

January 03, 2022

## Lendingkart Finance Limited: Provisional [ICRA]A+(SO) assigned to Series A1a PTC and Provisional [ICRA]A-(SO) assigned to Series A1b PTC backed by unsecured small business loans issued by Northern Arc 2021 SBL Boston

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Northern Arc 2021 SBL Boston	Series A1a PTC	18.04	Provisional [ICRA]A+(SO); Assigned
	Series A1b PTC	1.02	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. 27.42-crore (pool principal amount of Rs. 20.73 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 13.00% of the pool principal for Series A1a PTC and 8.10% of the pool principal for Series A1b PTC, and (iii) subordination of the entire 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
- Moderate 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 ~39% 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 promised cash flows for PTC Series A1a 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. PTC Series A1b is subordinated to PTC Series A1a. All prepayment amounts would be passed on to PTC Series A1a (till the PTC Series A1a principal is not fully amortised) every month and its future payouts will be revised accordingly. After the maturity of PTC Series A1a, the same would be passed on to PTC Series A1b.

The first line of support for Series A1a PTC in the transaction is in the form of a subordination of 13.00% of the pool principal. After Series A1a PTC has been fully paid, subordination of 8.10% of the pool principal will be available for Series A1b PTC. Additionally, the EIS available in the structure will provide credit enhancement support to the transaction. The EIS (22.32% of the pool principal initially, based on the indicated PTC yield, for Series A1a PTC and 20.87% for Series A1b PTC) will flow back to the originator on a monthly basis. Further, the entire EIS can be utilised towards the principal payments of PTC Series A1 and PTC Series A2 if any predefined triggers are breached until the Series A1a and Series A1b PTCs have matured or till the time the triggers are restored. All prepayment amounts would be passed on to PTC Series A1a (till the PTC Series A1a principal is not fully amortised) every month and its future payouts revised accordingly. After the maturity of PTC Series A1a, the same would be passed on to PTC Series A1b.

A CC of 6.00% of the initial pool principal (Rs. 1.24 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 ~39% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (9.88 months) and pre-securitisation amortisation (20.69%). The pool has a moderate share of contracts (33.86%) with an internal rate of return of more than 30% and a low share of contracts (9.74%) with a ticket size of less than Rs. 5 lakh. 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 21 pools originated by Lendingkart, which are backed by SBLs, of which 13 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 December 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 A1a is fully paid, the interest amount is promised to the PTC Series A1b 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 A1a and PTC Series A1b 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at [www.icra.in](http://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 Lendingkart Finance Limited. Fullerton Financial Private Limited (FFPL) had a 39.15% stake in LTPL as on March 31, 2021. The Group was started in 2014 by one of the co-founders, Mr. Harshvardhan Lunia, 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
<b>Total income</b>	218	464	490
<b>Profit after tax</b>	28	30	18*
<b>Loan book</b>	1,361	2,196	2,100
<b>% Gross stage 3</b>	1.30%	2.18%	2.47%
<b>% Net stage 3</b>	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
				Jan 03,2022	-	-	-
1 Northern Arc 2021 SBL Boston	Series A1a PTC	18.04	18.04	Provisional [ICRA]A+(SO)	-	-	-
	Series A1b PTC	1.02	1.02	Provisional [ICRA]A-(SO)			

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1a PTC	Moderately Complex
Series A1b 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](http://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 Boston	Series A1a PTC	Dec 2021	10.50%	Jul 2024	18.04	Provisional [ICRA]A+(SO)
	Series A1b PTC		14.00%		1.02	Provisional [ICRA]A-(SO)

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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## 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](http://www.icra.in)

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