

December 15, 2022

Lendingkart Finance Limited: Ratings reaffirmed 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
Indigo 001	Series A1 PTC	40.00	NA	10.99	[ICRA]A+(SO); Reaffirmed
SBL ELF 2021	Series A1 PTC	17.95	NA	4.66	[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 001 (Indigo) and SBL ELF 2021 (ELF) transactions have been reaffirmed on account of the healthy amortisation and good performance, 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 October 2022 collection month has been tabulated below.

Parameter	Indigo	ELF
Months post securitisation	12	11
Pool amortisation	50.87%	63.10%
PTC amortisation – Series A1 PTC	72.53%	74.05%
Cumulative collection efficiency ¹	97.71%	95.83%
Loss-cum-0+ (% of initial pool principal) ²	4.72%	7.97%
Loss-cum-30+ (% of initial pool principal) ³	3.64%	4.83%
Loss-cum-90+ (% of initial pool principal) ⁴	2.30%	3.20%
Breakeven collection efficiency ⁵ – Series A1 PTC	31.47%	42.09%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%	0.00%
CC available (as % of balance pool principal)	12.21%	13.55%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) –Series A1 ⁶ PTC	17.88%	16.10%
Principal subordination (% of balance pool principal) – Series A1 PTC	51.91%	38.81%
Cumulative prepayment rate ⁷	20.20%	17.06%

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 (Pool Interest – interest payments to PTC investors) / Pool Principal outstanding

⁷ 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 CE, ICRA has analysed the transactions at a cash collateral (CC) of Rs. 0.84 crore and Rs. 0.31 crore for the Indigo and ELF transactions, respectively, against the currently available CC of Rs. 2.79 crore and Rs. 1.03 crore, respectively (after November 2022 payouts). Based on the pools' performance, the ratings for the tranches will remain unchanged even after the reset of the CC amounts. 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 pools resulting in build-up of CC, principal subordination and excess interest spread (EIS) 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 healthy with a cumulative collection efficiency in the range of 96-98% till October 2022 collections (November 2022 payout month), despite some dip in monthly collections over the last few months. This is due to the lower collections from overdue contracts, which has resulted in some slippages in delinquency. While the loss-cum-90+ days past due (dpd) has been increasing over the last few months, it is still low and below 3.2%. The pools have seen moderate prepayments with the average monthly prepayment rate in the range of 1.7-1.9%. The pools have amortised in the range of 51-63%. There has been no CC utilisation in the pools till the October 2022 collection month. Due to high amortisation of the pools and nil CC utilisation till date, there has been a CE build-up 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 balance payouts to the investors (after downward reset in the CC) is sufficient to reaffirm the ratings at the current rating levels in the transactions. ICRA will continue to monitor the performance of the transactions. Any further rating actions 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 33 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 the November 2022 payout.

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 001	4.25%-5.25%	6%-18% p.a.
2	SBL ELF 2021	3.75%-4.75%	6%-18% p.a.

Liquidity position: Strong (for Indigo and ELF pools)

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 pools and the available CE are expected to be comfortable to meet the promised payouts to the Series A1 PTC.

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 pools of contracts, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the pools' performance till October 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 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 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 (standalone)

	FY2020	FY2021	FY2022
	Audited	Audited	Audited
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: Lendingkart, ICRA Research; All ratios as per ICRA's calculations

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

Amount 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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Dec 15, 2022	Dec 10, 2021 [^]	Dec 03, 2021*	-	-
1	Indigo 001	Series A1 PTC	40.00	10.99	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

*Provisional rating assigned

[^]Provisional rating finalised

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
					Dec 15, 2022	Mar 22, 2022 [^]	Jan 04, 2022*	-	-
2	SBL ELF 2021	Series A1 PTC	17.95	4.66	[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 001	Series A1 PTC	Moderately Complex
SBL ELF 2021	Series A1 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

ISIN	Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
INE0JWN15018	Indigo 001	Series A1 PTC	November 2021	11.00%	May 2024	10.99	[ICRA]A+(SO)
Not applicable	SBL ELF 2021	Series A1 PTC	December 2021	12.75%	May 2024	4.66	[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

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



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