

March 17, 2023

Five-Star Business Finance Limited: Rating confirmed as final for PTCs backed by small business loan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dhruva XIV 12 2022	Series A1 PTC	175.76	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In December 2022, ICRA had assigned Provisional [ICRA]AA(SO) rating to Series A1 pass-through certificates (PTC) issued under a securitisation transaction originated by Five-Star Business Finance Limited {FSBFL/Originator; rated [ICRA]AA- (Stable)}. The PTCs are backed by a pool of Rs. 191.04-crore (principal amount; receivables of Rs. 321.86 crore) small business loan receivables originated by FSBFL. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance after the February 2023 payouts is shown in the table below:

Parameter	Dhruva XIV 12 2022
Months post securitisation	2
Pool amortisation	4.47%
Series A1 PTC amortisation	4.86%
Cumulative Prepayment rate	2.20%
Cumulative collection efficiency	99.27%
Loss-cum 0+ days past due (dpd)	1.41%
Loss cum 30+ dpd	0.17%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS), principal subordination and cash collateral (CC)
- No overdue contracts as on the cut-off date
- Average seasoning of ~18 months and average pre-securitisation amortisation of ~16% as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing around 87% of the pool principal as on the cut-off date
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables were assigned at par to the PTC investors. During the tenure of Series A1 PTC, the collections from the pool, after making the promised interest payouts to Series A1 PTC, will be used to make the expected principal payouts to Series A1 PTC. The principal payout is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. The surplus EIS available after meeting the promised and expected payouts to the PTCs will be passed on to the Originator every month.

The first line of support for Series A1 PTC in the transaction is in the form of principal subordination of 8.0% of the initial pool principal. Further credit support is available in the form of an EIS of 47.8% of the initial pool principal. A CC of 5.0% of the initial pool principal (Rs. 9.55 crore), provided by FSBFL, acts as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC (in case the principal subordination and EIS are insufficient) to meet the shortfall.

There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool was 18.0 months¹ with pre-securitisation amortisation of 16.3% as on the cut-off date. The pool had high geographical concentration with the top 3 states (Andhra Pradesh, Tamil Nadu and Telangana) contributing 86.5% to the initial pool principal amount. At the district level, the top district accounted for 6.2% of the initial pool principal amount while the top 10 districts accounted for 39.8%. However, the performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower.

Past rated pool performance: ICRA has rated 16 securitisation transactions with the underlying receivables originated by FSBFL. All transactions, which have completed at least one payout, have reported a cumulative collection efficiency of more than 98% and loss-cum-90+ days past due (dpd) of sub-1.0% as of the January 2023 payout month with no CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (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 during the tenure of the pool is estimated at 4.0-5.0%, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 18.0% per annum.

Liquidity position: Strong

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. The collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

¹ Basis number of instalments as shared by Originator

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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, 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 of December 31, 2022, the company had 369 branches in 156 districts across 8 states/Union Territories.

The six institutional investors (Matrix Partners India Investment Holdings, Norwest Venture Partners, Sequoia Capital, TPG Asia, KKR and TVS Shriram Growth) held a stake of ~58% in the company as of December 2022, with the promoter group (Mr. Lakshmiopathy Deenadayalan and his family) being the single largest shareholder at 18.5%.

Key financial indicators (audited)

Five-Star Business Finance Limited	FY2021	FY2022	9M FY2023*
Total income	1,051.3	1,256.2	1,089.6
PAT	359.0	453.5	434.6
Total managed assets	5,793.6	6,343.1	7,431.9
Gross NPA	1.0%	1.1%	1.5%
Net NPA	0.8%	0.7%	0.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Provisional; 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 (FY2023)				Chronology of Rating History for the Past 3 Years		
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Mar 17, 2023	Dec 30, 2022			
Dhruva XIV 12 2022	Series A1 PTC	175.76	175.76	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	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

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date [^]	Amount Rated (Rs. crore)	Current Rating
Dhruva XIV 12 2022	Series A1 PTC	December 2022	8.90%	August 2028	175.76	[ICRA]AA(SO)

[^]Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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.

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