

December 15, 2022

Five-Star Business Finance Limited: Rating reaffirmed at PP-MLD [ICRA]AAA(CE) (Stable) for NCD programme

Summary of rating action

| Instrument** | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|-----------------------------------|----------------------------------|--|
| Non-convertible debenture programme – Market linked debenture* | 275.00 | 275.00 | PP-MLD[ICRA]AAA(CE) (Stable); reaffirmed |
| Non-convertible debenture programme – Market linked debenture | 65.00 | 65.00 | PP-MLD[ICRA]A+ (Stable); outstanding |
| Non-convertible debenture programme | 400.00 | 400.00 | [ICRA]A+ (Stable); outstanding |
| Long term fund-based bank facilities | 865.48 | 865.48 | [ICRA]A+ (Stable); outstanding |
| Long term – Unallocated | 334.52 | 334.52 | [ICRA]A+ (Stable); outstanding |
| Total | 1,940.00 | 1,940.00 | |

* For one of the PP-MLDs, a provisional rating was assigned for Rs. 100 crore; the final rating was assigned for Rs. 50 crore, which was the amount placed

| | |
|---|-----------------|
| Rating Without Explicit Credit Enhancement | [ICRA]A+ |
|---|-----------------|

**Instrument details are provided in Annexure I

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

The rating action takes into account the structural features available in each transaction such that in the event of non-payment of its expected repayments by Five-Star Business Finance Limited (FSBFL/Originator), the respective cover pools along with the cash collateral (CC) would be utilised to support the servicing of the rated instruments. The key structural features of the rated instruments are summarised below.

| Instrument | Trust Name | Security Cover | Structural Feature |
|-------------------------|---|--------------------|--|
| Rs. 75.00-crore PP-MLD | Dhruva-VI Northern Arc CE MLD 12 2020 (Dhruva-VI) | 1.25x cover pool ^ | Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the Debenture Trustee of the rated market linked debentures (MLD) |
| Rs. 50.00-crore PP-MLD | Dhruva VII CredAvenue 12 2020 Trust (Dhruva VII) | 1.25x cover pool ^ | |
| Rs. 150.00-crore PP-MLD | Dhruva XI 01 2021 | 1.25x cover pool ^ | |

^ The cover pool requirement is calculated on the outstanding principal and accrued interest in case of PP-MLDs

The ratings also draw comfort from the established presence of FSBFL in the small business lending space and its stable asset quality. Nonetheless, post any trigger event, the performance of the cover pool would be exposed to any further disruptions that may arise due to the pandemic.

Structure details, adequacy of credit enhancement and salient features of rated instruments

Details on the structure, adequacy of the credit enhancement and salient features of each rated instrument are available in ICRA's previous rationales.

Rs. 75.00-crore PP-MLD {Dhruva-VI Northern Arc CE MLD 12 2020 (Dhruva-VI)}: [Click here](#)

Rs. 50.00-crore PP-MLD {Dhruva VII CredAvenue 12 2020 Trust (Dhruva VII)}: [Click here](#)

Rs. 150.00-crore PP-MLD {Dhruva XI 01 2021}: [Click here](#)

Key rating drivers and their description

Credit strengths

Presence of cover pool to support servicing of the rated facility in event of non-payment by entity - The primary obligation of meeting the MLD payments is on FSBFL. However, if FSBFL does not meet the expected payment on the MLDs, the collections from the cover pool will be available to the Debenture Trustee. The principal as well as the interest on the MLDs are promised to the MLD investors on the legal maturity date.

Stringent eligibility criteria for cover pool - The eligibility criteria of the cover pool for all three instruments is stringent. No contracts at the time of assignment should be delinquent. Further, for all three instruments, the proportion of assets which are delinquent, but for less than 30 days, should not be more than 5% of the pool principal outstanding.

Credit enhancement in the form of over-collateralisation and cash collateral - All three instruments have credit enhancement in the form of over-collateralisation and CC, which act as a buffer if the collections in the cover pool decline.

Credit challenges

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

Performance of the pool would remain exposed to macro-economic shocks/business disruptions - The ratings factor in the risks associated with macro-economic shocks (if any) faced by the borrowers, which could affect the continuity of business operations and the possible adverse impact on the asset quality if the cash flows and economic activity slows down, post a trigger event

While the NCD yield is fixed the spread between pool yield and NCD yield (acting as a credit support) could shrink on account on characteristics of cover pool - The benefit available on account of the difference between the pool yield and the MLD yield may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower internal rate of return (IRR). However, this is mitigated as almost the entire portfolio of FSBFL comprises loans with an IRR of 24% or more.

Liquidity position

For PP-MLD [ICRA]AAA(CE) (Stable): Superior

Both the principal and the interest on the MLDs are promised to the lender on the legal final maturity, subject to the non-occurrence of a trigger event. The cash flows from the cover pool, along with the CC for the MLDs, are expected to be highly comfortable to meet the debt servicing requirement if the company is unable to meet the payments on the MLDs.

For [ICRA]A+ (Stable) rating: Strong

The liquidity position is strong with free cash and liquid investments of ~Rs. 795 crore as of September 30, 2022 against repayment and other obligations of ~Rs. 600 crore during H2 FY2023. The funding mix comprises term loan from banks (50% of the total borrowings as of September 2022), non-convertible debentures (30%), securitisation (14%) and term loans from financial institutions & ECB's (the balance). Going forward, it would be crucial for FSBFL to secure adequate long-term funds at competitive rates, to achieve the envisaged business growth, while maintaining a strong liquidity profile.

Rating sensitivities

For PP-MLDs rated [ICRA]AAA(CE) (Stable)

Positive factors – NA

Negative factors – The ratings 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 deterioration in Five-Star's asset quality or credit profile.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Non-banking Finance Companies Covered Bond 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 352 branches as of September 30, 2022.

The seven 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 71.8% in the company as of March 31, 2022, with the promoters holding ~19% (fully diluted).

Key financial indicators (audited)

| Five-Star Business Finance Limited | FY2021 | FY2022 | H1 FY2023 |
|------------------------------------|---------|---------|-----------|
| Total income (Rs. crore) | 1,051.3 | 1,256.2 | 700.9 |
| PAT (Rs. crore) | 359.0 | 453.5 | 283.6 |
| Total managed assets (Rs. crore) | 5,793.6 | 6,343.1 | 6,627.7 |
| Gross NPA (%) | 1.0% | 1.1% | 1.2% |
| Net NPA (%) | 0.8% | 0.7% | 0.6% |

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years (Pl use the new rating history table from the template shared)

| Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the Past 3 Years | | | | | |
|------------|-------------------------|----------------------------------|--------------------------------|-------------------------------|---|-------------------------------|---|-------------------------------|---|---|
| | Type | Initial amount rated (Rs. crore) | Amount outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2021 | | | | Date & Rating in FY2020 | |
| | | | | Dec 15, 2022 | Dec 21, 2021 | Feb 8, 2021 | Feb 1, 2021 | Dec 29, 2020 | Dec 22, 2020 | - |
| 1 PP-MLD | Long term | 75.0 | 75.0 | PP-MLD [ICRA]AAA(CE) (Stable) | PP-MLD [ICRA]AAA(CE) (Stable) | 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) | - |
| 2 PP-MLD | Long term | 50.0 | 50.0 | PP-MLD [ICRA]AAA(CE) (Stable) | PP-MLD [ICRA]AAA(CE) (Stable) | 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 PP-MLD | Long term | 150.0 | 150.0 | 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) | - | - | - |

For details on other ICRA-rated instruments of the company, refer to the rationales given [here](#)

Complexity level of the rated instrument

| Transaction Name | Instrument | Complexity Indicator |
|---|---|----------------------|
| Dhruva-VI Northern Arc CE MLD 12 2020 (Dhruva-VI) | Principal Protected Market Linked Debentures (PP-MLD) | Complex |
| Dhruva VII CredAvenue 12 2020 Trust (Dhruva VII) | Principal Protected Market Linked Debentures (PP-MLD) | Complex |
| Dhruva XI 01 2021 | Principal Protected Market Linked Debentures (PP-MLD) | 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 | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|--------------|---------------------|-----------------------------|-------------|---------------|--------------------------|-------------------------------|
| INE128S07549 | PP-MLD [^] | Dec 16, 2020 | 9.25%* | Dec 16, 2027 | 75.0 | PP-MLD [ICRA]AAA(CE) (Stable) |
| INE128S07556 | PP-MLD [^] | Dec 17, 2020 | 9.25%* | Dec 17, 2027 | 50.0 | PP-MLD [ICRA]AAA(CE) (Stable) |
| INE128S07564 | PP-MLD | Jan 29, 2020 | 9.00%** | Apr 30, 2023 | 150.0 | PP-MLD [ICRA]AAA(CE) (Stable) |

[^] FSBFL has informed that call option notice has been issued

* Additionally, step-up interest of 6.00% 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

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

Rushabh Gohel

+91 22 6114 3420

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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



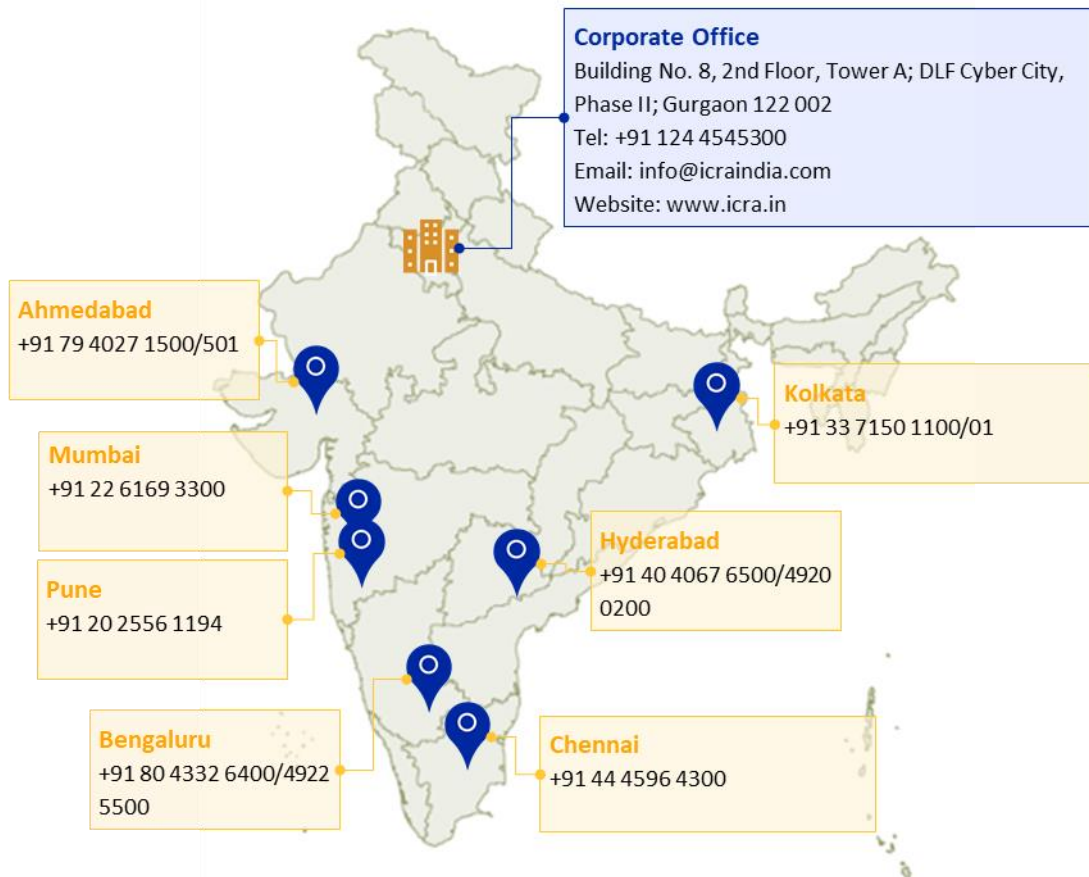
Registered Office

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

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.