

November 21, 2022

## Lendingkart Finance Limited: Rating confirmed as final for PTCs backed by unsecured small business loan receivables issued by CARIBOU 08 2022

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
CARIBOU 08 2022	PTC Series A1	29.78	[ICRA]BBB+(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure-I

### Rationale

In September 2022, ICRA had assigned a Provisional [ICRA]BBB+(SO) rating to Pass Through Certificates (PTCs) Series A1 issued by CARIBOU 08 2022. The PTCs are backed by a pool of Rs. 39.67-crore unsecured small business loan receivables (underlying pool principal of Rs.31.02 crore) originated by Lendingkart Finance Limited (Lendingkart/Originator; rated [ICRA]BBB+(Stable)). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the October 2022 payout month has been provided below.

Parameter	CARIBOU 08 2022
Months post securitisation	2
Pool amortisation	11.5%
PTC Series A1 amortisation	14.4%
Cumulative collection efficiency	99.7%
Loss-cum-0+ dpd	0.6%
Loss cum 30+ dpd	0.0%
Loss cum 90+ dpd	0.0%
Average monthly prepayment rate	2.8%
Cumulative cash collateral (CC) utilisation	0.0%

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and corporate guarantee
- Absence of overdue contracts as on pool cut-off date

#### Credit challenges

- Higher share of high-ticket size contracts with 66% share of contracts in pool having ticket size greater than Rs. 10 lakhs as on pool cut-off date.
- Stress in asset quality amid Covid-19 pandemic as reflected in the high 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

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A1 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. However, in case the portfolio at risk (PAR) 90 in the pool exceeds 3% of the initial pool principal amount (trigger scenario), the promised cash flow schedule for PTC Series A1 on a monthly basis will comprise the scheduled interest and the scheduled principal on each payout date.

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 4.00% of the pool principal. Additionally, the EIS available in the structure will provide credit enhancement support to the transaction. The EIS (16.33% of the pool principal initially, based on the indicated PTC yield, for PTC Series A1) will not flow back to the originator and will instead be utilised towards accelerated principal amortisation after the promised and scheduled payouts to the PTCs have been made every month. All prepayment amounts would be passed on to PTC Series A1 (till PTC Series A1 principal is not fully amortised) every month and future payouts will be revised accordingly.

Support for PTC Series A1 in the transaction is available through an unconditional and irrevocable corporate guarantee from Lendingkart equivalent to 20.00% of the initial pool principal. In the event of a shortfall in meeting the promised PTC payouts as defined, the Trustee will invoke the guarantee to meet the shortfall.

There are 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 30.60% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (9.13 months) and pre-securitisation amortisation (20.02%). The pool has a high share of contracts (66%) with a ticket size of more than Rs. 10 lakhs. The pool would be exposed to inherent credit risk associated with the unsecured nature of the asset class and performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any.

**Past rated pools performance:** ICRA has rated 32 pools originated by Lendingkart. The performance of the live pools (which have completed at least 3 months post securitisation) has been healthy till date with the cumulative collection efficiency in the range of 95-99% for all the transactions. No CC has been utilised till October 2022 payout.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the 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 these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.5-5.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

## Liquidity position: Adequate

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. Lendingkart has provided a corporate guarantee, equivalent to 20.00% of the initial pool principal amount. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to the PTC Series A1 investors.

## Rating sensitivities

**Positive factors** – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >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 improvement in the credit profile of Lendingkart.

**Negative factors** – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. The rating could also be downgraded due to deterioration in credit profile of Lendingkart

## Analytical approach

The rating actions are based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 (standalone)	FY2020	FY2021	FY2022
Total income	464	510	639
Profit 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 calculations; Amounts in Rs. Crore;

**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	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 21, 2022	Sep 13, 2022			
1	CARIBOU 08 2022	PTC Series A1	29.78	29.78	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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: [Click Here](#)

#### Annexure-I: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>CARIBOU 08 2022</b>	PTC Series A1	September 2022	13.00%	January 2025	29.78	[ICRA]BBB+(SO)

*\*Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*

**Source:** Company

#### 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.

For more information, visit [www.icra.in](http://www.icra.in)

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