

January 12, 2023

Lendingkart Finance Limited: Rating confirmed as final for PTCs backed by unsecured small business loan receivables issued by Zenith MSME Trust October 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Zenith MSME Trust October 2022	PTC Series A1	110.58	[ICRA]BBB+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-I

Rationale

In November 2022, ICRA had assigned a Provisional [ICRA]BBB+(SO) rating to Pass Through Certificates (PTCs) Series A1 issued by Zenith MSME Trust October 2022. The PTCs are backed by a pool of Rs. 146.54-crore unsecured small business loan receivables (underlying pool principal of Rs.110.58 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 December 2022 payout month has been provided below.

Parameter	Zenith MSME Trust October 2022
Months post securitisation	1
Pool amortisation	5.18%
PTC Series A1 amortisation	5.15%
Cumulative collection efficiency	99.00%
Loss-cum-0+ dpd	0.94%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative prepayment rate	2.32%
Cumulative credit collateral utilisation	0.0%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form corporate guarantee (CG)
- Absence of overdue contracts as on pool cut-off date
- Moderate average seasoning and pre-securitisation of the pool as on the pool cut-off date

Credit challenges

- 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 trust. The cash flow schedule for PTC Series A1 on a monthly basis will consist of the expected yield (at the predetermined rate on the principal outstanding including any amount, if not paid in the past) and the expected principal (principal amount collected from the underlying pool

of contracts including prepayments and advances if any). The interest and principal repayment are promised to PTC Series A1 on the last payout date. The excess interest spread (EIS) will flow back to the originator after the expected payouts to the PTCs have been made every month. The EIS will only act as CE to cover any shortfall in interest collections.

The support for PTC Series A1 in the transaction is available through an unconditional and irrevocable CG from Lendingkart, equivalent to 20.00% of the initial pool principal. In the event of a shortfall in meeting the PTC payouts at the time of the final maturity date, 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 low with the top 3 states constituting ~35% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (~9 months) and pre-securitisation amortisation (~20%). The pool has a moderate share of contracts (~36%) with a ticket size of more than Rs. 10 lakh. However, the CIBIL score of almost all the contracts in the pool is above 700. The pool would be exposed to the inherent credit risk associated with the unsecured nature of the asset class and its performance would remain exposed to macro-economic shocks/business disruptions.

Past rated pools performance: ICRA has rated 34 pools originated by Lendingkart. The performance of the live pools (which have completed at least 2 months post securitisation) has been healthy till date with the cumulative collection efficiency in the range of 94-99% for all the transactions. No CC has been utilised till the December 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 5.75-6.75% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-18.0% per annum.

Liquidity position: Adequate

As per the transaction structure, the interest amount and the principal amount are promised on the scheduled maturity date of the transaction. Lendingkart would be providing a CG, equivalent to 20.00% of the initial pool principal amount. The cash flows from the pool and the available CE 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 CE 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 CE utilisation levels. The rating could also be downgraded due to a deterioration in the 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	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

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
					January 12, 2023	November 21, 2022*			
1	Zenith MSME Trust October 2022	PTC Series A1	110.58	110.58	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-	-

*Initial Rating Assigned

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

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Zenith MSME Trust October 2022	PTC Series A1	November 2022	13.35%	May 2025	110.58	[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.

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