

October 31, 2022

Lendingkart Finance Limited: Rating reaffirmed for PTCs issued under unsecured 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
Voyage MSME Trust August 2021	PTC Series A	108.85	NA	38.22	[ICRA]BBB+(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 a pool of unsecured business loans. The rating reaffirmation for the Voyage MSME Trust August 2021 (Voyage) trust is on account of the high amortisation in the transaction, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency for the pool is likely to be comfortable compared to the actual collection efficiency seen in the pool even after resetting the credit enhancement in the transaction.

Pool performance summary

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

Parameter	Voyage
Months post securitisation	13
Pool amortisation	64.89%
PTC amortisation – PTC Series A	64.89%
Cumulative collection efficiency ¹	98.83%
Loss-cum-0+ (% of initial pool principal) ²	3.04%
Loss-cum-30+ (% of initial pool principal) ³	1.95%
Loss-cum-90+ (% of initial pool principal) ⁴	0.83%
Breakeven collection efficiency ⁵ PTC Series A	41.42%
Cumulative credit collateral (CC ⁶) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	56.97%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) PTC Series A ⁷	Nil ⁸
Principal subordination (% of balance pool principal) PTC Series A	Nil
Cumulative prepayment rate ⁹	20.64%

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 – CC available) / Balance pool cash flows

⁶ CC refers to corporate guarantee

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

⁸ EIS considered as nil as EIS will only act as credit enhancement to cover any shortfalls in interest collections

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

Reset of CE

At the request of Lendingkart for resetting the credit enhancement, ICRA has analysed the transaction at a credit collateral (CC) of Rs. 11.17 crore against the currently available CC of Rs. 21.77 crore (after September 2022 payouts) for the Voyage pool. 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

- Healthy amortisation of pool, resulting in build-up of credit enhancement cover
- Healthy performance of the pool 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 pool would remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of ~99% till the August 2022 collections (September 2022 payout month). The pool has amortised by ~65%. There has been no CC utilisation in the pool till the August 2022 collection month. The loss-cum-90+ days past due (dpd) has been steady in the range of 0.8%. The pool has seen moderate prepayments with an average monthly prepayment rate of 1.8%. Due to the healthy amortisation of the pool, there has been a build-up of the credit enhancement in the pool with respect to the balance pool principal. The pool would be exposed to the inherent credit risks associated with the unsecured nature of the asset class and its performance would remain exposed to macro-economic shocks/business disruptions, if any.

Overall, the credit enhancement available for meeting the balance payouts to the investors (after downward reset in the CC in the pool) is sufficient to reaffirm the rating for the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement 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 of 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.

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 pool 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 Voyage pool are expected to be in the range of 3.5 -4.5% and 6.0-18.0%, respectively.

Liquidity position: Adequate

The principal and the interest on the PTCs are promised to the respective investors on the legal final maturity date. This imparts liquidity support to the instrument. Additionally, a corporate guarantee from Lendingkart is available in the transaction equivalent to ~57% of the balance pool principal amount. In the event of a shortfall in meeting the PTC Series A payouts at the time of the final maturity date, the Trustee will invoke the guarantee to meet the shortfall.

Rating sensitivities

Positive factors – The rating 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 along with an upgrade in the rating of Lendingkart.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. The rating could also be downgraded on a downgrade in the rating of Lendingkart (unless the guarantee is replaced by a fixed deposit maintained with a Designated Bank acceptable to ICRA).

Analytical approach

The rating action is based on the performance of the pool 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 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 (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 loan– 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	Nov 18, 2021^	Sep 02, 2021*		
1	Voyage MSME Trust August 2021	PTC Series A	108.85	38.22	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

*Provisional rating assigned

^Provisional rating finalised

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Voyage MSME Trust August 2021	PTC Series A	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

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Voyage MSME Trust August 2021	PTC Series A	August 2021	13.00%	February 2024	38.22	[ICRA]BBB+(SO)

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Nemish Shah

+91 22 6114 3450

nemish.shah@icraindia.com

Vishal Oza

+91 22 6114 3432

vishal.oza@icraindia.com

Advait Athavale

+91 22 6114 3433

advait.athavale@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



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.