

November 25, 2022

Lendingkart Finance Limited: Ratings upgraded for PTCs issued under two 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
Eternal 09 2021	Series A1 PTC	23.96	NA	2.79	[ICRA]AA(SO); Upgraded from [ICRA]A(SO)
NA 2021 SBL Creed	Series A1 PTC	27.10	NA	3.68	[ICRA]AA(SO); Upgraded from [ICRA]A+(SO)
	Series A2 PTC	0.46	NA	0.46	[ICRA]AA(SO); Upgraded from [ICRA]A(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by pools of unsecured business loans originated by Lendingkart Finance Limited {Lendingkart; rated [ICRA]BBB+ (Stable)}. The rating for the Eternal 09 2021 (Eternal) and NA 2021 SBL Creed (Creed) transactions has been upgraded 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 comfortable compared to the actual collection levels observed in the pools.

Pool performance summary

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

Parameter	Eternal	Creed
Months post securitisation	13	13
Pool amortisation	75.10%	67.34%
PTC amortisation ¹ – PTC Series A1	88.35%	86.42%
– PTC Series A2	--	0.00%
Cumulative collection efficiency ²	94.43%	96.22%
Loss-cum-0+ (% of initial pool principal) ³	7.78%	5.85%
Loss-cum-30+ (% of initial pool principal) ⁴	7.03%	4.45%
Loss-cum-90+ (% of initial pool principal) ⁵	5.35%	3.82%
Breakeven collection efficiency ⁶ – PTC Series A1	18.47%	16.35%
– PTC Series A2	--	20.52%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%	0.00%
CC available (as % of balance pool principal)	20.08%	18.37%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) – PTC Series A1 ⁷	9.15%	14.51%
– PTC Series A2 ⁸	--	--

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 + 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

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

		14.31%
Principal subordination (% of balance pool principal) – PTC Series A1	60.23%	63.41%
– PTC Series A2	--	58.82%
Cumulative prepayment rate ⁹	18.02%	22.98%

Key rating drivers

Credit strengths

- Significant amortisation of pools resulting in build-up of cash collateral (CC), principal subordination and excess interest spread cover available for the balance PTC payouts

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 moderately healthy with a cumulative collection efficiency in the range of 94-96% till September 2022 collections (October 2022 payout month). The pools have amortised in the range of 67-75%. There has been no CC utilisation in the pools till the September 2022 collection month. The loss-cum-90+ days past due (dpd) has been moderate in the range of 3.5-5.5%. 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 credit enhancement available for meeting balance payouts to the investors is sufficient to upgrade the ratings in 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. Moreover, the performance of the pools would remain exposed to any fresh disruptions that may arise on account of the pandemic.

Performance of past rated pools: ICRA has rated 33 pools originated by Lendingkart, of which eight 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 October 2022 payout month. The pools have seen moderate to high amortisation till the October 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 the 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.

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

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Eternal 09 2021	3.75%-4.75%	6%-18% p.a.
2	NA 2021 SBL Creed	3.75%-4.75%	6%-18% p.a.

Liquidity position: Strong

As per the transaction structure of the Eternal pool, 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.

As per the transaction structure of the Creed pool, 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 pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

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

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 CE utilisation levels.

Analytical approach

The rating action is based on the performance of the pools till September 2022 (collection month), the present delinquency-level analysis of the performance of Lendingkart's portfolio till September 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 originator

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
					Nov 25, 2022	Nov 18, 2021	Oct 07,2021*	-	-
1	Eternal 09 2021	Series A1 PTC	23.96	2.79	[ICRA]AA(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-

*Provisional rating assigned

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
					Nov 25, 2022	Nov 18, 2021	Sep 28, 2021*	-	-	
2	NA 2021 SBL Creed	Series A1 PTC	27.10	3.68	[ICRA]AA(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	
		Series A2 PTC	0.46	0.46	[ICRA]AA(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	

*Provisional rating assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Eternal 09 2021	Series A1 PTC	Moderately Complex
NA 2021 SBL Creed	Series A1 PTC	Moderately Complex
	Series A2 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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Eternal 09 2021	Series A1 PTC	September 2021	11.10%	June 2023	2.79	[ICRA]AA(SO)
NA 2021 SBL Creed	Series A1 PTC	September 2021	10.50%	February 2024	3.68	[ICRA]AA(SO)
	Series A2 PTC	September 2021	14.50%	February 2024	0.46	[ICRA]AA(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:

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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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