

October 31, 2022

Lendingkart Finance Limited: Ratings reaffirmed for PTCs issued under three unsecured business loan securitisation transactions

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
Indigo 004	PTC Series A1	23.82	NA	7.47	[ICRA]A+(SO); Reaffirmed
Northern Arc 2021 SBL Denver	Series A1 PTC	39.36	NA	12.75	[ICRA]A+(SO); Reaffirmed
	Series A2 PTC	1.12	NA	1.12	[ICRA]A(SO); Reaffirmed
Northern Arc 2021 SBL Riemann	PTC Series A1	43.70	26.77	8.58	[ICRA]A+(SO); Reaffirmed
	PTC Series A2	0.74	0.74	0.74	[ICRA]A(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) originated by Lendingkart Finance Limited {Lendingkart; rated [ICRA]BBB+(Stable)} are backed by pools of unsecured business loans. The ratings for the Indigo 004 (Indigo), Northern Arc 2021 SBL Denver (Denver) and Northern Arc 2021 SBL Riemann (Riemann) transactions have been reaffirmed on account of the high amortisation, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency for the pools is likely to be comfortable compared to the actual collection efficiency seen in the pools even after resetting the CE in the transactions.

Pool performance summary

A summary of the performance of the pools till the August 2022 collection month has been tabulated below.

Parameter	Indigo	Denver	Riemann
Months post securitisation	6	10	13
Pool amortisation	51.36%	59.50%	70.60%
PTC amortisation ¹ – PTC Series A1	68.61%	67.62%	80.38%
– PTC Series A2	--	0.00%	0.00%
Cumulative collection efficiency ²	97.84%	98.36%	96.87%
Loss-cum-0+ (% of initial pool principal) ³	3.95%	3.79%	2.86%
Loss-cum-30+ (% of initial pool principal) ⁴	2.51%	2.26%	2.27%
Loss-cum-90+ (% of initial pool principal) ⁵	1.13%	1.54%	1.72%
Breakeven collection efficiency ⁶ – PTC Series A1	37.63%	49.72%	34.96%
– PTC Series A2	--	55.53%	39.76%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%	0.00%	0.00%
CC available (as % of balance pool principal)	12.35%	14.82%	20.41%

¹ For the purpose of this section, we have used PTC Series A1 and PTC Series A2

² Cumulative collections till date / Cumulative billings till date plus Opening overdues

³ POS on contracts aged 0+ dpd + overdues / Initial POS on the pool

⁴ POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

⁵ POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

⁶ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available) / Balance pool cash flows

Excess interest spread (EIS) over balance tenure (as % of balance pool principal) – PTC Series A1 ⁷	17.57%	14.14%	12.56%
– PTC Series A2 ⁸	--	13.55%	12.18%
Principal subordination (% of balance pool principal) – PTC Series A1	44.50%	29.63%	41.27%
– PTC Series A2	--	23.46%	36.17%
Cumulative prepayment rate ⁹	13.02%	16.24%	23.79%

Reset of CE

At the request of Lendingkart for resetting the CE, ICRA has analysed the transactions at a cash collateral (CC) of Rs. 0.50 crore, Rs. 0.80 crore and Rs. 0.89 crore for the Indigo, Denver and Riemann transactions, respectively, against the currently available CC of Rs. 1.66 crore, Rs. 2.68 crore and Rs. 2.98 crore, respectively (after September 2022 payouts). Based on the pool's performance, the rating for the tranche 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 amortisation of PTCs, resulting in build-up of CC, principal subordination and excess interest spread cover available for the balance PTC payouts
- Healthy performance of the pools with low delinquency in harder buckets

Credit challenges

- Stress in asset quality due to Covid-19 pandemic as reflected in higher restructuring and write-offs
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pools would remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

The performance of the pools has been healthy with a cumulative collection efficiency in the range of 96-98% till August 2022 collections (September 2022 payout month). The pools have amortised in the range of 50-75%. There has been no CC utilisation in the pools till the August 2022 collection month. The loss-cum-90+ days past due (dpd) has been steady in the range of 1.1-1.7%. The pools have seen moderate prepayments with the average monthly prepayment rate in the range of 1.8-2.5%. Due to high amortisation of the pools, there has been a build-up of the CE in the pools with respect to the balance pool principal. The pools would be exposed to the inherent credit risks associated with the unsecured nature of the asset class and their performance would remain exposed to macro-economic shocks/business disruptions, if any.

Overall, the CE available for meeting the balance payouts to the investors (after downward reset of the CC in the pools) is sufficient to reaffirm the ratings of the transactions. 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 CE relative to ICRA's expectations.

Performance of past rated pools: ICRA has rated 31 pools originated by Lendingkart, of which eight pools have matured. The live pools, which have completed a minimum two payout months post securitisation, have shown robust cumulative collection efficiency above 95% as of the September 2022 payout month. The pools have seen moderate to high amortisation till the September 2022 payout month and nil CC utilisation.

⁷ (Pool Cash flows – Cash flows to PTC Series A1 – PTC Series A2 principal – Originator's residual share) / Pool Principal outstanding

⁸ (Pool Cash flows – Cash flows to PTC Series A1 – Cash flows to PTC Series A2 – Originator's residual share) / Pool Principal outstanding

⁹ Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transactions involves the 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 and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools as well as the performance and characteristics of the specific pools being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are provided in the table below.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Indigo 004	3.0%-4.0%	6%-18% p.a.
2	Northern Arc 2021 SBL Denver	3.0%-4.0%	6%-18% p.a.
3	Northern Arc 2021 SBL Riemann	2.0%-3.0%	6%-18% p.a.

Liquidity position: Strong

For Indigo 004, 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 CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

For the Denver and Riemann pools, as per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount for PTC Series A1 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 for PTC Series A2 is promised on the scheduled maturity date of the transaction. The collections from the pools and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – The ratings could be upgraded if the CC fully covers the future PTC payouts.

Negative factors – The ratings could be downgraded on the sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the performance of the pools till August 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 pools and the CE 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 (audited)

Lendingkart	FY2020	FY2021	FY2022
Total income	464	510	639
Profit/(loss) after tax*	30	18	(141)
Total managed assets	2,601	2,832	3,721
Gross stage 3	2.2%	2.5%	3.9%
Net stage 3	1.0%	0.9%	1.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

*Adjusting for one-time restructured loans impairment of Rs. 59 crore in FY2021 and Rs. 275 crore in FY2022, PAT was Rs. 77 crore and Rs. 133 crore in FY2021 and FY2022, respectively

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	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		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Oct 31, 2022	April 07, 2022^			
1	Indigo 004	PTC Series A1	23.82	7.47	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

Sr. No.	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	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
						Oct 31, 2022	Jan 13, 2022^		
2	Northern Arc 2021 SBL Denver	Series A1 PTC	39.36	12.75	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
		Series A2 PTC	1.12	1.12	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-

Sr. No.	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	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020
					Oct 31, 2022	Feb 24, 2022	Jul 28, 2021^	Jul 06, 2021*	-	-
3	Northern Arc 2021 SBL Riemann	PTC Series A1	43.70	8.58	[ICRA]A+(SO)	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
		PTC Series A2	0.74	0.74	[ICRA]A(SO)	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)		

*Provisional rating assigned

^Provisional rating finalised

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Indigo 004	PTC Series A1	Moderately Complex
Northern Arc 2021 SBL Denver	Series A1 PTC	Moderately Complex
	Series A2 PTC	Moderately Complex
Northern Arc 2021 SBL Riemann	PTC Series A1	Moderately Complex
	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 I: Instrument details

ISIN	Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
INE0LAM15012	Indigo 004	PTC Series A1	March 2022	10.11%	May 2024	7.47	[ICRA]A+(SO)
Not applicable	Northern Arc 2021 SBL Denver	Series A1 PTC	November 2021	10.50%	March 2024	12.75	[ICRA]A+(SO)
		Series A2 PTC	November 2021	14.00%	March 2024	1.12	[ICRA]A(SO)
Not applicable	Northern Arc 2021 SBL Riemann	PTC Series A1	June 2021	10.50%	December 2023	8.58	[ICRA]A+(SO)
		PTC Series A2	June 2021	14.50%	December 2023	0.74	[ICRA]A(SO)

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

Annexure II: 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.

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