

September 11, 2024

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dhruva XXIII	PTC Series A1	90.00	Provisional [ICRA]AAA(SO); Assigned
	PTC Series A2	60.00	Provisional [ICRA]AAA(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

The pass-through certificates (PTCs) are backed by a pool of small business loan (SBL) receivables originated by Five-Star Business Finance Limited {FSBFL/Originator; rated [ICRA]AA- (Stable)} with an aggregate principal outstanding of Rs. 170.49 crore (pool receivables of Rs. 292.64 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available 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 ICRA's review of the documentation pertaining to the transaction.

Transaction structure

The transaction has a two-tranche structure with Series A PTC comprising 87.98% of the pool principal, which is further split into PTC Series A1 (52.79% of the pool principal) and PTC Series A2 (35.19% of the pool principal).

The promised cashflow schedule for PTC Series A1 and PTC Series A2 on a monthly basis will comprise the interest (at the pre-determined yield on pari-passu basis) on the outstanding PTC principal on each payout date and the entire principal on the final maturity date for both series of PTCs. On each payout date, after meeting the promised PTC Series A1 and PTC Series A2 interest payouts, the balance collections would be passed on to the PTCs basis the cashflow amortisation split i.e. 90% of prepayments, principal collections and overdue collections would be passed on to PTC Series A1 and the balance 10% to PTC Series A2. The monthly Excess Interest Spread ("EIS") shall be used for accelerated amortisation of PTC Series A1 and PTC Series A2 (on maturity of PTC Series A1) to the extent of 50% (Turbo EIS) and as per the cashflow amortisation split wherein 90% of Turbo EIS would be passed on to PTC Series A1 and balance 10% to PTC Series A2. Once PTC Series A1 is fully repaid, all prepayments, principal collections, overdue collections and Turbo EIS would be passed on to PTC Series A2. The balance monthly EIS would be passed on to the Originator.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal, amounting to Rs. 8.52 crore, to be provided by the Originator, (ii) over-collateralisation of 12.02% of the initial pool principal for PTC Series A1 and PTC Series A2, and (iii) the EIS of 53.91% of the initial pool principal for PTC Series A1 and PTC Series A2.

Key rating drivers and their description

Credit strengths

Availability of credit enhancement – The pool is granular, consisting of 6,538 obligors, with the top 10 obligors accounting for 0.6% of the pool principal as on the cut-off date, thereby reducing the exposure to any single borrower. Further, the credit

enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, ~99% of the contracts in the pool have never been delinquent with remaining contracts having peak days past due (dpd) of up to 30 days in pool, which is a credit positive.

Seasoned contracts in the pool – The pool has an average amortisation of ~18% and average seasoning of ~22 monthly instalments on the cut-off date. This reflects the repayment track record and buildup in borrower equity which is a credit positive.

Contracts backed by self-occupied residential properties – The entire pool is backed by self-occupied residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Tamil Nadu, Andhra Pradesh and Telangana, contributing ~89% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 7% to 27% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position: Superior

The liquidity for both series of PTCs is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would more than 10 times the estimated loss in the pool for both series of PTCs.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (FSBFL) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the analysis of the performance of FSBFL's portfolio till June 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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 rating is 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 small business customers 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, 2024, the company had 547 branches across 10 states/Union Territories.

The company was listed on the NSE and BSE in November 2022. As of June 30, 2024, the single largest shareholder comprised the individual promoters & promoter group (Mr. Lakshmpathy Deenadayalan and his family), with an 18.3% stake in the company, on a fully-diluted basis.

Key financial indicators

Five-Star Business Finance Limited	FY2023	FY2024	Q1 FY2025
	Audited	Audited	Provisional
Total income	1,528.9	2,195.1	669.4
PAT	603.5	835.9	251.6
Total managed assets	8,702.8	11,688.8	12,395.2
Gross NPA	1.4%	1.4%	1.4%
CRAR	67.2%	50.5%	48.4%

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

Trust Name	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
	Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
			September 11, 2024	-	-	-	
Dhruva XXIII	PTC Series A1	90.00	Provisional [ICRA]AAA(SO)	-	-	-	
	PTC Series A2	60.00	Provisional [ICRA]AAA(SO)	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	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 (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
NA	Dhruva XXIII	PTC Series A1	September 11, 2024	9.25%	July 15, 2030	90.00	Provisional [ICRA]AAA(SO)
NA		PTC Series A2		9.50%		60.00	Provisional [ICRA]AAA(SO)

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

Rushabh Gohel

+91 22 6114 3450

rushabh.gohel@icraindia.com

Arijit Datta

+91 22 6114 3400

arijit.datta@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar

+91 22 6114 3406

shivakumar@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



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