

August 21, 2023

## Five-Star Business Finance Limited: Ratings upgraded/reaffirmed for PTCs issued under four small business loan transactions

### Summary of rating action

Trust Name <sup>^</sup>	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after Jul-23 payout (Rs. crore)	Rating Action
Dhruva-III Northern Arc SBL 08 2020	PTC Series A	89.57	30.02	8.12	[ICRA]AAA(SO); reaffirmed
Dhruva-IV 10 2020	PTC Series A1	85.91	37.77	16.25	[ICRA]AA(SO); reaffirmed
Dhruva V Vivriti 12 2020	PTC Series A1	46.02	17.84	3.60	[ICRA]AAA(SO); upgraded from [ICRA]AA(SO)
Dhruva-VIII AK 12 2020	PTC Series A1	25.00	9.90	1.36	[ICRA]AAA(SO); upgraded from [ICRA]AA+(SO)

<sup>^</sup>The transactions have been referred to as Dhruva-III, Dhruva-IV, Dhruva V and Dhruva-VIII in this release

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by pools of small business loan receivables originated by Five-Star Business Finance Limited {FSBFL; rated [ICRA]AA-(Stable)}. The ratings have been upgraded/reaffirmed on account of the sustained healthy collections and low delinquencies witnessed in all the pools. Due to the high amortisation in all the transactions, there has been a build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools.

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

Parameter	Dhruva-III	Dhruva-IV	Dhruva V	Dhruva-VIII
Months post securitisation	36	33	31	21
Pool amortisation	69.40%	71.86%	81.12%	80.37%
PTC Series A1/Series A amortisation	90.93%	81.09%	92.18%	94.55%
Cumulative collection efficiency <sup>1</sup>	99.32%	98.46%	98.59%	99.16%
Cumulative Prepayment rate <sup>2</sup>	46.53%	41.06%	26.74%	31.27%
Average monthly prepayment rate	1.72%	1.59%	1.00%	1.20%
Loss cum 30+ dpd (% of initial pool principal) <sup>3</sup>	3.34%	8.16%	5.03%	2.66%
Loss cum 90+ dpd (% of initial pool principal) <sup>4</sup>	0.30%	0.97%	0.52%	0.20%
Breakeven collection efficiency <sup>5</sup> : PTC Series A1	3.84%	43.39%	18.32%	7.57%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%	0.00%
CC available (as % of balance pool)	24.78%	12.52%	15.89%	15.28%
Excess interest spread (EIS) over balance tenure (as % of balance pool)	35.49%	31.49%	16.21%	14.94%
Principal Subordination (% of balance pool principal)	71.12%	0.00%	63.55%	76.40%

<sup>1</sup> Cumulative collections / (Cumulative billings + opening overdue at the time of securitization)

<sup>2</sup> Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal

<sup>3</sup> Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

<sup>4</sup> Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

<sup>5</sup> (Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows

## Key rating drivers

### Credit strengths

- Healthy amortisation of PTCs resulting in build-up of cash collateral (CC), principal subordination (except for Dhruva-IV) and excess interest spread cover available for the balance PTC payouts
- Low delinquency buildup in the harder buckets across all the pools

### Credit challenges

- Pools' performance will remain exposed to macro-economic shocks/business disruptions, if any

## Description of key rating drivers highlighted above

The performance of all four transactions has been healthy with cumulative collection efficiency in excess of 98.4% as of the July 2023 payout month. The delinquencies in the harder bucket are low with the loss-cum-90+ days past due (dpd; as percentage of initial pool principal) below 1.0% till the July 2023 payout month. There has been no CC utilisation in any of the transactions till July 2023 payout. Healthy collections and high pool amortisation have led to significant build-up of the CE in the pools and the breakeven collection efficiency is much lower than the collection efficiency reported for these transactions. The average monthly prepayment rate for the pools is moderate, ranging between 1.0% to 1.7%. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade/reaffirm the ratings to the current level in the transactions. ICRA will continue to monitor the performance of the pools. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. The pool's performance would remain exposed to macro-economic shocks/business disruptions.

**Past rated pool performance:** ICRA has rated 18 securitisation transactions with the underlying receivables originated by FSBFL, of which 14 were live as of the July 2023 payout month. All live transactions have reported a healthy cumulative collection efficiency of more than 98% and loss-cum-90+ days past due (dpd) of sub-1.5% as of the July 2023 payout with nil 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 and prepayments during the balance tenure of the pools are provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Dhruva-III	1.00-2.00%	7.2-27% p.a.
2	Dhruva-IV	1.25-2.25%	7.2-27% p.a.
3	Dhruva V	0.75-1.75%	7.2-27% p.a.
4	Dhruva-VIII	0.50-1.50%	7.2-27% p.a.

## Liquidity position:

**For Dhruva-III, Dhruva V and Dhruva-VIII: Superior**

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 highly comfortable to meet the promised payouts to the PTC investors.

#### For Dhruva-IV: Strong

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 cash collateral. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the cash collateral would cover the shortfalls in the promised cashflows to senior PTCs for a period of eight months.

### Rating sensitivities

**Positive factors** – Not applicable for Dhruva-III, Dhruva V and Dhruva-VIII transactions.

For Dhruva-IV, rating can be upgraded on the sustained strong collection performance of the underlying pool of contracts, resulting in an increase in the credit enhancement cover available for the rated instrument.

**Negative factors** – The sustained weak collection performance of the underlying pool of contracts, 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 analysis of the performance of FSBFL's portfolio till March 2023, 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 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 June 30, 2023, the company had 386 branches across 10 states/Union Territories.

The company was listed on the NSE & BSE in November 2022. As of June 2023, the individual promoters & promoter group (Mr. Lakshmi pathy Deenadayalan and his family) held 18.5% of the stake in the company, being the single largest shareholders.

**Key financial indicators (audited)**

Five-Star Business Finance Limited	FY2021	FY2022	FY2023	Q1 FY2024
Total income	1,051.3	1,256.2	1,528.9	483.6
PAT	359.0	453.5	603.5	183.7
Total managed assets	5,793.6	6,343.1	8,702.8	8,970.5
Gross NPA	1.0%	1.1%	1.4%	1.4%
Net NPA	0.8%	0.7%	0.7%	0.8%

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**

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		
					Aug 21, 2023	Aug 23, 2022	Aug 27, 2021	Oct 28, 2020	Aug 07, 2020	
1	Dhruva-III Northern Arc SBL 08 2020	PTC Series A	89.57	8.12	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		
					Aug 21, 2023	Aug 23, 2022	Aug 27, 2021	Dec 08, 2020	Oct 28, 2020	
2	Dhruva-IV 10 2020	PTC Series A1	85.91	16.25	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA-(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		
					Aug 21, 2023	Aug 23, 2022	Aug 27, 2021	Feb 12, 2021	Dec 31, 2020	
3	Dhruva V Vivriti 12 2020	PTC Series A1	46.02	3.60	[ICRA]AAA(SO)	[ICRA]AA(SO)	[ICRA]AA-(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		
					Aug 21, 2023	Aug 23, 2022	Aug 27, 2021	Feb 12, 2021	Dec 31, 2020	
4	<b>Dhruva-VIII AK 12 2020</b>	PTC Series A1	25.00	1.36	[ICRA]AAA(SO)	[ICRA]AA+(SO)	[ICRA]AA-(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	

### Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
<b>Dhruva-III Northern Arc SBL 08 2020</b>	PTC Series A	Moderately Complex
<b>Dhruva-IV 10 2020</b>	PTC Series A1	Simple
<b>Dhruva V Vivriti 12 2020</b>	PTC Series A1	Moderately Complex
<b>Dhruva-VIII AK 12 2020</b>	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: [Click Here](#)

**Annexure I: Instrument details**

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>Dhruva-III Northern Arc SBL 08 2020</b>	PTC Series A	August 2020	10.00%	January 2026	8.12	[ICRA]AAA(SO)
<b>Dhruva-IV 10 2020</b>	PTC Series A1	October 2020	10.00%	April 2025	16.25	[ICRA]AA(SO)
<b>Dhruva V Vivriti 12 2020</b>	PTC Series A1	December 2020	10.15%	November 2025	3.60	[ICRA]AAA(SO)
<b>Dhruva-VIII AK 12 2020</b>	PTC Series A1	December 2020	10.00%	December 2024	1.36	[ICRA]AAA(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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