Dhruva XXV

Originator: Five-Star Business Finance Limited

October 01, 2025

Instrument#	Amount (₹ crore)	Structure	Tenure* (months)	Rating[1]	Credit Enhancement$ (₹ crore)			Rating Action
					Over Collateral	Equity Tranche	Cash Collateral	
Senior Tranche PTCs	643.00	Par (TI-UP Conditional Turbo)	72	Provisional CARE AAA (SO)	89.77	15.35	22.44	Assigned

Details of instruments/facilities in Annexure-1.

The PTCs are rated based on timely payment of interest and payment of principal on or before the last scheduled payout date.

* Tenure / door-to-door maturity may change due to prepayments or changes in interest rates, if any.

$ Excess Interest Spread shall be utilised as per the waterfall mechanism.

Rating in the absence of the pending steps/documents	No rating can be assigned

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has assigned a rating of 'Provisional CARE AAA (SO)' (pronounced as 'Triple A [Structured Obligation]') to Senior Tranche PTCs, proposed to be issued by Dhruva XXV backed by secured small business loans receivables originated by Five-Star Business Finance Limited ("the Originator" or "FSBFL").

The rating is based on credit quality of underlying loans, support in the form of credit enhancement (CE), credit underwriting and servicing capability of the originator, well-defined payment mechanism, and robust legal structure of the transaction.

The final rating will be assigned after copies of the following documents, duly executed in accordance with the structure and to the satisfaction of CareEdge Ratings, are furnished by the originator:

a. Assignment agreement
b. Trust deed
c. Power of attorney
d. A legal opinion from an independent legal counsel
e. Due diligence audit report
f. Any other documents executed for the transaction.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

None

Negative factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Delinquencies (90+ DPD as % of initial POS) of >5% coupled with the sustained lower collection efficiency (cumulative collection efficiency of <90%).
- Deterioration in the credit profile of the originator.
- Utilisation of cash collateral (CC).
- Non-adherence to key transaction terms envisaged at the time of the rating.

Analytical approach

The rating is based on inter alia, analysis of the underlying pool of receivables, expected performance of the pool, performance of originator's portfolio and transaction structure including the proposed CE.

[1]Complete definitions of ratings assigned are available at www.careratings.com and in other CARE Ratings Limited's publications.

Detailed description of key rating drivers

The transaction is structured at par, and Senior Tranche PTCs are rated for the timely payment of interest with the repayment of principal on or before the final legal maturity. The transaction has a conditional turbo amortisation feature. Excess interest spread (EIS) shall be utilised as per waterfall mechanism.

The assigned pool consists of 20,728 secured small business loan contracts, aggregating to a POS of ₹ 748.12 crore as on the cut-off date. All the contracts are current on payment. The pool's weighted average seasoning is around16 months. The pool is geographically concentrated with top three states in the pool accounting for around 92%. The pool is granular with scheduled of cash flows from underlying loans. The assignment of receivables to the special purpose vehicle (SPV) lends strength to these cash flows and the rating factors the terms of servicing agreement as detailed hereinafter.

CE will comprise CC of 3.00%, subordinated over collateral (OC) of 12.00%, subordinated equity tranche (ET) of 2.05% and subordination of EIS of around 62.10% of the pool POS in the structure. CC will be in the form of fixed deposits (FDs) with a lien marked in favour of the trust, per CareEdge Ratings' criteria. The support of OC, ET and EIS, is subject to realisation. EIS is also subject to compression considering prepayments in the pool. Cash flow from underlying pool, and external CE, will be used to make payout to PTC investors.

Key strengths

- Robustness of transaction structure and well-defined payment mechanism.
- CE comprising CC, subordinated OC, equity tranche and EIS.
- No overdue contracts as on the pool cut-off date; all contracts are ever current as on the pool cut-off date.
- Underwriting policies and collection capabilities of FSBFL.
- All the contracts in the pool are self-occupied residential properties as on the pool cut-off date.
- High weighted average seasoning (based on EMIs paid) of over 16 months with minimum seasoning of 12 months.

Key weaknesses

- High geographic concentration with the top three states accounting for around 92% of the pool.
- Borrowers remain susceptible to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of borrowers.

Liquidity: Strong

Inherent liquidity in the structure is strong. Interest payouts for Senior Tranche PTCs are promised monthly, while the principal of Senior Tranche PTCs is promised to be paid by the final legal maturity. In case of delinquency, payouts are expected to be supported by CE in the form of a CC, principal subordination in the form of OC, equity tranche and EIS.

Key rating assumptions and adequacy of credit enhancement:

CareEdge Ratings has analysed the transaction to assess whether the CE is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of underlying pool, CareEdge Ratings has analysed the performance of static pools provided by the originator and overall portfolio performance of the originator. Considering borrower profile, nature of loan, pool characteristics, and portfolio performance, CareEdge Ratings has taken the average shortfall at 5.00%-6.00% of the principal outstanding. Base case shortfalls were stressed with other key factors, such as timing of shortfalls, recovery assumptions, and time to recovery. The pool cash flow has been further adjusted for prepayments of underlying loans, assuming a monthly prepayment in the range of 0.50%-1.00%. CareEdge Ratings has stipulated CE which is commensurate with credit rating of PTCs.

Key risks, concerns and mitigants:

The securitisation transaction involves several risks, including credit risk from borrower defaults, commingling risk due to time lags in fund deposits, prepayment risk from early principal repayments, servicer bankruptcy risk, legal risk regarding the validity of receivable transfers, and counterparty risk involving transaction parties. These risks are factored while assigning rating, wherever needed, and partially mitigated through CE, separate record-keeping, credit rating/profile of the originator, transaction structuring, true sale of receivables, legal opinion from independent legal counsel. The transaction structure also has provision to change counterparties including trustee, and banker among others.

Applicable criteria

Policy on Default Recognition
Assignment of Provisional rating
CARE Ratings' methodology for asset/mortgage-backed securitisation

Validity of Provisional rating

Provisional rating shall be converted into a final rating after receipt of transaction documents duly executed/completion of mentioned steps within 90 days from the instrument's date of issuance. An extension of 90 days may be granted on a case-to-case basis in line with CareEdge Ratings' Policy on Assignment of Provisional Ratings.

Risks associated with Provisional nature of credit rating

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of critical documents to the satisfaction of CareEdge Ratings, the final rating is assigned. In the absence of documents/completion of steps or where such documents deviate significantly from those considered, provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

About the Originator / Servicer and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Securitisation

FSBFL is a non-deposit taking NBFC (loan company), registered with RBI. The company was founded by V K Ranganathan in 1984. FSBFL extends mortgage loans for commencement of new businesses/improvement of their existing businesses (primarily towards the service sector), construction, takeover, home repairs and improvements, and personal loans among others to salaried and self-employed customers. All these loans are collateralised and secured against the residential property of customers and are given targeting the middle and lower middle-class segment in urban, semi urban and fast-growing rural geographies.

As on June 30, 2025, FSBFL has a gross loan portfolio of ₹12,457 crore, operating through 767 branches present across 10 states and one union territory with head office in Chennai, Tamil Nadu (TN). The company has over 12,043 employees as on June 30, 2025.

The company got listed in BSE and NSE in FY23. As on June 30, 2025, individual promoter and associates hold 18.57% of the shareholding (on a paid-up capital basis) and remaining by the public.

FSBFL has been engaged in the secured small ticket loan business for over 10 years and is an active player in securitisation/bilateral market and as on June 30, 2025, FSBFL has 10 such live pools with initial size aggregating to ₹1,730 crore.

Key financial indicators - FSBFL

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	FY25 (A)	Q1FY26 (A)
Total operating income	1,529	2,195	2,866	791
PAT	603	836	1,072	266
Interest coverage (times)	NA	NA	NA	NA
Total assets	8,649	11,403	14,323	14,730
Net NPA (%)	0.69	0.63	0.88	1.25
ROTA (%)	8.08	8.34	8.34	7.33

A: Audited; P: Provisional; NA: Not Available; Note: these are latest financial results available.

Key terms of Servicer Contract:

The servicing agreement shall cover role of the originator as the collection and payment agent (CPA) for the SPV in managing collections from underlying borrowers, who have consented to such assignment through provisions incorporated in the respective loan agreements. The servicer (originator) follows its standard procedures for collections, including recovery actions, and ensures timely transfers of funds to the SPV under an M+1 payment structure. The trustee monitors the sufficiency of funds for investor payouts one day prior to payout date and utilises CC in case of shortfall. The servicer must also submit detailed reports on billing, collections (including prepayment), overdue amounts with aging thereof, cash flow schedules to the trustee and such other information as may be required by the trustee. Terms of the agreement shall have provisions for the appointment of an alternate servicer in case of servicer event of default.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Pass Through Certificates	-	-	-	-	643.00	Provisional CARE AAA (SO)

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Pass Through Certificates	LT	643.00	Provisional CARE AAA (SO)	-	-	-	-

LT- Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of Instrument	Complexity Level
1.	Pass Through Certificates	Highly complex

Annexure-5: Lender details

Not applicable

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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