December 23, 2024

Five-Star Business Finance Limited: Ratings upgraded for PTCs issued under small business loan securitisation 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 Nov-24 Payout (Rs. crore)	Rating Action
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(b)	23.45	18.49	5.14	[ICRA]AAA(SO); upgraded from [ICRA]AA+(SO)
Indigo 022	Series A1 PTC	72.00	48.31	29.44	[ICRA]AAA(SO); upgraded from [ICRA]AA(SO)

^ The transactions have been referred to as Dhruva XII and Indigo 022 in this rationale

**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/Originator; rated [ICRA]AA- (Stable)}.

The ratings upgrade for the PTCs in the transactions factor in the build-up of the credit enhancement cover over the future PTC payouts on account of high pool amortisation and healthy pool performance. The ratings also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection levels observed in the pools till the November 2024 payout month.

Pool performance summary

Parameter	Dhruva XII	Indigo 022
Payout month	November 2024	November 2024
Months post securitisation	44	23
Pool amortisation (as % of initial pool principal)	80.43%	53.20%
PTC amortisation (as % of initial PTC principal)	78.09%	59.11%
Cumulative collection efficiency[1]	99.41%	99.26%
Cumulative prepayment rate[2]	37.70%	28.12%
Average monthly prepayment rate	1.07%	1.43%
Loss-cum-30+ days past due (dpd; % of initial pool principal)[3]	5.86%	3.02%
Loss-cum-90+ dpd (% of initial pool principal)[4]	0.50%	0.33%
Breakeven collection efficiency[5]	11.64%	55.14%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%
CC available (as % of balance pool)	20.44%	10.68%
Excess interest spread (EIS; as % of balance pool)[6]	20.63%	31.65%
Principal subordination (% of balance pool principal)	66.42%	21.37%

[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*

[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/A1(a)/A1(b) – Originator's residual share) / Pool principal outstanding*

Transaction structure

As per the structure, the monthly cash flow schedule for both transactions comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the PTC principal.

Key rating drivers and their description

Credit strengths

Healthy pool performance – The pools' performance has been healthy with a cumulative collection efficiency of ~99% till the November 2024 payout month. This has resulted in low delinquencies with the 90+ days past due (dpd) at sub-0.6% for both pools. The breakeven collection efficiency is also low compared to the collection efficiency observed in both pools.

Considerable build-up of credit enhancement – The rating factors in the build-up in the credit enhancement with the cash collateral (CC) and subordination increasing from the time of securitisation for both pools. Further, there have been no instances of CC utilisation till date owing to the strong collection performance and the presence of subordination and EIS in the transactions.

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

Adequate servicing capability of the originator – The company has adequate processes for the servicing of the loan accounts in the securitised pools. It has a demonstrated track record of over five years of regular collections and recoveries and has expanded its presence to 10 states/Union Territories with over 650 branches.

Credit challenges

High geographical concentration – The pools have high geographical concentration with the top 3 states, viz. Tamil Nadu, Andhra Pradesh and Telangana, contributing 85-95% to the balance pool principal amounts. The pools' performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Exposed to interest rate risk – The Indigo 022 transaction is exposed to interest rate risk as the underlying pool has fixed rate loans while the yield on the PTCs is floating (linked to 1-year Punjab National Bank (PNB) MCLR with semi-annual reset).

Risks associated with lending business – The pools' 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 pools, ICRA has estimated the shortfall in the pool principal collection during its tenure at 1.00% and 2.00% of the initial pool for Dhruva XII and Indigo 022, respectively. The average prepayment rate for the underlying pools 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 instruments.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Dhruva XII	Indigo 022
Originator	Five-Star Business Finance Limited	Five-Star Business Finance Limited
Servicer	Five-Star Business Finance Limited	Five-Star Business Finance Limited
Trustee	Catalyst Trusteeship Limited	Catalyst Trusteeship Limited
CC holding bank	IndusInd Bank	DCB Bank
Collection and payout account bank	ICICI Bank	ICICI Bank

Liquidity position: Superior

The liquidity for the PTC instruments is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be greater than 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool of contracts, 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 rating.

Analytical approach

The rating action is based on the performance of the pools till October 2024 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

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 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 on September 30, 2024, the company had 660 branches across 10 states/Union Territories.

The company was listed on the NSE and BSE in November 2022. As on September 30, 2024, the single largest shareholder comprised the individual promoters & promoter group (Mr. Lakshmipathy 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	H1 FY2025
	Audited	Audited	Provisional
Total income	1,528.9	2,195.1	1,375.2
PAT	603.5	835.9	519.5
Total managed assets	8,702.8	11,688.8	12,819.9
Gross NPA	1.4%	1.4%	1.5%
CRAR	67.2%	50.5%	48.7%

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 (FY2025)			Chronology of Rating History for the Past 3 Years				
		Instrument	Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					Dec 23, 2024	Jan 29, 2024	Feb 16, 2023	Feb 21, 2022	Apr 21, 2021
1	Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(b)	23.45	5.14	[ICRA]AAA(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)

S. No.	Trust Name	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
		Instrument	Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
					Dec 23, 2024	Jan 29, 2024	Jan 05, 2023	Dec 30, 2022	-
2	Indigo 022	Series A1 PTC	72.00	29.44	[ICRA]AAA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Dhruva-XII Northern Arc SBL 03 2021	PTC Series A1(b)	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	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
-	**Dhruva-XII Northern Arc SBL 03 2021**	PTC Series A1(b)	March 23, 2021	9.50%	March 21, 2027	5.14	[ICRA]AAA(SO)
INE0OCN15010	**Indigo 022**	Series A1 PTC	December 30, 2022	9.75%*	May 17, 2028	29.44	[ICRA]AAA(SO)

** Coupon linked to 1-year PNB MCLR with semi-annual reset*

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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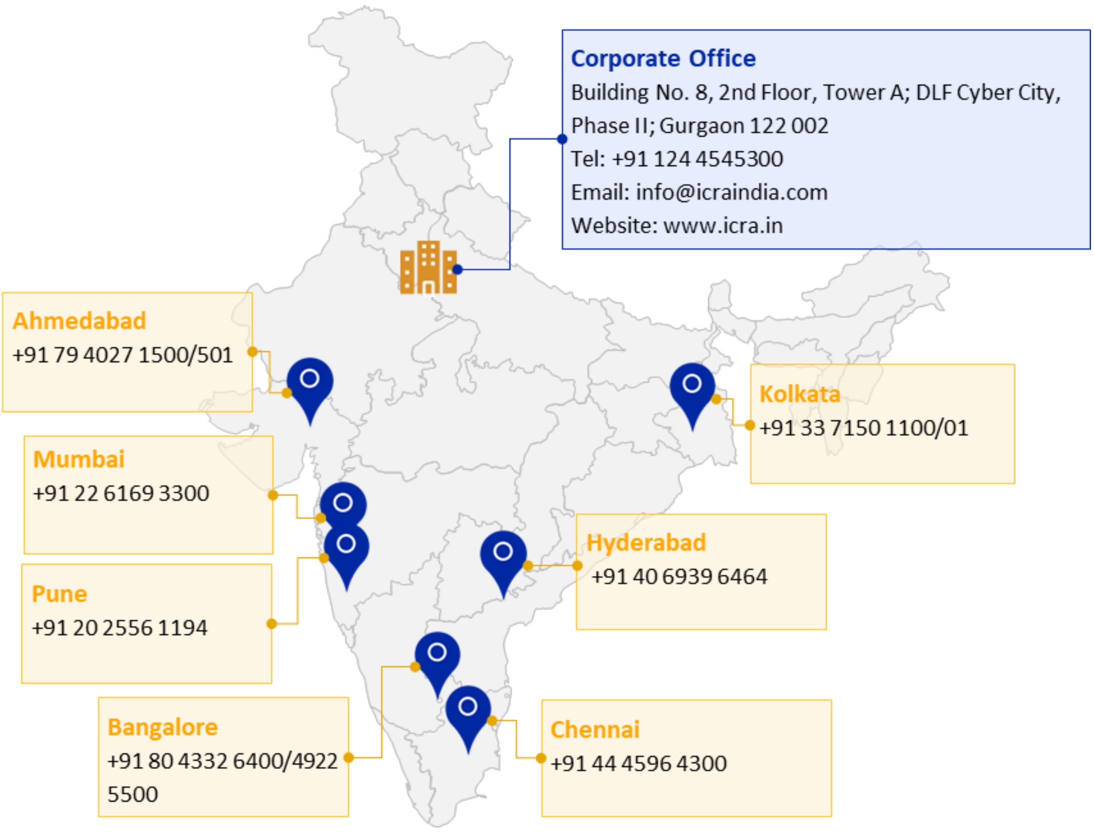

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