

December 03, 2021

Lendingkart Finance Limited: Provisional [ICRA]A+(SO) assigned to Series A1 PTC and Provisional [ICRA]A(SO) assigned to Series A2 PTC backed by unsecured small business loans issued by Northern Arc 2021 SBL Denver

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Northern Arc 2021 SBL Denver	Series A1 PTC	39.36	Provisional [ICRA]A+(SO); Assigned
	Series A2 PTC	1.12	Provisional [ICRA]A(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Lendingkart Finance Limited (Lendingkart). The PTCs are backed by receivables from a Rs. 55.16-crore (pool principal amount of Rs. 44.73 crore) pool of unsecured small business loans (SBLs).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 6.00% of the pool principal to be provided by the Originator, (ii) subordination of 12.00% of the pool principal for Series A1 PTC and 9.50% for Series A2 PTC, and (iii) subordination of the excess interest spread (EIS) in the structure. The provisional ratings are also based on the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of principal subordination, EIS and CC
- Absence of overdue contracts as on pool cut-off date
- High average seasoning and pre-securitisation amortisation of the pool as on the pool cut-off date

Credit challenges

- Moderate geographical concentration in the pool with top 3 states accounting for ~32% of the pool principal
- Rise in delinquencies at portfolio level; peaking of delinquencies yet to happen across vintages as most have not completed a cycle
- Pool's performance remains exposed to disruptions caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for Series A1 PTC on a monthly basis will comprise the interest at the predetermined yield on the outstanding PTC principal on each payout date and the entire principal on the final maturity date. Series A2 PTC is subordinate to Series A1 PTC. The entire prepayment amount would be passed on to PTC A1 (till PTC A1 principal is fully amortised) every month and future payouts would be revised accordingly. After the maturity of PTC A1, the same would be passed on to PTC A2.

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 12.00% of the pool principal. After Series A1 PTC has been fully paid, a subordination of 9.50% of the pool principal would be available for Series A2 PTC. Additionally, the EIS available in the structure will provide credit enhancement support to the transaction. The EIS (15.79% of the pool principal initially, based on the indicated PTC yield, for Series A1 PTC and 15.12% for Series A2 PTC) will flow back to the originator after the promised and scheduled payouts to the PTCs have been made every month. However, in case the 30+dpd increases to 5% of the original pool principal in any month post securitisation, the EIS will not pass on to the originator and would instead be utilised towards the prepayment of the principal on a monthly basis.

A CC of 6.00% of the initial pool principal (Rs. 2.68 crore) provided by Lendingkart would act as further credit enhancement in the transaction. The CC will be in the form of a fixed deposit maintained with a bank. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall. The CC not only provides credit support against losses in the pool, it also imparts liquidity to the transaction.

There were no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is moderate with the top 3 states constituting 32% of the pool principal. The pool consists of monthly paying loan contracts, with high seasoning (14.13 months on average) and pre-securitisation amortisation (32.78% on average). The pool has a moderate share of contracts (20.16%) with Internal Rate of Return of more than 30% and a low share of contracts (9.48%) with a ticket size of less than Rs. 5 lakh. None of the contracts in the pool have availed a moratorium since March 2020. However, the pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

Performance of past rated pools: ICRA has rated 20 pools originated by Lendingkart, which are backed by SBLs, of which 10 are live. The performance of the live pools (which have completed at least three months post securitisation) has been good till date with the cumulative collection efficiency between 83% and 100%. The pools have seen moderate to high amortisation till the October 2021 payout month, resulting in significant build-up in the credit enhancement for the balance PTC payouts. No CC has been utilised till date.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and coefficient of variation (CoV) are arrived at on the basis of the values observed in the analysis of the originator's loan portfolio. The assumptions may also be adjusted to account for the current macroeconomic situation as well as 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 during the tenure of the pool is estimated at 5.50-6.50%, with certain variability around it.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity

date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 and PTC Series A2 investors.

Rating sensitivities

Positive factors – The ratings could be upgraded on the sustained strong collection performance of the underlying pool of contracts (>95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

Negative factors – The ratings could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of Lendingkart's portfolio till October 2021, 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	
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 ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's 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 ratings, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Lendingkart Finance Limited (formerly Aadri Infin Limited) is a Lendingkart Group company, which is registered as a non-banking financial company (NBFC) and provides unsecured small and medium enterprise (SME) loans. Lendingkart Technologies Private Limited (LTPL), the technology arm of the Ahmedabad-based Lendingkart Group, holds a 100% stake in

the company. Fullerton Financial Private Limited (FFPL) had a 40.03% stake in LTPL as on June 30, 2020. The Group was started in 2014 by co-founders, Mr. Harshvardhan Lunia and Mr. Mukul Sachan, and raised funds from Fullerton Financial Holdings (FFH), Saama Capital, Mayfield India, India Quotient, Bertelsmann India Investments, Sistema Asia Fund and Darren Capital Management.

The Lendingkart Group is a part of the rapidly evolving fintech industry and it leverages technology to underwrite credit to extend loans to the SME segment. This distinguishes its algo-driven credit capabilities from the physical credit underwriting performed by various industry players. Loans are given to micro and small enterprises for meeting their working capital needs. The underwriting is based on the scoring by a proprietary algorithm.

Key financial indicators

	FY2019	FY2020	FY2021
	Ind-AS	Ind-AS	Ind-AS
Total Income (excluding gain on assignment of loans)	218	464	490
Profit after Tax	28	30	18*
Loan Book	1,361	2,196	2,100
% Gross NPAs (on-book)	1.30%	2.18%	2.47%
% Net NPAs (on-book)	0.57%	0.97%	0.90%

Source: Lendingkart and ICRA Research; Amount in Rs. crore

*Post-Covid provisions of Rs. 67.84 crore in FY2021

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Issue Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 03, 2021	-	-	-
1	Northern Arc 2021 SBL Denver	Series A1 PTC	39.36	39.36	Provisional [ICRA]A+(SO)	-	-	-
		Series A2 PTC	1.12	1.12	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	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: www.icra.in

Annexure-1: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2021 SBL Denver	Series A1 PTC	Nov 2021	10.50%	Mar 2024	39.36	Provisional [ICRA]A+(SO)
	Series A2 PTC	Nov 2021	14.00%	Mar 2024	1.12	Provisional [ICRA]A(SO)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Mukund Upadhyay

+91 22 6114 3411

mukund.upadhyay@icraindia.com

Palak Bhatt

+91 22 6114 3400

palak.bhatt@icraindia.com

Nemish Shah

+91 22 6114 3400

nemish.shah@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6169 3304

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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