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024
				Jun 18, 2026	Jun 13, 2025	Jun 14, 2024	Jun 01, 2023
Dhruva XVII 03 2023	Series A1 PTC	93.73	20.64	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)

Annexure I: Disclosure pursuant to the SEBI Circular SEBI/HO/DDHS/DDHS-PoD-2/I/4685/2026 dated February 10,2026

ICRA rated Instruments fall under regulatory purview of various Financial Sector Regulators (FSR) as under :

Sr. No.	Instrument	FSR
1	Listed/Proposed to be listed Bonds/Debentures/Preference Shares (all securities)	SEBI
2	Unlisted/Proposed to be unlisted Bonds/Debentures/ Preference share (all securities)	MCA
3	Listed PTCs / Securitisation Notes (originated by entities regulated by RBI) (*)	SEBI
4	Listed PTCs / Securitisation Notes (originated by entities not regulated by RBI) (*)	SEBI
5	Unlisted PTCs / Securitisation Notes (originated by entities regulated by RBI) (*)	RBI
6	Listed Commercial Paper and NCDs with original maturity less than 1 year	RBI
7	Unlisted Commercial Paper and NCDs with original maturity less than 1 year	RBI
8	Loan Facilities (Fund/Non-Fund Based) from Bank / NBFCs/ NHB/ Fls (\$))	RBI
9	External Commercial Borrowings/Loans from overseas branches of Indian Banks/other similar borrowings	RBI
10	Certificates of Deposit	RBI
11	Fixed Deposits raised by NBFCs, Banks, HFCs, Fls	RBI
12	Fixed Deposits raised by corporates other than NBFCs, Banks, HFCs, Fls	MCA
13	Inter Corporate Deposits/Loans extended by Corporates	MCA
14	Listed Security Receipts	SEBI
15	Unlisted Security Receipts	RBI
16	Unlisted PTCs / Securitisation Notes (originated by entities not regulated by RBI) (*)	Investor-side Regulator such as IRDAI, PFRDA (%)

(*) Includes securitisation transactions involving assignee payout, acquirer's payout.

(\$) Includes bank facilities such as liquidity facility, second loss facility that are part of securitisation transactions.

(%) These ratings were assigned prior to the introduction of SEBI CRA Circular dated Feb 10, 2026 and accordingly, investor side FSRs have been mentioned.

Other Activities offered by ICRA fall under regulatory purview of various Financial Sector Regulators (FSR) as under :

Sr. No.	Activity Name	FSR
1	Credit Ratings for Capital Protection Oriented Schemes (by Mutual Funds and AIFs)	SEBI
2	Credit quality ratings (CQRs) for Mutual Fund Schemes and Schemes of AIFs	SEBI
3	Independent Credit Evaluation (ICE)	RBI
4	Expected Loss Ratings (For Loan Facilities [Fund/Non-Fund based] from Banks/NBFCs/NHB/FIs)	RBI
5	Expected Loss Ratings (Listed / Proposed to be listed Bonds / Debentures / Preference Shares (all securities))	SEBI
6	Expected Loss Ratings (Unlisted / Proposed to be unlisted Bonds/ Debentures / Preference Shares (all securities))	MCA
7	Credit Rating of Borrowing programme	(@)
8	Issuer Ratings	(#)
9	Monitoring Agency	SEBI
10	Research activities, incidental to rating such as research for Economy & Industries (permitted by SEBI vide SEBI Master Circular for CRAs)	NA

(@) The rated instrument may involve issuance of different instruments such as debt securities (listed or otherwise), bank loans, commercial paper (listed or otherwise), etc. The regulator of the instrument can only be determined upon issuance. Accordingly, ICRA shall capture the rated quantum details along with names of respective FSR in the press release(s) after the issuance(s) of the instruments.

(#) Since no instrument is being rated, FSR is not applicable. The rating scale and definitions stipulated in SEBI Master Circular for CRAs are being followed.

Disclosure : SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI.

Complexity level of the rated instruments

Trust name	Instrument	Complexity indicator
Dhruva XVII 03 2023	Series A1 PTC	Highly 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 II: 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
Dhruva XVII 03 2023	Series A1 PTC	March 31, 2023	8.95%^	March 22, 2029	20.64	[ICRA]AA+(SO)

[^]6-month Axis Bank MCLR + 20 bps

Source: Company

Annexure III: List of entities considered for consolidated analysis

Not applicable

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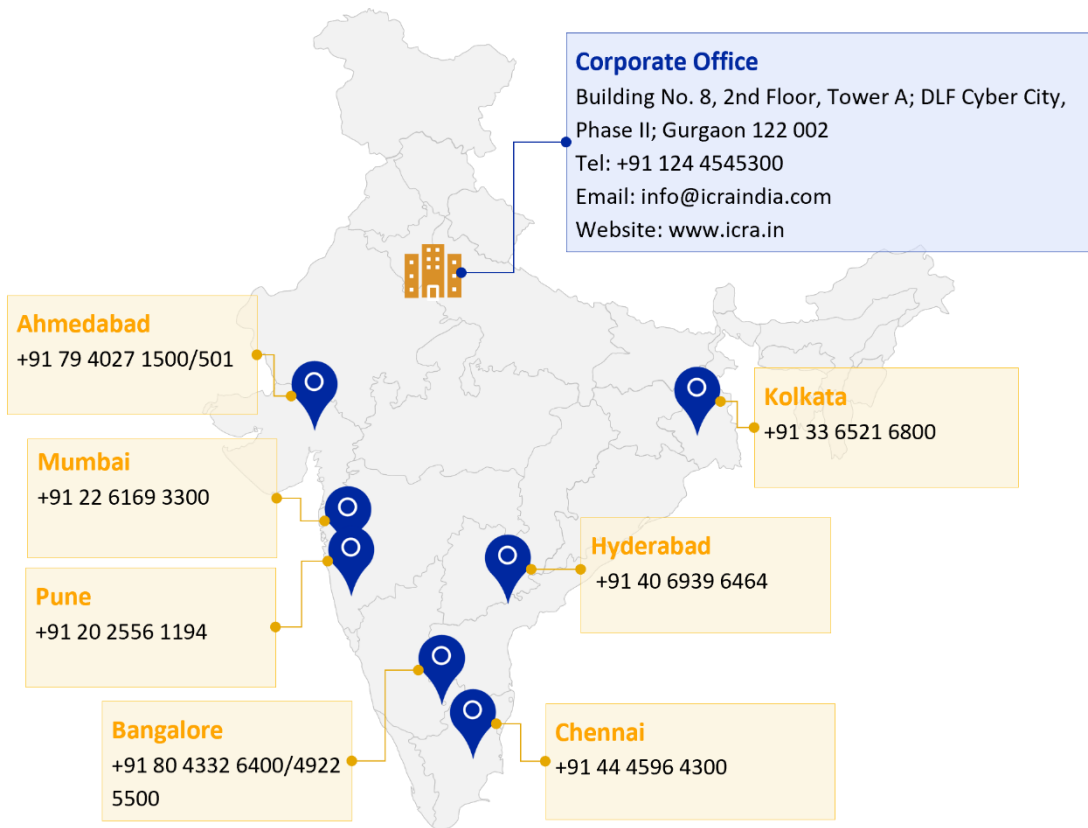
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