

January 29, 2024

Five-Star Business Finance Limited: Ratings reaffirmed for PTCs issued under five small business loan 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 Dec-23 Payout (Rs. crore)	Rating Action
Dhruva-IX 01 2021	PTC Series A1	146.12	65.85	34.11	[ICRA]AA+(SO); reaffirmed
Dhruva-X 02 2021	PTC Series A1	35.79	10.44	1.60	[ICRA]AA+(SO); reaffirmed
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(b)	23.45	23.45	18.49	[ICRA]AA+(SO); reaffirmed
Dhruva XIII 03 2021	PTC Series A1	82.42	32.20	8.45	[ICRA]AA(SO); reaffirmed
Indigo 022	Series A1 PTC	72.00	NA	48.31	[ICRA]AA(SO); reaffirmed

[^]The transactions have been referred to as Dhruva-IX, Dhruva-X, Dhruva XII, Dhruva-XIII and Indigo 022 in this document

^{*}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 reaffirmed on account of the sustained healthy collections and low delinquencies witnessed in all the pools. Due to the healthy amortisation in all the transactions, the credit enhancement (CE) cover over the future PTC payouts has built up. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools.

A summary of the pools' performance after the December 2023 payouts is shown in the table below.

Parameter	Dhruva-IX	Dhruva-X	Dhruva XII	Dhruva-XIII	Indigo 022
Months post securitisation	35	35	33	33	12
Pool amortisation	65.16%	81.19%	63.34%	78.98%	29.61%
PTC Series A1/A1(a) amortisation	76.66%	95.52%	100.00%	89.75%	32.90%
PTC Series A1(b) amortisation	--	--	21.13%	--	--
Cumulative collection efficiency ¹	98.61%	99.32%	98.91%	98.98%	99.44%
Cumulative prepayment rate ²	30.99%	35.49%	30.29%	27.02%	17.96%
Average monthly prepayment rate	1.05%	1.24%	1.09%	0.95%	1.64%
Loss-cum-30+ dpd (% of initial pool principal) ³	7.42%	2.80%	10.04%	4.06%	1.61%

¹ Cumulative collections / (Cumulative billings + Opening overdue at the time of securitisation)

² Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

³ Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of initial pool principal

Loss-cum-90+ dpd (% of initial pool principal) ⁴	0.84%	0.08%	0.67%	0.30%	0.00%
Breakeven collection efficiency ⁵ : PTC Series A1/ A1(b)	38.76%	3.86%	44.33%	5.20%	61.13%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%	0.00%	0.00%
CC available (as % of balance pool)	8.61%	15.95%	10.91%	38.05%	7.10%
Excess interest spread (as % of balance pool) ⁶	31.98%	20.22%	27.94%	15.05%	38.55%
Principal subordination (% of balance pool principal)	43.05%	79.76%	35.46%	57.08%	14.21%

Reset of credit enhancement

At the request of FSBFL for resetting the credit enhancement for the five transactions under surveillance, ICRA has analysed these transactions basis the cash collateral (CC) mentioned as per the table provided below.

Particulars	Dhruva-IX	Dhruva-X	Dhruva XII	Dhruva-XIII	Indigo 022
Current CC outstanding	5.16 (8.61%)	1.26 (15.95%)	3.13 (10.91%)	7.49 (38.05%)	4.00 (7.10%)
CC required as per ICRA for maintaining the present rating	1.55 (2.58%)	0.38 (4.79%)	0.94 (3.27%)	2.25 (11.42%)	2.80 (4.97%)

Amount in Rs. crore; figures in bracket indicate as a % of the balance pool

Based on the pools' performance, the ratings will remain unchanged even after the CC amount is reset. The CC reset shall be subject to the approval of the PTC investors. However, as per 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

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

Credit challenges

- High geographical concentration of the contracts in the pools at the state level
- Exposure to interest rate risk for the Indigo 022 pool given that the pool has contracts with fixed rate, while yield on PTCs is floating
- Performance of the pools would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrowers

⁴ Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of initial pool principal

⁵ (Balance cash flows payable to investor – CC available) / Balance pool cash flows

⁶ (Pool cash flows till PTC maturity month – Cash flows to PTC A1 – PTC A2 principal if any – Originator's residual share) / Pool principal outstanding

Description of key rating drivers highlighted above

The performance of all five transactions has been healthy with the cumulative collection efficiency exceeding 98.5% as of the December 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% for all the pools till the December 2023 payout month. There has been no CC utilisation in any of the transactions till the December 2023 payout. Healthy collections and healthy pool amortisation have led to a moderate 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% and 1.7%. Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings at the current levels 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 pools and the availability of CE relative to ICRA's expectations. The pools' performance would remain exposed to macro-economic shocks/business disruptions.

Past rated pools' performance: ICRA has rated 21 securitisation transactions with the underlying receivables originated by FSBFL, of which 14 were live as of the December 2023 payout month. All live transactions have reported a healthy cumulative collection efficiency of more than 98% and loss-cum-90+ dpd of sub-1.5% as of the December 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-IX	1.75-2.75%	7.2-27% p.a.
2	Dhruva-X	0.50-1.50%	7.2-27% p.a.
3	Dhruva XII	1.75-2.75%	7.2-27% p.a.
4	Dhruva-XIII	0.75-1.75%	7.2-27% p.a.
5	Indigo 022	2.25-3.25%	7.2-27% p.a.

Liquidity position: Superior

The liquidity for the PTC instruments is superior after factoring in the CE available to meet the promised payouts to the investors. The total CE would be more than 9 times the estimated loss in the pools.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pool of contracts, leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – 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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of FSBFL's portfolio till September 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	Rating Methodology for Securitisation Transactions
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 September 30, 2023, the company had 456 branches across 10 states/Union Territories.

The company was listed on the NSE and BSE in November 2022. As of September 2023, the single largest shareholder comprised the individual promoters & promoter group (Mr. Lakshmi pathy Deenadayalan and his family), with an 18.3% stake in the company, on a fully-diluted basis.

Key financial indicators (Ind-AS)

Five-Star Business Finance Limited	FY2021	FY2022	FY2023	H1 FY2024
	Audited	Audited	Audited	Provisional
Total income	1,051.3	1,256.2	1,528.9	1,005.9
PAT	359.0	453.5	603.5	383.1
Total managed assets	5,793.6	6,343.1	8,702.8	9,679.7
Gross stage 3	1.0%	1.1%	1.4%	1.4%
Net stage 3	0.8%	0.7%	0.7%	0.7%

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	
					Jan 29, 2024	Feb 16, 2023	Feb 21, 2022	Mar 17, 2021	Jan 29, 2021	
1	Dhruva-IX 01 2021	PTC Series A1	146.12	34.11	[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	
					Jan 29, 2024	Feb 16, 2023	Feb 21, 2022	Mar 29, 2021	Feb 12, 2021	
2	Dhruva-X 02 2021	PTC Series A1	35.79	1.60	[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	
					Jan 29, 2024	Feb 16, 2023	Feb 21, 2022	Apr 21, 2021	Mar 26, 2021	
3	Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1 (b)	23.45	18.49	[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	
					Jan 29, 2024	Feb 16, 2023	Feb 21, 2022	Jun 02, 2021	Mar 26, 2021	
4	Dhruva XIII 03 2021	PTC Series A1	82.42	8.45	[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	Amount Outstanding	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	

			(Rs. crore)	(Rs. crore)	Jan 29, 2024	Jan 05, 2023	Dec 30, 2022	-	-
5	Indigo 022	Series A1 PTC	72.00	48.31	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA (SO)	-	-

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
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(b)	Moderately Complex
Dhruva XIII 03 2021	PTC Series A1	Moderately Complex
Indigo 022	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

ISIN No.	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
NA	Dhruva-IX 01 2021	PTC Series A1	January 2021	9.25%	February 2027	34.11	[ICRA]AA+(SO)
NA	Dhruva-X 02 2021	PTC Series A1	February 2021	9.50%	February 2026	1.60	[ICRA]AA+(SO)
NA	Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(b)	March 2021	9.50%	March 2027	18.49	[ICRA]AA+(SO)
NA	Dhruva XIII 03 2021	PTC Series A1	March 2021	9.00%	August 2025	8.45	[ICRA]AA(SO)
INE00CN15010	Indigo 022	Series A1 PTC	December 2022	9.50%**	May 2028	48.31	[ICRA]AA(SO)

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

**Coupon linked to 1-year PNB MCLR plus 90 bps

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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