

February 08, 2021 ^{Revised}

Five-Star Business Finance Limited: Rating confirmed as final for non-convertible debentures

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme – Market Linked debentures	150.0	150.0	PP-MLD [ICRA]AAA(CE) (Stable); Provisional rating confirmed as final
Non-convertible Debenture Programme – Market Linked debentures	125.0	125.0	PP-MLD [ICRA]AAA(CE) (Stable); outstanding
Non-convertible Debenture Programme – Market Linked Debentures	65.00	65.00	PP-MLD[ICRA]A(Stable); outstanding
Non-convertible Debenture Programme	1,249.00	1,249.00	[ICRA]A(Stable); outstanding
Long-term Fund-based Bank Facilities	909.96	909.96	[ICRA]A(Stable); outstanding
Long Term – Unallocated	290.04	290.04	[ICRA]A(Stable); outstanding
Total	2,789.00	2,789.00	
Rating Without Explicit Credit Enhancement			[ICRA]A

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

ICRA has confirmed ratings assigned to the NCD-MLD of Rs. 150 crore as tabulated above. The finalisation of the rating follows fulfilment of all conditions under the structure as mentioned to ICRA including execution of the transaction documents as confirmed by the Trustee, and the executed documentation being in line with the required terms of the structure.

The credit enhanced rating assigned to the Rs 150 crore non-convertible debentures (NCDs) of Five-Star Business Finance Limited (FSBFL/Issuer) is based on the strength of the presence of a cover pool (25% over-collateralisation as a percentage of the NCD outstanding and accrued interest) and a cash collateral (CC; Rs. 4.5 crore, i.e. 3% of the NCD outstanding amount and accrued interest) to support the servicing of the NCDs in the event of non-payment by FSBFL. FSBFL has executed an assignment agreement and a power of attorney wherein it has agreed to assign the cover pool assets to Dhruva XI 01 2021 Trust (Trust) on the occurrence of a predefined trigger event (details given in the salient covenants of the rated facility section) during the tenure of the rated facility. On the occurrence of a trigger event, there would not be any requirement of any further deed or action for the assignment by FSBFL. Post assignment, the Trust shall become the legal owner of the assigned receivables (i.e. the cover pool assets shall be bankruptcy remote from the other creditors of FSBFL). In turn, the Trust has provided an unconditional and irrevocable guarantee to the debenture trustee of the rated NCDs and would transfer all collections from the cover pool to the designated account¹ under its guarantee obligation. Further, the CC would be available for the benefit of the debenture holders.

¹ An account monitored and operated by the Debenture Trustee

The legal final maturity date of the transaction is 27 months and one day. However, as per terms of the transaction, upon occurrence of trigger event, legal final maturity date will be extended to 84 months from the deemed date of allotment. All payments on the NCDs (both principal and interest) are promised only on legal final maturity date. The rating assigned by ICRA addresses the timely payment of the dues to the investors by the legal final maturity date (i.e., a default to the Investor shall be defined as non-receipt of payment from the cover pool by legal final maturity date post occurrence of trigger event, as per the terms of the transaction). However, the facility has a call option after 27 months and one day from the Deemed Date of Allotment. Failure on the part of FSBFL to exercise the call option would be a trigger event.

Adequacy of credit enhancement

The guarantee provided by the Trust is unconditional and irrevocable. Further, a Trustee-monitored payment mechanism is in place to ensure payments on the rated debt as given below:

- The primary obligation of meeting the repayments on rated facility is on FSBFL. Hence, FSBFL shall fund the designated account to the extent of the principal and interest payable on the due date (T).

On the occurrence of a trigger event, the cover pool assets shall be immediately assigned to Dhruva XI 01 2021 Trust. The Trust shall appoint FSBFL as the servicer for the cover pool assets transferred. The collections from the cover pool along with the CC will be used for payments to the debenture holders as per the payment mechanism given below:

- CC will be utilised for making payments to the debenture holders immediately
 - On T-1 day, servicer shall fund the Collection and Payment (C&P) Account to the extent of collections from the underlying cover pool
 - On T day, Trustee shall transfer the entire amount from the C&P Account to the designated account for debt servicing
- The above attributes have led to an enhancement in the rating of the said instrument to PP-MLD [ICRA]AAA(CE) (Stable) against the unsupported rating of [ICRA]A.

- » Key predefined trigger events whose occurrence would lead to the invocation of the Trust guarantee are given below:
 - Failure of the Issuer to exercise or honour the call option after 27 months and one day
 - Rating downgrade of FSBFL to below A
 - Rating downgrade of the NCDs to below AAA(CE)
 - FSBFL is unable to maintain the required cover on cover pool assets
 - Breach of any covenant by FSBFL
 - Material adverse effect on FSBFL
 - Cross default of FSBFL;

On the occurrence of the trigger event, the Trustee would immediately dip into the available CC to meet the payments to the Debenture Trustee. The Trust guarantee would be invoked and all collections deposited in the C&P Account by FSBFL (acting as the servicer) shall be passed by the Trustee to the debenture holders.

Salient covenants of the rated facility

- » Minimum security cover of 1.25x is to be maintained on the NCD outstanding (including accrued interest) and the asset cover should consist of small business loans originated by FSBFL; further, the cover pool assets need to be maintained/replenished by FSBFL as per the eligibility criteria mentioned in the transaction documents.
- » For computing the minimum security cover, only receivables that fall due at least one month prior to the final maturity date of the NCDs will be considered. Further, the contracts that are delinquent by more than 30 days would be excluded. Delinquent contracts upto 30+ dpd should not constitute more than 5% of the pool principal amount.

Key rating drivers and their description

Credit strength

Presence of cover pool and CC to support servicing of NCDs in event of non-payment by entity – The primary obligation of meeting the NCD payments [rated PP-MLD[ICRA]AAA(CE) (Stable)] is on FSBFL. However, if FSBFL does not meet the expected payment on the NCDs, the collections from the cover pool along with the CC will be available to the Debenture Trustee. The principal as well as the interest amount on the NCDs are promised to the NCD investors on the legal final maturity date (84 months from deemed date of allotment).

Stringent eligibility criteria for cover pool – Contracts at the time of assignment should be current and contracts that are delinquent by more than 30 days would be excluded from the cover computation. Even the proportion of contracts which are delinquent, but for less than 30 days, should be less than 5% of the pool at any point of time.

Credit challenges

Performance of transaction dependent on cover pool – The pool for the transaction would have to be maintained as per the eligibility criteria and would become fixed post occurrence of trigger event. Thus on occurrence of trigger event the performance of the transaction would be exposed to performance of the cover pool which would be available that point of time.

Interest rate risk as NCD yield is fixed whereas pool yield be lower in subsequent cover pool – The benefit available on account of the difference between the pool and the NCD yield may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower IRR (weighted average 18% IRR permissible for subsequent pools). However, this is mitigated as almost the entire portfolio of FSBFL comprises loans with an IRR of 24% or more.

Performance of the pool would be exposed to any prolonged economic slowdown caused by the Covid-19 pandemic – Borrowers are facing several challenges following the spread of the pandemic throughout the country. These include the continuity of business operations and the possible adverse impact on the asset quality as the cash flows and economic activity have slowed down. FSBFL's ability to navigate through the adversity and manage the impact on the business growth and the asset quality would remain critical from a rating perspective, going forward.

Liquidity position: Superior

Both the principal and the interest amount on the NCDs is promised on the legal final maturity date subject to the non-occurrence of a trigger event. This imparts significant liquidity support to the instrument. The cash flows from the cover pool along with the CC are expected to be highly comfortable to meet the debt servicing in the event that the entity has been unable to meet the scheduled payments on the NCDs.

Rating sensitivities

Positive triggers – NA

Negative triggers – The rating could be downgraded on non-adherence to the key transaction terms envisaged at the time of the rating. The rating could also come under pressure in case of a deterioration in FSBFL's credit profile.

The rating drivers for the other instruments of FSBFL rated by ICRA are provided in the previous [Rationale](#).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Five-Star Business Finance Limited (FSBFL) is a Chennai-headquartered non-banking financial company (NBFC) catering to small businesses and retail customers in the urban and 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 typical loan tickets of Rs ~2-10 lacs and an average ticket size of Rs ~3.5 lacs. As of December 31, 2020, secured business loans and mortgage loans to micro and small enterprise customers comprised 71% and 22%, respectively, of the total portfolio followed by small-ticket housing loans (7%). These loans are predominantly backed by self-occupied residential properties. The company had 262 branches as of December 31, 2020.

The five institutional investors (Matrix Partners, Morgan Stanley, TPG Asia, Norwest Venture Partners and Sequoia Capital) held a stake of 68.5% in the company as of September 30, 2020, with the promoter, Mr. Lakshmipathy, holding 21.7% (fully diluted). FSBFL's wholly-owned housing finance subsidiary was amalgamated into the parent company with effect from April 1, 2019.

Key financial indicators (audited)

	FY2019 (Audited)	FY2020 (Audited)	H1 FY2021 (Provisional)
Total Income	408.9	787.3	504.5
Profit after Tax	156.7	261.9	189.1
Net Worth	1,365.1	1,944.6	2,134.3
Total Managed Portfolio [^]	2,095.9	3,830.8	3863.6
Total Managed Assets	2,349.8	4,353.2	5,257.4
Return on Managed Assets	8.9%	7.8%	7.9%
Return on Net Worth	16.0%	15.8%	18.5%
Gearing (times)	0.7	1.2	1.4
Gross NPA (%)	0.9%	1.4%	1.3%
Net NPA (%)	0.7%	1.1%	1.0%
Net NPA / Net Worth	1.0%	2.3%	2.0%
CRAR (%)	64.8%	52.9%	58.4%

Amount in Rs. crore; [^] Net of loan provisions/ECL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated	Amount Outstanding	Current Rating (FY2021)							Rating History for the Past 3 Years					
					FY2021							FY2020	FY2019		FY2018		
					Feb 08,2021	Feb 01,2021	Dec 29,2020	Dec 22,2020	Dec 15,2020	Sep 25,2020	Sep 07,2020	Mar 16,2020	Apr01,2019	Oct 24,2018	Feb 05,2018	Jul 17,2017	Apr 12, 2017
1	Market linked debentures	Long term	150.00	150.00	PP-MLD [ICRA]AAA(CE) (Stable)	Provisional PP-MLD [ICRA]AAA(CE) (Stable)	-	-	-	-	-	-	-	-	-	-	-
2	Market linked debentures	Long term	75.00	75.00	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	Provisional PP-MLD [ICRA]AAA(CE) (Stable)	-	-	-	-	-	-	-	-	-
3	Market linked debentures	Long term	50.00	50.00	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	Provisional PP-MLD [ICRA]AAA(CE) (Stable)	-	-	-	-	-	-	-	-	-
4	Market linked debentures	Long term	50.00	-	Provisional PP-MLD [ICRA]AAA(CE) (Stable); Withdrawn	Provisional PP-MLD [ICRA]AAA(CE) (Stable); Withdrawn	Provisional PP-MLD [ICRA]AAA(CE) (Stable); Withdrawn	Provisional PP-MLD [ICRA]AAA(CE) (Stable)	-	-	-	-	-	-	-	-	-
5	Market linked debentures	Long term	40.00	40.00	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	-	-	-	-	-	-	-	-
6	Market linked debentures	Long term	25.00	25.00	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	PP-MLD [ICRA]A (Stable)	-	-	-	-	-	-
7	Bank loans	Long term	909.96	909.96	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-	-	-
8	Bank Loans	Long term	290.04	290.04	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)
9	NCD	Long term	1,249.00	1,249.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE128S07267	NCD	28-Feb-17	11.25%	26-Feb-21	24.00	[ICRA]A(Stable)
INE128S07309	NCD	12-Apr-17	11.50%	30-Mar-23	25.00	[ICRA]A(Stable)
INE128S07358	NCD	29-Mar-19	12.64%	29-Mar-22	55.00	[ICRA]A(Stable)
INE128S07366	NCD	11-Apr-19	11.40%	11-Apr-24	30.00	[ICRA]A(Stable)
INE128S07374	NCD	16-Apr-19	12.64%	16-Apr-22	180.00	[ICRA]A(Stable)
INE128S07390	NCD	28-May-19	12.64%	28-May-22	180.00	[ICRA]A(Stable)
INE128S07408	NCD	28-Jun-19	12.64%	28-Jun-22	185.00	[ICRA]A(Stable)
INE128S07424	NCD	13-May-20	12.75%	13-May-26	15.00	[ICRA]A(Stable)
INE128S07432	NCD	28-May-20	10.50%	26-May-23	15.00	[ICRA]A(Stable)
INE128S07440	NCD	12-Jun-20	11.00%	12-Jun-23	25.00	[ICRA]A(Stable)
INE128S07457	NCD	24-Jun-20	11.00%	21-Apr-23	115.00	[ICRA]A(Stable)
INE128S07465	NCD	03-Jul-20	9.75%	03-Jan-22	50.00	[ICRA]A(Stable)
INE128S07473	NCD	31-Jul-20	9.75%	31-Jan-22	50.00	[ICRA]A(Stable)
INE128S07473	NCD	11-Aug-20	9.50%	31-Jan-22	50.00	[ICRA]A(Stable)
INE128S07481	NCD	20-Aug-20	9.50%	20-Feb-22	50.00	[ICRA]A(Stable)
INE128S07507	NCD	30-Sep-20	NA	30-Sep-29	70.00	[ICRA]A(Stable)
Unallocated	NCD	-	-	-	130.00	[ICRA]A(Stable)
INE128S07499	NCD	03-Sep-20	10.60%	22-Feb-23	25.00	PP-MLD[ICRA]A(Stable)
INE128S07523	NCD	15-Dec-20	NA	15-Jun-23	20.00	PP-MLD[ICRA]A(Stable)
INE128S07531	NCD	15-Dec-20	NA	15-Mar-22	20.00	PP-MLD[ICRA]A(Stable)
INE128S07549	NCD	16-Dec-20	9.25%*	16-Dec-27	75.00	PP-MLD [ICRA]AAA(CE) (Stable)
INE128S07556	NCD	17-Dec-20	9.25%*	17-Dec-27	50.00	PP-MLD [ICRA]AAA(CE) (Stable)
INE128S07564	NCD	29-Jan-21	9.00%**	30-Apr-23	150.00	PP-MLD [ICRA]AAA(CE) (Stable)
NA	Term loan - 1	Mar-16 to June-20	NA	Nov-20 to May-25	1.88	[ICRA]A(Stable)
NA	Term loan - 2		NA		4.31	[ICRA]A(Stable)
NA	Term loan - 3		NA		12.58	[ICRA]A(Stable)
NA	Term loan - 4		NA		0.90	[ICRA]A(Stable)
NA	Term loan - 5		NA		2.22	[ICRA]A(Stable)
NA	Term loan - 6		NA		0.86	[ICRA]A(Stable)
NA	Term loan - 7		NA		4.71	[ICRA]A(Stable)
NA	Term loan - 8		NA		22.50	[ICRA]A(Stable)
NA	Term loan - 9		NA		29.41	[ICRA]A(Stable)
NA	Term loan - 10		NA		3.72	[ICRA]A(Stable)
NA	Term loan - 11		NA		4.18	[ICRA]A(Stable)
NA	Term loan - 12		NA		3.08	[ICRA]A(Stable)
NA	Term loan - 13		NA		5.00	[ICRA]A(Stable)
NA	Term loan - 14		NA		6.94	[ICRA]A(Stable)
NA	Term loan - 15		NA		13.20	[ICRA]A(Stable)
NA	Term loan - 16		NA		27.87	[ICRA]A(Stable)
NA	Term loan - 17		NA		18.33	[ICRA]A(Stable)

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan - 18		NA		37.50	[ICRA]A(Stable)
NA	Term loan - 19		NA		27.50	[ICRA]A(Stable)
NA	Term loan - 20		NA		19.17	[ICRA]A(Stable)
NA	Term loan - 21		NA		8.24	[ICRA]A(Stable)
NA	Term loan - 22		NA		11.25	[ICRA]A(Stable)
NA	Term loan - 23		NA		19.70	[ICRA]A(Stable)
NA	Term loan - 24		NA		14.44	[ICRA]A(Stable)
NA	Term loan - 25		NA		183.11	[ICRA]A(Stable)
NA	Term loan - 26		NA		27.00	[ICRA]A(Stable)
NA	Term loan - 27		NA		26.67	[ICRA]A(Stable)
NA	Term loan - 28		NA		18.67	[ICRA]A(Stable)
NA	Term loan - 29		NA		17.42	[ICRA]A(Stable)
NA	Term loan - 30		NA		50.00	[ICRA]A(Stable)
NA	Term loan - 31		NA		37.78	[ICRA]A(Stable)
NA	Term loan - 32		NA		38.00	[ICRA]A(Stable)
NA	Term loan - 33		NA		100.00	[ICRA]A(Stable)
NA	Term loan - 34		NA		6.83	[ICRA]A(Stable)
NA	Term loan - 35		NA		40.00	[ICRA]A(Stable)
NA	Term loan - 36		NA		50.00	[ICRA]A(Stable)
NA	Term loan - 37		NA		15.00	[ICRA]A(Stable)
NA	Unallocated		NA		290.04	[ICRA]A(Stable)

* Additionally, step-up interest of 6.0% is applicable from date of issuance in case of trigger event

** Additionally, step-up interest of 6.25% is applicable from date of issuance in case of trigger event

Annexure-2: List of entities considered for consolidated analysis: NA

Corrigendum

The rating rationale document dated February 08, 2021 has been corrected with revisions as detailed below:

The PR date in the rating history table has been corrected to February 08, 2021 from February 05, 2021.

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