

September 29, 2023

Five-Star Business Finance Limited: Provisional ratings assigned to PTCs backed by small business loan receivables issued by Dhruva XXI 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dhruva XXI 2023	PTC Series A1(a)	85.50	Provisional [ICRA]AA(SO); Assigned
	PTC Series A1(b)	21.80	Provisional [ICRA]AA(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No ratings would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned provisional ratings to PTC Series A1(a) and PTC Series A1(b) issued under a securitisation transaction originated by Five-Star Business Finance Limited {FSBFL/originator; rated [ICRA]AA-(Stable)}. The pass-through certificates (PTCs) are backed by a pool of Rs. 115.47-crore (principal amount; receivables of Rs. 217.47 crore) small business loan receivables originated by FSBFL.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal to be provided by the originator, (ii) over-collateralisation (principal subordination) of 7.07% of the initial pool principal for PTC Series A1(a) and PTC Series A1(b), and (iii) the excess interest spread (EIS) of 57.79% of the initial pool principal for PTC Series A1(a) and PTC Series A1(b) in the structure, as well as the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, principal subordination and CC
- No overdue contracts as on the cut-off date
- Average seasoning of ~14 months and average pre-securitisation amortisation of ~10% as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing ~95% to the initial 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 will be assigned at par to the PTC investors. The collections from the pool will be used to make the promised interest payouts (at the predetermined yield and on pari-passu basis to the holders of PTC Series A1(a) and PTC Series A1(b) PTC on the outstanding PTC principal) on each payout date while the entire principal is promised only on the final maturity date (September 19, 2029). During the tenure of the PTCs, the collections from the pool, after making the promised interest payouts to the PTCs, will be used to make the expected principal payouts to PTC Series A1(a). However, any prepayments will be used for payment of PTC Series A1(b) first while PTC Series A1(a) is live.

Following the redemption of PTC Series A1(a), the entire principal payments will be made to PTC Series A1(b) including prepayments. In case PTC Series A1(b) is redeemed earlier than PTC Series A1(a), the entire principal payments, including prepayments, will be made to PTC Series A1(a). The surplus EIS available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month.

Support for PTC Series A1(a) and PTC Series A1(b) in the transaction is in the form of a principal subordination of 7.07% of the initial pool principal and an EIS of 57.79% of the initial pool principal. A CC of 5.0% of the initial pool principal (Rs. 5.77 crore), to be 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 same.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is 14.2 months¹ with pre-securitisation amortisation of 9.6% as on the cut-off date. The pool has high geographical concentration with the top 3 states (Tamil Nadu, Andhra Pradesh and Telangana) contributing 94.8% to the initial pool principal amount. At the district level, the top district accounted for 4.8% of the initial pool principal amount while the top 10 districts accounted for 30.1%. The performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities, which may impact the income-generating capability of the borrower.

Past rated pool performance: ICRA has rated 20 securitisation transactions with the underlying receivables originated by FSBFL, of which 14 are live as of the August 2023 payout month. All live transactions that have completed at least one payout have reported healthy cumulative collection efficiency of more than 98% and loss-cum-90+ days past due (dpd) of less than 1%, post the August 2023 payout, with no CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating 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 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 both series of PTCs 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 credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

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 ratings upgrade.

¹ Basis number of instalments as shared by the originator

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

Analytical approach

The rating actions are based on the analysis of the performance of FSBFL’s portfolio till June 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant’s know your customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at www.icra.in.

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 and BSE in November 2022. As of March 2023, the single largest shareholder comprised the individual promoters and promoter group (Mr. Lakshminpathy Deenadayalan and his family) with a stake of 18.5%.

Key financial indicators

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

Amount in Rs. crore; *Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				September 29, 2023	-	-	-
Dhruva XXI 2023	PTC Series A1(a)	85.50	85.50	Provisional [ICRA]AA(SO)	-	-	-
	PTC Series A1(b)	21.80	21.80	Provisional [ICRA]AA(SO)			

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1(a)	Moderately Complex
PTC Series A1(b)	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

ISIN	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
NA	Dhruva XXI 2023	PTC Series A1(a)	September 2023	9.10%	September 2029	85.50	Provisional [ICRA]AA(SO)
NA		PTC Series A1(b)	September 2023	9.62%	September 2029	21.80	Provisional [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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