

February 21, 2022^(Revised)

Five-Star Business Finance Limited: Ratings reaffirmed for PTCs issued under seven 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 Jan-22 Payout (Rs. crore)	Rating Action
Northern Arc 2019 SBL Medici	PTC Series A1	99.05	38.31	25.39	[ICRA]AA-(SO); Reaffirmed
Northern Arc 2020 SBL Kastellorizo	PTC Series A1(c)	22.39	22.39	5.44	[ICRA]AA+(SO); Reaffirmed
	PTC Series A1(d)	78.37	51.50	36.95	[ICRA]AA(SO); Reaffirmed
Northern Arc 2020 SBL Otis	PTC Series A1	70.10	36.54	11.10	[ICRA]AA(SO); Reaffirmed
Dhruva-IX 01 2021	PTC Series A1	146.12	NA	106.18	[ICRA]AA+(SO); Reaffirmed
Dhruva-X 02 2021	PTC Series A1	35.79	NA	22.52	[ICRA]AA(SO); Reaffirmed
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(a)	44.55	NA	29.27	[ICRA]AAA(SO); Reaffirmed
	PTC Series A1(b)	23.45	NA	23.45	[ICRA]AA+(SO); Reaffirmed
Dhruva XIII 03 2021	PTC Series A1	82.42	NA	60.56	[ICRA]AA(SO); Reaffirmed

[^] The transactions have been referred to as Medici, Kastellorizo, Otis, Dhruva-IX, Dhruva-X, Dhruva-XII and Dhruva XIII in this release

*Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) are backed by pools of small business loan receivables originated by Five-Star Business Finance Limited (FSBFL). The rating action factors in the moderate to high amortisation of the pools and the availability of credit enhancement in the transactions. The amortisation has led to a healthy build-up of cover from the outstanding credit enhancements for future PTC payouts. Nonetheless, the ratings would remain exposed to any fresh disruptions caused by the Covid-19 pandemic that could lead to lower-than-expected collections.

A summary of the performance of the pools after the January 2022 payouts has been provided below.

Parameter	Medici	Kastellorizo	Otis	Dhruva-IX	Dhruva-X	Dhruva-XII	Dhruva XIII
Months post securitisation	29	24	23	12	12	10	10
Pool amortisation (%)	59.24%	35.78%	57.13%	23.24%	31.52%	19.56%	23.34%
Cumulative collection efficiency (%)	97.24%	96.39%	97.40%	96.39%	97.84%	96.81%	97.36%
Cumulative prepayment rate	36.08%	30.75%	38.81%	11.88%	15.10%	9.99%	3.23%
Average monthly prepayment rate	1.53%	1.52%	2.11%	1.05%	1.36%	1.05%	0.86%
Loss-cum-30+ (% of initial pool principal) ¹	11.47%	15.15%	7.60%	11.67%	5.43%	14.95%	7.50%
Loss-cum-90+ (% of initial pool principal) ²	0.48%	0.65%	0.29%	0.22%	0.00%	0.04%	0.03%

¹ Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

² Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

Parameter	Medici	Kastellorizo Otis	Dhruva-IX	Dhruva-X	Dhruva-XII	Dhruva XIII
Breakeven collection efficiency (%) ³						
PTC A1/A1(c)/A1(a)	31.74%	0.00%	19.84%	56.56%	58.17%	29.19%
PTC A1(d)/A1(b)	--	23.93%	--	--	--	59.19%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CC available (as % of balance pool)	17.17%	3.16%	21.29%	3.91%	4.38%	4.97%
Excess interest spread (EIS) over balance tenure (as % of balance pool) ⁴						
PTC A1/A1(c)/A1(a)	35.39%	36.16%	23.59%	47.46%	34.43%	56.21%
PTC A1(d)/A1(b)	--	57.09%	--	--	--	44.94%
Principal subordination (% of balance pool)						
PTC A1/A1(c)/A1(a)	43.39%	34.05%	55.68%	19.54%	21.91%	53.45%
PTC A1(d)/A1(b)	--	53.66%	--	--	--	16.16%

Reset of credit enhancement

At the request of FSBFL for resetting the credit enhancement for the Medici and Otis transactions, ICRA has analysed the transactions at 30% of the initial CC (5.2% and 6.4%, respectively, of the balance pool principal after January 2022 payouts) against the current available CC of 17.2% and 21.3%, respectively. Based on the pools' performance, the ratings for the PTCs will remain unchanged even after the reset of the CC amount. 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

Credit strengths

- Moderate to high amortisation of PTCs resulting in build-up of credit enhancement available for the balance PTC payouts
- Healthy performance of the pools leading to low delinquency build-up in the harder buckets

Credit challenges

- Moderate to high geographical concentration of the contracts in the pools at the state level
- Performance of the pools would be exposed to any prolonged economic slowdown being caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

For the Medici, Otis, Dhruva-IX and Dhruva-X transactions, the interest payment to PTC Series A1 is promised on a monthly basis. The principal amount is paid every month on expected basis but it is promised on the final maturity date. Prepayments in the pools are made to PTC Series A1 investors every month. For the Kastellorizo transaction, the interest is promised every month and the principal is promised on the final maturity date firstly for PTC Series A1(c) till complete redemption, then for PTC Series A1(d). However, prepayments in the pool are to be utilised for the accelerated redemption of PTC Series A1(d) till complete redemption, and then towards Series A1(c) PTCs.

For the Dhruva-XII transaction, the interest payment is promised to both series of PTC Series A1 on a pari-passu basis. The principal amount is paid every month on expected basis but it is promised on the respective final maturity date, which is

³ (Balance Cash flows payable to investor – CC available)/ Balance Pool Cash flows

⁴ (Pool Interest – PTC Interest)/ Pool Principal outstanding

February 21, 2027 for PTC Series A1(a) and March 21, 2027 for PTC Series A1(b). Prepayments will be made first to PTC Series A1(a) and then to PTC Series A1(b). For the Dhruva XIII transaction, interest is promised every month. The principal repayment to the PTC Series A1 is promised on each payout date to the extent of 88% of the billed principal and the residual 12% is expected to be paid every month but is promised on the last payout date. Prepayments in the pool are made to PTC Series A1 investors every month.

The Medici, Kastellorizo and Otis transactions were originated in FY2020 prior to the pandemic whereas the Dhruva-IX, Dhruva-X, Dhruva-XII and Dhruva XIII transactions were originated in FY2021 before the second wave of the pandemic. All the transactions witnessed a dip in the monthly collection efficiency in the April 2021 and May 2021 collection months compared to March 2021 because of the lockdowns and the restrictions imposed by state governments. The pools had also reported a spike in delinquencies in the softer buckets. However, with improving collection efficiency, the delinquencies have reduced and stood sub-0.7% for the 90+ days past due (dpd) after the January 2022 payout month. The performance of the pools would remain exposed to any fresh disruptions caused by the pandemic.

Overall, the credit enhancement available for meeting the balance payouts to the investors (after downward reset in the CC for the pools) is sufficient to reaffirm the ratings at the current level in the transactions. ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools, as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection and prepayments during the balance tenure of the pools are provided in the table below:

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Medici	2.5-3.5%	12-18% p.a.
2	Kastellorizo	4.0-5.0%	12-18% p.a.
3	Otis	2.0-3.0%	12-18% p.a.
4	Dhruva-IX	3.5-4.5%	12-18% p.a.
5	Dhruva-X	3.0-4.0%	12-18% p.a.
6	Dhruva-XII	4.0-5.0%	12-18% p.a.
7	Dhruva XIII	3.5-4.5%	12-18% p.a.

Liquidity position:

Superior for PTC Series A1(a) of Dhruva-XII

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be highly comfortable to meet the promised payouts to the PTC investors.

Strong for PTC Series A1(c) and A1(d) of Kastellorizo, PTC Series A1(b) of Dhruva-XII, Series A1 of Otis, Medici, Dhruva-IX, and Dhruva-X

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised one month after the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

Strong for Dhruva XIII

The liquidity of the PTCs is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfall in the promised cash flows to the senior PTCs for a period of three months.

Rating sensitivities

Positive factors (for Dhruva-XII PTC Series A1(b), Series A1 of Medici, Otis, Dhruva-IX, Dhruva-X and Dhruva XIII and Series A1(d) of Kastellorizo) – The ratings could be upgraded on the sustained strong collection performance of the underlying pool of contracts, leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

Negative factors – The ratings could be downgraded for the pools on account of sustained weak collection performance of the underlying pools leading to higher-than-expected delinquency levels and credit enhancements utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of FSBFL’s portfolio till September 2021, the key characteristics and composition of the current pools, the performance expected over the balance tenure of the pools, and the credit enhancement cover available in the transactions.

Analytical Approach	Comments
Applicable Rating Methodologies	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) extending secured loans to micro entrepreneurs and self-employed individuals, predominantly 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 typical loan tickets of ~Rs. 2-10 lakh and an average ticket size of Rs. 3.5 lakh. The loans are predominantly backed by self-occupied residential properties and FSBFL had 268 branches as of September 30, 2021.

The six institutional investors (Matrix Partners, TPG Asia, Norwest Venture Partners, Sequoia Capital, Sirius II Pte. Ltd (KKR) and TVS Shriram Growth Fund) held a stake of 70.0% in the company as of September 30, 2021, with the promoter group holding 20.7% (fully diluted).

Key financial indicators (audited)

Five-Star Business Finance Limited	FY2020	FY2021	H1 FY2022
Total Income (Rs. crore)	787.3	1,051.3	611.2
PAT (Rs. crore)	261.9	359.0	217.6
Total Managed Assets (Rs. crore)	4,353.2	5,793.6	6,374.6
Gross NPA (%)	1.4%	1.0%	1.4%
Net NPA (%)	1.1%	0.8%	1.2%

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years				
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					Feb 21, 2022	Aug 27, 2021	Aug 14, 2020	Sep 20, 2019 [^]	Sep 06, 2019*
1 Northern Arc 2019 SBL Medici	PTC Series A1	99.05	25.39	[ICRA]AA-(SO)	[ICRA]AA-(SO)	[ICRA]AA-(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years				
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Feb 21, 2022	Feb 25, 2021	Jul 16, 2020 [^]	Jan 31, 2020*	-
2 Northern Arc 2020 SBL Kastellorizo	PTC Series A1 (c)	22.39	5.44	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	
	PTC Series A1 (d)	78.37	36.95	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years				
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Feb 21, 2022	Feb 25, 2021	May 20, 2020 [^]	Mar 03, 2020*	-
3 Northern Arc 2020 SBL Otis	PTC Series A1	70.10	11.10	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
				Feb 21, 2022	Mar 17, 2021 [^]	Jan 29, 2021 [*]	-	-
4 Dhruva-IX 01 2021	PTC Series A1	146.12	106.18	[ICRA]AA+ (SO)	[ICRA]AA+ (SO)	Provisional [ICRA]AA+ (SO)	-	-

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
				Feb 21, 2022	Mar 29, 2021 [^]	Feb 12, 2021 [*]	-	-
5 Dhruva-X 02 2021	PTC Series A1	35.79	22.52	[ICRA]AA (SO)	[ICRA]AA (SO)	Provisional [ICRA]AA (SO)	-	-

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Feb 21, 2022	Apr 21, 2021 [^]	Mar 26, 2021 [*]	-	-
6 Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(a)	44.55	29.27	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA(SO)	-	-
	PTC Series A1(b)	23.45	23.45	[ICRA]AA+ (SO)	[ICRA]AA+ (SO)	Provisional [ICRA]AA+(SO)	-	-

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Feb 21, 2022	Jun 02, 2021 [^]	Mar 26, 2021 [*]	-	-
7 Dhruva XIII 03 2021	PTC Series A1	82.42	60.56	[ICRA]AA (SO)	[ICRA]AA (SO)	Provisional [ICRA]AA(SO)	-	-

* Initial rating assigned

[^]Final rating assigned

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Northern Arc 2019 SBL Medici	PTC Series A1	Moderately Complex
Northern Arc 2020 SBL Kastellorizo	PTC Series A1 (c)	Moderately Complex
	PTC Series A1 (d)	Moderately Complex
Northern Arc 2020 SBL Otis	PTC Series A1	Moderately Complex
Dhruva-IX 01 2021	PTC Series A1	Moderately Complex
Dhruva-X 02 2021	PTC Series A1	Moderately Complex
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(a)	Moderately Complex
	PTC Series A1(b)	Moderately Complex
Dhruva XIII 03 2021	PTC Series A1	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2019 SBL Medici	PTC Series A1	August 2019	11.00%	December 2025	25.39	[ICRA]AA-(SO)
Northern Arc 2020 SBL Kastellorizo	PTC Series A1 (c)	January 2020	10.35%	January 2026	5.44	[ICRA]AA+(SO)
	PTC Series A1 (d)		10.55%		36.95	[ICRA]AA(SO)
Northern Arc 2020 SBL Otis	PTC Series A1	February 2020	9.75%	April 2024	11.10	[ICRA]AA(SO)
Dhruva-IX 01 2021	PTC Series A1	January 2021	9.25%	February 2027	106.18	[ICRA]AA+(SO)
Dhruva-X 02 2021	PTC Series A1	February 2021	9.50%	February 2026	22.52	[ICRA]AA(SO)
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(a)	March 2021	9.00%	February 2027	29.27	[ICRA]AAA(SO)
	PTC Series A1(b)		9.50%	March 2027	23.45	[ICRA]AA+(SO)
Dhruva XIII 03 2021	PTC Series A1	March 2021	9.00%	August 2025	60.56	[ICRA]AA(SO)

*Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pools

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

Corrigendum:

Document dated February 21, 2022 has been corrected with revision as detailed below:

Sections where revision has been made:

- Table of summary of rated instruments on page 1
- Table (for Sr no 2) in rating history on page 6
- Table for Complexity level of the rated instruments on page 7
- Annexure 1 on page 8

Revision made:

Transaction name has been corrected from 'Northern Arc 2020 Kastellorizo' to 'Northern Arc 2020 SBL Kastellorizo'.

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

Rushabh Gohel

+91 22 6114 3400

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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