Click to Provide Feedback

RATING ACTION

Ratings assigned

Long-term Ratings

PTC Series A1(a) – Provisional [ICRA]AA(SO)
PTC Series A1(b) – Provisional [ICRA]AA(SO)

PTC Amounts Rated

PTC Series A1(a) – Rs. 85.50 crore

PTC Series A1(a) – Rs. 21.80 crore

ANALYST CONTACTS

Abhishek Dafria
Senior Vice President
+91 22 61143440
abhishek.dafria@icraindia.com

Sachin Joglekar
Vice President
+91 22 61143470
sachin.joglekar@icraindia.com

Gaurav Mashalkar
Assistant Vice President
+91 22 61143431
gaurav.mashalkar@icraindia.com

Alwin Thankachan
Senior Analyst
+91 22 61143411
alwin.thankachan@icraindia.com

Rushabh Gohel
Analyst
+91 22 61143420
rushabh.gohel@icraindia.com

Rating Rationale

ICRA has assigned a provisional [ICRA]AA(SO) rating to the Pass-through Certificates (PTC) Series A1(a) and provisional [ICRA]AA(SO) rating to PTC Series A1(b) backed by a pool of Rs. 115.47 crore (pool principal; receivables of Rs. 217.47 crore) small business loans (SBL) receivables originated by Five-Star Business Finance Limited (FSBFL / Originator; rated [ICRA]AA-(Stable)).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts. Credit enhancement is 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) overcollateralisation 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% 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, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction, and the furnishing of a legal opinion on the transaction to ICRA by FSBFL.

Key Rating Drivers

Credit Strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), overcollateralisation and cash collateral (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 around 95% of the pool principal as on the cutoff 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

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 credit enhancement would result in a ratings upgrade.

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 credit enhancement utilisation levels, would result in a ratings downgrade.

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.

Originator Profile

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 March 2023, the individual promoters & promoter group (Mr. Lakshmipathy Deenadayalan and his family) held 18.5% of the stake in the company, being the single largest shareholders.

Key financial indicator

Five-Star Business Finance Limited	FY2022	FY2023	Q1 FY2024
	Audited	Audited	Provisional
Total income (Rs. crore)	1,256.2	1,528.9	483.6
PAT (Rs. crore)	453.5	603.5	183.7
Total managed assets (Rs. crore)	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%

Source: *Company, ICRA Research; All ratios as per ICRA calculations*

Transaction Summary

The key transaction details are provided in Exhibit 1.

Exhibit 1: Key transaction details

Issue Name	Dhruva XXI 2023
Originator and servicer	Five-Star Business Finance Limited
Trustee	Catalyst Trusteeship Limited
Underlying receivables	Instalments and all other charges receivable from 3,202 loan contracts
Pool cut-off date[1]	August 31, 2023
Transaction commencement[2]	September 01, 2023
Pricing structure	Par
Payout date	19th of every month; collections pertaining to month M shall be paid on the above-mentioned day of Month M+1; first payout is on October 19, 2023

Source: Company

Legal Structure

Assignment of receivables

FSBFL would assign the future receivables arising from the selected pool of 3,202 loans to a special purpose vehicle (SPV; the Trust). The transfer would be at par, i.e. the Trustee will pay the par value of the loan pool to the Originator as the upfront purchase consideration. The Trust will issue two series of PTCs, viz. PTC Series A1(a) and PTC Series A1(b), backed by small business loan receivables. The upfront purchase consideration to be paid by PTC Series A1(a) to the Trustee will be 74.05% of the total pool principal, i.e. Rs. 85.50 crore and 18.88% of the total pool principal, i.e. Rs. 21.80 crore by PTC Series A1(b).

Credit Structure

PTC payout schedule

The underlying loans follow monthly payment schedule. The monthly cash flow schedule will comprise of promised interest (at the pre-determined yield and to be distributed on pari passu basis to the holders of PTC Series A1(a) and PTC Series A1(b)) on the outstanding PTC principal on each payout date. The principal repayment to PTC Series A1(a) and PTC Series A1(b) is promised on the last payout 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 Series A1(a), the entire principal payments, including prepayments, will be made to PTC Series A1(a).

Credit enhancement

The Credit Enhancement shall be provided and utilised as shown in the following exhibit.

Exhibit 2: Credit enhancement details

Source	% of Pool Principal

[1] *The date as on which the pool selection filters are applied*

[2] *The cash flow scheduled from this date is assigned to the investors*

Overcollateral for PTC Series A1(a) and PTC Series A1(b)	7.07%
EIS for PTC Series A1(a) and PTC Series A1(b)	57.79%
CC	5.00%

Source: Company

Overcollateral-cum-EIS: The first line of support for the PTCs in the transaction is in the form of overcollateralisation of 7.07% of the initial pool principal. Further, EIS of 57.79% of the initial pool principal is available for the PTCs.

CC: A CC of 5.00% of the initial pool principal (Rs. 5.77 crore), to be provided by FSBFL, would act as further credit enhancement in the transaction. The CC will be in the form of a fixed deposit maintained with a bank acceptable to ICRA. 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 shortfall.

Treatment of Foreclosures

On the pre-termination of a contract (owing to either voluntary prepayment by the borrower or repossession and sale of the underlying property), an amount equal to the unbilled principal outstanding (along with prepayment charges collected, if any) on that contract will be paid out to the PTC Investor (as per the waterfall mechanism defined below) on the subsequent payout date. The future monthly payout to the Investor will be revised to the extent of acceleration of its principal amortisation owing to pre-terminations. Since the receivables are being transferred on par value, pre-terminations will not result in yield compression for the Investor although the EIS available in the structure would get reduced because of pre-terminations.

Collection and payment mechanism

The Trustee shall open a no-lien Trust & Retention Account (Trust Account) with the Approved Bank. All monies credited in the Trust Account (including investment of such funds and returns thereon) shall be held in trust for the benefit of the investors. As the Servicer, FSBFL will collect the receivables from the pool accounts and transfer the collections to the Trust Account on a monthly basis, at least one day prior to each payout date.

In respect of collections of a particular month M, the payouts will be made monthly, on the 19th of month M+1, starting with October 19, 2023. At least one day prior to each payout date, the servicer shall prepare a summary report on the pool collections/pre-terminations on a monthly basis. The report will include the calculation of the utilisation of the credit enhancement. The Servicer will send the detailed monitoring report to the Trustee latest by T-2 (T being the payout date). The investors shall have the right to modify the above collection mechanism.

Waterfall mechanism

On each Payout Date, proceeds realized by the Trustee from the Receivables in the Collection Period immediately preceding the relevant Payout Date and deposited in the collection and payout account by the Servicer, together with any amounts then available in the collection and payout account and amounts drawn, to the extent necessary, from the Credit Enhancement and transferred to the collection and payout account in accordance with the Transaction Documents shall be utilized by the Trustee in the orders of priority provided below:

Till such time as the PTC Series A1 are outstanding:

i. payment of Senior Costs (including all statutory and regulatory dues and any fees or expenses incurred or payable by the Trustee in relation to the obligations and duties contained in the Securitisation Documents, including any payments made to any service providers (including Servicing Fee) as may be required under the terms of the Securitisation Documents) ;
ii. payment of the Overdue PTC Series A1 Interest;
iii. payment of the PTC Series A1 Interest due;
iv. payment of expected PTC Series A1 Principal (including any unpaid expected amounts in respect of the PTC Series A1 Principal pertaining to earlier Collection Periods);

v. any Prepayment Proceeds will be utilised for prepayment/accelerated redemption of PTC Series A1 Principal;
vi. for reimbursement of the Cash Collateral (to the extent drawn on any Payout Date and not reimbursed already); and
vii. all residual amounts remaining after application in accordance with (i) to (vi) above shall be utilised for payment to the Residual Beneficiary.

Following redemption of the PTC Series A1(a) in full:

i. for payment of all statutory and regulatory dues;
ii. for the payment of any fees and expenses incurred by the Trustee or any fees payable to service providers and/or any other amounts expressly provided for in the Transaction Documents;
iii. for payment of overdue interest payouts due to PTC Series A1(b);
iv. for payment of current interest payouts due to the PTC Series A1(b);
v. payment of expected principal for PTC Series A1(b) (For the avoidance of doubt, it is clarified that Series A1(b) Principal in this instance will include any unpaid expected Series A1(b) Principal pertaining to earlier periods, payable to the holders of PTC Series A1(b));
vi. any prepayments would be utilized for payment of Series A1(b) Principal;
vii. for reimbursement of the First Loss Credit Enhancement (to the extent drawn on any Payout Date and not reimbursed already); and
viii. for payment to the Residual Beneficiary.

Following redemption of the PTC Series A1(b) in full:

i. for payment of all statutory and regulatory dues;
ii. for the payment of any fees and expenses incurred by the Trustee or any fees payable to service providers and/or any other amounts expressly provided for in the Transaction Documents;
iii. for payment of overdue interest payouts due to PTC Series A1(a);
iv. for payment of current interest payouts due to the PTC Series A1(a);
v. payment of expected principal for PTC Series A1(a) (For the avoidance of doubt, it is clarified that Series A1(a) Principal in this instance will include any unpaid expected Series A1(a) Principal pertaining to earlier periods, payable to the holders of PTC Series A1(a));
vi. any prepayments would be utilized for payment of Series A1(a) Principal;
vii. for reimbursement of the First Loss Credit Enhancement (to the extent drawn on any Payout Date and not reimbursed already); and
viii. for payment to the Residual Beneficiary

Following redemption of the Series A1 PTCs in full:

i. for payment of all statutory and regulatory dues;
ii. for the payment of any fees and expenses incurred by the Trustee or any fees payable to service providers and/or any other amounts expressly provided for in the Transaction Documents; and
iii. for payment to the Residual Beneficiary

Treatment of expenses

As per the terms of the transaction the initial expenses and fees and any further expenses and fees are to be borne by the Originator/Servicer directly. The Servicer shall be entitled to a servicing fee of 0.03% of the opening pool principal outstanding plus applicable taxes and cess to be levied, would be payable on every Investor Payout date.

Clean-up call

Subject to the applicable law, at any time after the residual value, i.e. the value of the outstanding principal of the facilities comprising the pool falls below 10% (ten per cent) of the aggregate principal of the facilities comprising the pool on the pool cut-off Date, the Seller will have the option to buy the fully-performing facilities, exercisable at its sole discretion. The price payable by the Seller, upon exercising the Clean-up Call Option, will be an amount equal to the principal value of such fully-

performing facilities as of the date of exercising the Option. This Option can be exercised only if the cash collateral available at the time of exercising the same is larger than the principal balance of the non-performing facilities.

Pool Characteristics

Exhibit 3: Key pool characteristics

Key Pool Characteristics	
Future Receivables (Rs. crore)	217.47
Pool Principal (Rs. crore)	115.47
Number of Loans	3,202
Number of Lending District	126
District wise Concentration (top 5) (%)	17.47%
Door-to-Door Tenure for pool (months)	72
Amount Overdue	Nil
Wt avg. Original Tenure (months)	83.98
Wt avg. Balance Tenure (months)	69.56
Wt avg. Seasoning (months)	14.21^
Wt avg. LTV (%)	38.07%
Wt avg. ROI (%)	24.56%
Wt avg. FOIR (%)	44.23%

Source: Company data;
^ Basis the number of instalments paid as shared by originator

Exhibit 4: FOIR distribution

FOIR (%)	Share in Pool (%)
0-25%	1.13%
25-35%	7.07%
35-50%	91.79%
>50%	-
Total	**100.00%**

Source: Company data

Exhibit 5: Seasoning Wise distribution

No of instalments paid^ (months)	Share in Pool (%)
12-13	80.89%
14-20	11.35%
21-30	5.58%
31-40	2.19%
Total	**100.00%**

Source: Company data;
^ Basis the number of instalments paid as shared by originator

Exhibit 6: Distribution by Loan Amount (Ticket Size)

Ticket Size (Rs. Lakhs)	Share in Pool (%)
Up to 3	9.40%
3-5	76.45%
5-7	10.10%
7-10	4.05%
Total	**100.00%**

Source: Company data

Exhibit 7: Original tenure-wise distribution

Original Tenure (months)	Share in Pool (%)
72	0.20%
84	99.80%
Total	**100.00%**

Source: Company data

Exhibit 8: LTV wise distribution

LTV (in %)	Share in Pool (%)
0-30	21.44%
30-40	31.83%
40-50	46.73%
Total	**100.00%**

Source: Company data

Exhibit 9: Distribution by ROI

ROI (in %)	Share in Pool (%)
22-24	-
24-26	100.00%
26-28	-
Total	**100.00%**

Source: Company data

Exhibit 10: Distribution by peak DPD

Peak DPD	Share in Pool (%)
Nil	84.77%
1-30	15.23%
Total	**100.00%**

Source: Company data

Exhibit 11: Distribution by state

State	Share in Pool (%)
Tamil Nadu	34.82%
Andhra Pradesh	31.16%
Telangana	28.79%
Karnataka	4.40%
Madhya Pradesh	0.84%
Total	**100.00%**

Source: Company data

Exhibit 12: Distribution by district

District	State	Share in Pool (%)
East Godavari	Andhra Pradesh	4.83%
Nellore	Andhra Pradesh	3.62%
Nalgonda	Telangana	3.15%
Krishna	Andhra Pradesh	3.03%
Chittoor	Andhra Pradesh	2.85%
Anantapur	Andhra Pradesh	2.71%
Kurnool	Andhra Pradesh	2.68%
West Godavari	Andhra Pradesh	2.59%
Coimbatore	Tamil Nadu	2.40%
Kanyakumari	Tamil Nadu	2.27%
Others (116 districts)		69.87%
Total		**100.00%**

Source: Company data

Originator/Servicer Analysis

Business model

The company is currently engaged mainly in providing Collateralized Small Business Loans to its customers in urban, semi-urban and fast-growing rural geographies. All its loans are collateralised and fully secured against property. The collaterals are usually the residential house property of the borrower(s) (self-occupied in a majority of cases) with exclusive charge resting

with FSBFL. The loans disbursed by the company are to small business entrepreneurs and self-employed individuals engaged predominantly in service-oriented businesses.

Product Profile

The company caters to borrowers who are a part of lower and middle-income group. The company is primarily a single product entity, differentiated by two primary end uses : business and others (others would have asset creation, which would be in the form of home improvement/renovation/construction or could be for any exigency faced by the borrower like medical emergency, wedding in the family, children's' education etc.), all of which are similarly underwritten and priced. The company provides secured business loans to meet the working capital needs of the businesses and for business development. All the loans of the company are secured with more than 95% backed by self-occupied residential properties. The average ticket size of loans is about Rs.3.5-4 Lakhs (typically loan amounts are between 1 and 10 Lakhs) with LTV & DBR norms of ~40-50% on origination and tenors of up to 84 months at origination. The IRRs for the loans are primarily in range of 24-26%.

Credit Appraisal

FSBFL follows a 3-tier approach to Credit review, appraisal & underwriting. The first level of credit appraisal is done at a branch level. Initial screening of any prospective customer is done by the Branch Manager who collects information on income, property, loan requirement, purpose etc. and ensures that these fall within the Loan Policy guidelines of the company. Rejections at this stage could be for a variety of reasons like political affiliation, negative sectors / occupation, unsuitable property etc. Once screened and found proper, the potential customer needs to deposit a fixed fee as documentation charges (initial processing fee) along with basic KYC documents and application form. Branch Manager and Sales / Relationship Officer (RO) then visits the customer location to verify property to be mortgaged, assess living standards, nature and place of business, understand market potential etc., basis which inspection report and valuation reports are prepared on the basis of their assessment of the market rates in the vicinity. The Branch Manager/Officer undertakes an evaluation of the customer's income through formal and observatory means relying on various surrogates in order to ascertain the repayment capacity of the borrower. As a part of credit assessment, the income of the borrower is independently verified through formal and observatory means, and neighborhood checks on the borrowers' background and credit history (existing loans) are done. Interactions with customers and suppliers to the borrowers' business are also arranged to validate estimates regarding the borrower's business. The property visiting officer captures the photographs of original property documents to evidence the availability of original documents. Branch Manager then prepares the inspection report which contains recommended loan amount, tenor and rate of interest, assessment of collateral (property) value, assessment of borrowers' income with the customer inputs on loan amount & tenor requested and property value.

A separate independent evaluation is prepared by Field Credit Officer by a second visit to prospective borrower and property. The Field Credit Officer follows a process similar to the branch and evaluates the Income, property etc. and sends a report to the File Credit with similar parameters as the Branch inspection report.

File credit officers evaluate the 2 reports received separately and independently from the Branch & Field Credit Officer. Based on these 2 independent reports and verification of information (through telecalling with borrowers etc.), the Loan Amount, Tenor, Interest Rate and EMI recommendations are decided and sent for approval. At this stage, file credit also receives the legal verification reports of property documents. Post this, the file is reviewed by a credit approver and sanctioned basis an approval matrix which has limits on various parameters like loan ticket, LTV, DBR etc. Encumbrance check is also conducted pre and post sanctioning the case. Post approval sanction letter is issued to customer and he/she is informed of the terms of sanction. Documentation is prepared as per sanction terms by team at HO and documents are sent to the branch for completion of documentation. Registration of the mortgage on the property is then completed. Post obtaining all necessary loan documentation and after verification of FSBFL name appearing in the Encumbrance Certificate (EC), the loan is disbursed.

IT Systems

The company uses Nucleus software's lending solution Finn One Neo, which is being used by large NBFCs. The company has availed most of their modules including CAS (customer acquisition system), LMS (loan management system), collection module and mobility systems. All the loans from are being booked only in this system.

Internal Audit

Internal audit is performed by both external auditors and internal auditors. The company has engaged M/s Sundaram & Srinivasan, a reputed charted accountancy firm of more than 75 years' vintage and the current statutory auditors for Chola (and past statutory auditors for Sundaram Finance) as its external Internal Auditors. They cover various aspects on accounting, taxation, compliance etc. The inhouse internal audit team comprise more than 30 employees who undertake branch auditing, branch visits and auditing of Head Office. The branch visits are conducted so as to cover every branch atleast twice every year.

Collections

To add further focus to collections, the company has added collections officers to branches in the last ~9-12 months. These officers handle collections on all accounts in the branch with vintage of more than 2 years. Thus, while ensuring responsibility remains with the Field Officer for the first 24 months of the loan, it is intended to free the bandwidth of the Field Officers while also ensuring focus on collections through a dedicated resource post this. As at Sep-22, there were 964 dedicated Collections Officers in branches where there were loans of vintage >2 years as per company policy.

Disbursement volumes

The movement in the company's disbursement volumes are depicted in the following exhibit.

Exhibit 13: Quarterly disbursements (Rs. crore)

Source: Company data, ICRA Research

The company did disbursements of Rs. 3,391 crore in FY2023 (YoY growth of ~93%) compare to Rs. 1,756 crore in FY2022. The average quarterly disbursements had increased considerably from ~Rs. 19 crore in FY2015 to around Rs. 602 crore in FY2022. Quarterly disbursements surpassed pre-Covid levels in Q3 FY2023 and has disbursed Rs. 1,132 crore (YoY growth of 99%) in Q1 FY2024. The disbursements in FY2021 declined by 48% YoY due to lockdowns and resultant lower economic activity because of the Covid-19 pandemic especially in the first half of the year. H1 FY2022 witnessed second wave of Covid-19 and resultant regional lockdowns. Though disbursements improved in H1 FY2022 to Rs. 686.5 cr, a growth of 172.2% as compared to H1 FY2021 on account of low base, it remained lower than the pre-covid levels. Disbursements started picking up pace in H2 FY2022 and stood at Rs.1,069.5 crrore.

Asset quality

The movement in the portfolio delinquency levels over the years is brought out in the following exhibit.

Exhibit 14: Delinquency movement in portfolio

Month	Overall Portfolio			
	Portfolio Size (Rs. crore)	0+ dpd*	30+ dpd	90+ dpd
Mar-2015	131.5	31.50%	22.60%	7.90%
Mar-2016	198.1	29.80%	20.90%	4.50%
Mar-2017	483.4	23.90%	14.20%	2.50%
Jun-2017	533.6	31.38%	17.87%	3.09%
Dec-2017	686.5	28.30%	16.20%	2.22%
Mar-2018	979.9	26.87%	14.48%	1.45%
Jun-2018	1,187.9	27.66%	15.37%	1.47%
Sep-2018	1,464.9	23.49%	13.06%	1.11%
Dec-2018	1,710.1	22.57%	12.45%	1.15%
Mar-2019	2,073.5	20.43%	11.03%	0.87%
Jun-2019	2,389.8	22.10%	11.92%	0.94%
Sep-2019	2,751.9	20.02%	11.03%	0.81%
Dec-2019	3,228.1	18.72%	10.23%	0.74%
Mar-2020	3,892.2	25.83%	11.82%	1.37%
Jun-2020	3,867.4	10.82%	5.97%	1.38%
Sep-2020	3,928.1	12.71%	3.27%	1.28%
Dec-2020	4,031.0	22.52%	9.54%	1.29%
Mar-2021	4,445.4	23.74%	12.36%	1.02%
Jun-2021	4,579.4	37.51%	21.68%	1.68%
Sep-2021	4,639.3	33.00%	17.66%	1.44%
Dec-2021	4,767.3	32.62%	19.36%	1.27%
Mar-2022	5,067.1	28.07%	16.78%	1.05%
Jun-2022	5,296.5	25.30%	15.71%	1.12%
Sep-2022	5,732.4	21.69%	13.62%	1.15%
Dec-2022	6,242.4	19.13%	12.10%	1.45%
Mar-2023	6,914.8	16.49%	10.51%	1.36%
Jun-2023	7,583.3	15.23%	9.68%	1.41%

*Source: Company data, ICRA Research; *Dpd – Days past due*

The coincidental 90+ dpd of the company increased from 1.02% as on Mar-21 to 1.68% as on Jun-21 and improved sequentially to 1.05% as on Mar-22. The 90+ dpd as on Jun-23 is still lower compared to other lenders which is largely attributable to underwriting, collection and recovery strategies of the company. Incrementally for FY2023 company has written-off loans amounting to ~Rs 12 crore. Write-off for Q1 FY2024 stood at Rs. 1.85 crore.

Static Pool Analysis

The table below presents the 90+ delinquency analysis (as a share of total disbursement during that vintage) gross of write-offs.

EXHIBIT 15: 90+ Static Analysis (including write-off) as on Jun-23

Quarter of Disb*	Disb* Amt (Rs crore)	Months post origination											
		6	12	18	24	30	36	42	48	54	60	72	84
FY2016 Q1	21.9	0.09%	2.30%	3.27%	5.00%	4.31%	5.70%	5.10%	4.72%	3.81%	3.74%	3.55%	3.83%
FY2016 Q2	29.1	0.36%	1.45%	3.95%	4.12%	4.49%	3.39%	3.04%	3.37%	3.45%	3.27%	2.55%	2.09%
FY2016 Q3	27.4	0.51%	4.06%	4.58%	3.67%	4.45%	3.35%	2.85%	1.97%	2.34%	2.43%	1.44%	1.34%
FY2016 Q4	45.6	0.78%	2.79%	3.63%	3.96%	5.36%	5.02%	4.19%	4.29%	4.07%	3.93%	3.53%	3.46%
FY2017 Q1	46.7	0.78%	3.31%	5.24%	6.70%	4.63%	4.41%	3.00%	3.63%	3.44%	4.31%	3.05%	2.93%
FY2017 Q2	88.6	0.94%	2.93%	4.30%	5.88%	5.05%	4.82%	4.18%	4.00%	3.92%	4.17%	3.74%	

Quarter of Disb*	Disb* Amt (Rs crore)	Months post origination											
		6	12	18	24	30	36	42	48	54	60	72	84
FY2017 Q3	92.8	0.90%	3.34%	6.86%	5.13%	5.50%	4.53%	5.31%	5.11%	6.24%	5.45%	4.91%	
FY2017 Q4	144.9	0.60%	3.15%	4.30%	4.34%	3.89%	5.20%	4.63%	4.94%	5.21%	4.65%	4.16%	
FY2018 Q1	76.2	0.51%	3.67%	4.05%	4.52%	4.26%	3.72%	3.80%	4.32%	3.92%	3.67%	3.73%	
FY2018 Q2	191.4	1.05%	1.58%	1.90%	2.48%	2.93%	2.90%	3.36%	4.01%	3.40%	3.00%		
FY2018 Q3	169.3	0.54%	1.51%	2.00%	1.98%	2.61%	2.69%	3.76%	3.44%	2.95%	3.00%		
FY2018 Q4	246.9	0.20%	1.04%	1.58%	2.40%	2.35%	2.96%	4.11%	3.55%	3.50%	3.17%		
FY2019 Q1	283.4	0.26%	1.09%	1.66%	1.63%	1.92%	3.97%	4.02%	3.01%	2.97%	2.84%		
FY2019 Q2	368.3	0.07%	0.60%	1.32%	1.21%	2.15%	3.51%	3.08%	2.83%	2.67%			
FY2019 Q3	339.7	0.06%	0.57%	0.70%	1.15%	3.07%	3.43%	2.67%	2.92%	2.87%			
FY2019 Q4	472.0	0.08%	0.55%	0.39%	1.01%	2.52%	2.22%	2.12%	1.94%				
FY2020 Q1	433.3	0.11%	0.16%	0.45%	2.27%	2.55%	2.19%	2.39%	2.28%				
FY2020 Q2	507.7	0.01%	0.05%	0.75%	2.20%	2.21%	2.53%	2.28%					
FY2020 Q3	645.5	0.00%	0.07%	1.28%	1.83%	1.51%	1.80%	1.95%					
FY2020 Q4	807.8	0.01%	0.27%	1.44%	1.47%	1.66%	1.53%						
FY2021 Q1	24.2	0.00%	0.00%	0.13%	0.30%	0.62%	0.67%						
FY2021 Q2	242.2	0.00%	0.10%	0.28%	0.32%	0.40%							
FY2021 Q3	330.8	0.01%	0.28%	0.31%	0.52%	0.60%							
FY2021 Q4	661.9	0.01%	0.19%	0.42%	0.37%								
FY2022 Q1	333.2	0.08%	0.20%	0.37%	0.37%								
FY2022 Q2	353.3	0.01%	0.08%	0.14%									
FY2022 Q3	426.0	0.01%	0.04%	0.11%									
FY2022 Q4	643.8	0.01%	0.06%										
FY2023 Q1	568.4	0.00%	0.04%										
FY2023 Q2	802.8	0.01%											
FY2023 Q3	910.3	0.00%											
FY2023 Q4	1,110.0												
FY2024 Q1	1,131.9												
Avg		0.3%	1.2%	2.1%	2.6%	3.0%	3.4%	3.5%	3.6%	3.7%	3.7%	3.4%	2.3%

**Disbursement. Source: Company data*

For FSBFL's portfolio it has been observed that 90+ delinquencies have been slightly higher for FY2017 vintages which have subsequently moderated. The delinquencies were seen to peak between 48-60 months post origination and then reduce. However, the disbursements in portfolio have been increasing and new portfolio would have lower seasoning so delinquencies may not have peaked.

Performance of past PTC pools

ICRA has rated 19 securitisation transactions with underlying receivables originated by FSBFL of which 14 transactions are live as of August 2023 payout month. All live transactions that have completed atleast one payout have reported healthy cumulative collection efficiency of greater than 98% and loss cum 90+ dpd less than 1% post August 2023 payout with no cash collateral utilisation.

Portfolio performance data received from FSBFL

ICRA analysed the following data received from FSBFL on the portfolio:

- Loss cum 90+ dpd information for static monthly vintages till June 2023.
- Delinquency profile of the entire loan book at quarterly intervals (dynamic delinquency) until June 2023
- Cut-wise dynamic delinquency data on certain key portfolio cuts like state, original tenure, loan size, LTV, IRR and FOIR as on June 2023

Key Rating Assumptions

ICRA's cash flow modelling for rating ABS transactions involves simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and the Co-efficient of Variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of the Originator's loan portfolio. Given the limited track record of FSBFL in this business, ICRA has also taken into account the credit quality experience of other more established players and ICRA's expectation of credit quality for the asset classes involved. FSBFL's target borrower segment could be financially quite vulnerable. Also, while the underlying loans are backed by mortgage of immovable property, in the absence of longer track record of security enforcement, both timing and quantum of recovery post default is yet to be established.

The resulting collections from the pool—after incorporating the impact of losses and prepayments as above—are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated, and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after taking into account the above-mentioned factors regarding the asset class, and after adjusting for the key features like seasoning, overdue, LTV, FOIR, ticket size, peak DPD, IRR and geographical distribution, ICRA estimates the shortfall in pool principal collection within the pool's tenure to be 4.0% - 5.0%, with certain variability around it. The variability is based on the static pool analysis of FSBFL's portfolio as well as ICRA's observation on the performance of the same asset class for other originators. ICRA's estimation of the variability also takes into account the relatively shorter track record of FSBFL. The average prepayment rate for the underlying pool is estimated to be 18.0% per annum.

Presented below is a sensitivity analysis, which gives the credit enhancement coverage available for the PTCs under various mean loss scenarios.

Exhibit 16: Sensitivity analysis – Credit enhancement cover for PTC Series A1

Loss	Credit Enhancement* Coverage (times)
4.00%	10.2
4.50%	9.1
5.00%	8.2

Source: Company

**Credit Enhancement includes the CC, principal subordination and 50% of the EIS*

Other variables that influence the amount of credit enhancement include the Servicer's credit quality, the assumption on the build-up of delinquency/loss and the transaction structure. ICRA assumes delinquency build-up to be largely front-ended, as a conservative measure.

Legal opinion

ICRA expects to obtain a legal opinion on the following issues:

- That the sale of the said receivables to the SPV constitutes a sale and that all rights, title and interest in the receivables have been assigned to the SPV;
- That pursuant to the assignment, the receivables would belong absolutely to the investors and such transfer would not be affected by the bankruptcy of the Originator;
- That the CC will be available for the benefit of the PTC holders and unaffected by the bankruptcy of the Originator;
- That the terms of the transaction are as per RBI securitisation guidelines;
- That the transaction documents have been duly executed in accordance with the prevailing stamp duty requirements.

Representations and Warranties

FSBFL will provide the following representations and warranties with respect to the transaction:

- All information provided to ICRA on the portfolio performance and the pool characteristics are correct.
- All receivables in the aforementioned pool are free from all encumbrances, and FSBFL, before the assignment thereof to the investors was the sole legal and beneficial owner of the assets and receivables thereof and has full right to transfer and assign such loan receivables to the investors.
- Each of the underlying documents has been duly executed and is legally valid and enforceable in accordance with the terms thereof. The Originator shall fully recompense the investors, on demand, for any losses that may arise due to any imperfections in documentation.
- Any fiscal levies, including any stamp and other duties, sales tax, service tax and other levies, imposts and taxes imposed in relation to the receivables, on the investors shall be fully paid for/compensated by FSBFL. All expenses and charges incurred in relation to the transaction, including rating agency fees, trustee fees, stamp duties and other fiscal levies shall be fully paid for/compensated by FSBFL.
- With respect to each contract in the pool, there is only one original set of documents with the borrower, which is in the possession of FSBFL.
- In its capacity as the Servicer, FSBFL shall not make any distinction in its collection efforts and follow-up actions on the assigned pool from that of its own portfolio of similar contracts.
- Upon execution of the agreement specified herein above, FSBFL, in any capacity, shall not modify any of the underlying loan agreements without the consent of the investors if such modification may have an adverse impact on the pool cash flows.
- FSBFL shall also ensure that all rights enjoyed by the Originator as per the terms of the underlying loan agreements shall stand transferred to the investor.
- The executant of the legal documentation on behalf of FSBFL has been duly empowered and authorised to execute the same and to perform all obligations in accordance with the terms set out herein.
- FSBFL shall not disburse any top-up loan in respect of any property, the primary loan on which has been included in the assigned pool. In case such a top-up loan is offered, either the primary loan will be closed and correspondingly the principal outstanding on such loan will be pre-paid to the investors or the top-up loan would carry a subordinate charge on the underlying collateral (senior charge with the parent/assigned loan).

Other Risks

Credit and Liquidity Risk

Owing to borrower delinquencies in the assigned pool, collections may fall short of the amount scheduled. The impact on credit quality of such loan portfolios in a scenario of over-leveraging among the borrower segment—which could be fundamentally quite vulnerable financially—especially in a deteriorating operating environment is difficult to quantify.

Nevertheless, ICRA has derived comfort from lending norms and underwriting criteria of FSBFL; and lower delinquency levels for FSBFL overall loan portfolio over a longer track record of around 7 years. It is observed that while the softer delinquency buckets show higher delinquency levels the roll forward to harder delinquency levels is low and further given that the loans are secured by hard collateral which is mostly in the form of residential property there is likely to be recovery from enforcement if needed. Further, usage of information from Credit bureaus like CIBIL as an input to decision making by the lenders, is expected to be a deterrent to willful default by borrowers. Besides, pool selection filters such as minimum seasoning of 6 months and timely past repayment record are a source of comfort.

Prepayment-related Risk

Prepayments (part and full (foreclosures)) would result in reduction in the EIS available in the structure, thereby impacting the credit enhancement. Nevertheless, ICRA has adequately stressed the prepayment rate assumption in its cashflow analysis basis the prepayments seen in the originator's portfolio as well as in other originators and past rated pools. Historically FSBFL pools have had moderate to high prepayment rates.

Co-mingling Risk

Owing to the lag between collections from the pool and payout to the investor, the cash flow from the pool would co-mingle with FSBFL's own cash flows. The maximum period of co-mingling is 48 days, which is the period between the first payin date and the transaction commencement date. The risk related to co-mingling is lower owing to FSBFL's inherent credit profile.

Bankruptcy of Originator/Servicer

The assignment of receivables constitutes a sale and renders the structure remote from the Originator's bankruptcy (same would be covered by a legal opinion by legal counsel). While arriving at the rated for the instrument, ICRA factors in the credit profile of the Originator as despite the bankruptcy remote nature of the instrument, linkages especially on access of cash/credit collateral (CC) would continue to be critical. The Originator of the loans also acts as the Servicer in most pools. In the event of Servicer's bankruptcy or severe weakening of its financial strength, or the company deciding to exit the business entirely or selectively, its ability to perform its role as the Servicer may be severely hindered. This in turn would lead to higher loss in the pool. This risk is mitigated by the longer track record and credit profile of FSBFL.

Counterparty risk

The Servicer is a key counterparty to the transaction and while an alternate servicer may be appointed the same could lead to lower collections and operational gaps in the transitory period. The other key counterparties to the transaction are the Collection and payout account (CPA) bank, CC holding bank and trustee. Since the pool collections are deposited in the CPA, the credit profile of CPA bank would be critical as any regulatory clampdown on accessing the amounts in the CPA account could lead to shortfall in investor payouts. The same would hold true while accessing the CC. ICRA factors in the credit profile of the CC holding bank while monitoring the rating of the instrument as at time of assigning provisional rating CC holding bank may not be decided. The trustee's role is critical to the transaction as its role is to monitor the reports and ensure implementation of legal documents especially waterfall.

Tax Risk

The risk arising from any taxation of the SPV is not addressed by the rating.

ICRA has built in the above risks in its analysis and is of the opinion that the level of credit enhancement provided for the structure is commensurate with the rating of the PTCs.

Other Details

Analytical Approach

The rating action is based on the analysis of the performance of FSBFL 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 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 compliance 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.

Link to Applicable Criterion

Rating Methodology for Securitisation Transactions

September 2023

Exhibit 17: Details of rated facilities

Description	Amount (Rs. crore)	Scheduled Maturity*	Yield (p.a.p.m.)	Rating
PTC Series A1(a)	85.50	September 2029	9.10%	Provisional [ICRA]AA(SO)
PTC Series A1(a)	21.80	September 2029	9.62%	Provisional [ICRA]AA(SO)

** Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
Source: Company

Click to Provide Feedback

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 and www.icraresearch.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.