

September 30, 2022

Lendingkart Finance Limited: Ratings upgraded for PTCs issued under two unsecured small business loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Mars Trust July 2021	PTC Series A1	23.85	NA	8.55	[ICRA]A(SO); Upgraded from [ICRA]A-(SO)
CredAvenue Harding 03 2021	PTC Series A2	1.27	1.27	1.23	[ICRA]AA+(SO); Upgraded from [ICRA]AA-(SO)

*Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) originated by Lendingkart Finance Limited (LFL) {Lendingkart; rated [ICRA]BBB+ (Stable)} are backed by a pool of unsecured small business loans. The ratings upgrade is on account of the high amortisation in the transactions which has led to a build-up of the credit enhancement cover over the future PTC payouts. The break-even collection efficiency for the pools is likely to be comfortable as compared to the actual collection efficiency seen in the pool even after reset of credit enhancement in one of the transaction.

Pool Performance summary

A summary of the performance of the pool till Jul-22 collection month has been tabulated below.

Parameter	Mars Trust July 2021	CredAvenue Harding 03 2021
Months post securitisation	13	17
Pool Amortisation	57.74%	85.10%
PTC Amortization - PTC Series A1	64.16%	100.00%
PTC Series A2	--	3.08%
Cumulative collection efficiency ¹	98.05%	98.41%
Loss cum 0+ (% of initial pool principal) ²	3.81%	2.98%
Loss cum 30+ (% of initial pool principal) ³	2.76%	2.73%
Loss cum 90+ (% of initial pool principal) ⁴	2.29%	2.38%
Break even collection efficiency ⁵		
PTC Series A1	58.48%	NA
PTC Series A2	--	Nil
Cumulative credit collateral (CC) utilisation (% of initial CC)	0.00%	0.00%
CC available (as % of balance pool principal)	15.50%	47.10%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)		

¹ Cumulative collections till date / Cumulative billings till date plus opening overdues

² POS on contracts aged 0+ dpd + overdues / Initial POS on the pool

³ POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

⁴ POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

⁵ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available)/ Balance pool cash flows

PTC Series A1 ⁶	13.04%	22.78%
PTC Series A2 ⁷	--	21.34%
Principal subordination (% of balance pool principal)		
PTC Series A1	31.03%	--
PTC Series A2	--	>100%
Cumulative prepayment rate ⁸	19.27%	25.13%

Reset of credit enhancement

At the request of Lendingkart for reset of credit enhancement, ICRA has analysed the transaction at a CC of Rs 0.40 crore) as against current available CC of 15.50% (Rs. 1.33 crore) (after July 2022 payouts) for Mars pool. Based on the pool performance, rating for all tranches will remain unchanged even after the reset of the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

- High amortization of PTCs resulting in build-up of Cash Collateral (CC), Principal subordination and Excess Interest Spread cover available for the balance PTC payouts;
- The pool has exhibited high cumulative collection efficiency

Credit challenges

- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic.

Description of key rating drivers highlighted above

The performance of the pools have been healthy with a cumulative collection efficiency of 98% (till July 2022 collections). The pools have amortised in the range of 58-85%. There has been no CC utilisation in the pool till July 2022 collection month. The loss-cum-90+ days past due (dpd) has been steady in the range of 2.3-2.4%. The pools have seen moderate prepayments with average monthly prepayment rate in the range of 1.7-1.8%. Due to high amortisation of the pools there has been a buildup of credit enhancement in pool with respect to the balance pool principal. The pools would remain exposed to any fresh disruptions that may arise due to the pandemic.

Overall, the credit enhancement available for meeting balance payouts to the investors (after downward reset in the CC in Mars pool) is sufficient to upgrade the rating at the current rating levels in the transaction. ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Performance of past rated pools:

ICRA has rated 30 pools originated by Lendingkart, which are backed by SBLs. The performance of the live pools has been robust with cumulative collection efficiency above 95%. The pools have seen moderate to high amortisation till the August 2022 payout month and nil CC has been utilised till August 2022 payout in any of the transactions.

Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss

⁶ (Pool Cashflows – Cashflows to PTC Series A1 – PTC Series A2 principal – originator's residual share)/ Pool Principal outstanding

⁷ (Pool Cashflows – Cashflows to PTC Series A1 – Cashflows to PTC Series A2 – originator's residual share)/ Pool Principal outstanding

⁸ Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal

and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the Mars pool are expected to be in the range of 3.75% -4.75% and 12.0%-18.0% respectively.

Liquidity position:

Strong for PTC Series A1 for Mars Trust July 2021

For Mars Trust July 2021, 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. 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.

Superior for PTC Series A2 for CredAvenue Harding 03 2021

For CredAvenue Harding 03 2021, the liquidity of the transaction is expected to be superior as the CC covers the future payouts entirely.

Rating sensitivities

Positive factors/Negative factors – Given the shorter balance tenure of the PTCs the ratings are unlikely to be revised.

Analytical approach

The rating action is based on the performance of the pool till July 2022 (collection month), the present delinquency level analysis of the performance of Lendingkart's portfolio till June 2022, 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

About the company

Lendingkart provides unsecured small and medium-sized enterprise (SME) loans. Lendingkart Technologies Private Limited (LTPL), the technology arm of the Ahmedabad-based Lendingkart Group, holds a 100% stake in Lendingkart. Fullerton Financial Holdings Pte Limited (FFH) had a 39.15% stake in LTPL as on March 31, 2022. The Group was started in 2014 by one of the co-founders, Mr. Harshvardhan Lunia, and raised funds from FFH, Saama Capital, Mayfield India, India Quotient, Bertelsmann India Investments, Sistema Asia Fund and Darrin 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, which distinguishes its algorithm-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

Lendingkart Finance Limited	FY2020	FY2021	FY2022
Total income	464	510	639
Profit after tax	30	18	(141)
Total Managed Asset	2,601	2,832	3,721
Gross stage 3 (%)	2.2%	2.5%	3.9%
Net stage 3 (%)	1.0%	0.9%	1.6%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr · N o.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Sep 30, 2022	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
						Sep 14, 2021	Aug 04, 2021*		
1	Mars Trust July 2021	PTC Series A1	23.85	8.55	[ICRA]A(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

*Initial rating assigned

Sr · N o.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Sep 30, 2022	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
						Feb 24, 2022	Jul 02, 2021		
2	CredAvenue Harding 03 2021	PTC Series A2	1.27	1.23	[ICRA]AA+(SO)	[ICRA]AA-(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-

*Initial rating assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Mars Trust July 2021	PTC Series A1	Moderately Complex
CredAvenue Harding 03 2021	PTC Series A2	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

Trust Name	Instrument	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Mars Trust July 2021	PTC Series A1	July 2021	12.00%	January 2024	8.55	[ICRA]A(SO)
CredAvenue Harding 03 2021	PTC Series A2	March 2021	15.00%	April 2023	1.23	[ICRA]AA+(SO)

* Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pools

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

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Branches



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